



Financial Source: Central Bank Analysis

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Reserve Bank of Australia (RBA)

Governor	Phillip Lowe	Cash Rate	0.10%	Next Meeting	5 October 2021
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Objectives	Economic Indicators		
<p>The RBA's objectives are to contribute to (a) the stability of the currency; (b) the maintenance of full employment; and (c) the economic prosperity and welfare of the people of Australia. Stability is widely acknowledged through the RBA's inflation target of 2-3%.</p> <p>LINK TO MOST RECENT POLICY STATEMENT</p>		Actual	Prior
	GDP QQ (%)	0.7	1.8
	GDP YY (%)	9.6	1.1
	CPI QQ (%)	0.8	0.6
	CPI YY (%)	3.8	1.1
	Current Account Deficit (AUD)	20.5	18.3
	Unemployment Rate (%)	4.6	4.9

Situation

At their Sep meeting the RBA kept rates & yield curve targets unchanged but did surprise markets by maintaining their plan to taper asset purchases from A\$5 billion per week to A\$4 billion per week. The move was unexpected as the consensus was expecting the bank to delay the September tapering plans due to the current virus situation and the expected hit to growth.

This saw an initial pop higher in the AUD, but the underlying tone and language of the statement saw the markets pair back the initial pop higher very quickly. The statement revealed that the hit to the growth and economic outlook had taken a much bigger hit than previously anticipated by the bank. Even though they still held to their view that the hit will be transitory, and the economy will bounce back, they also explained that there is *“uncertainty about the timing and pace of this bounce-back and it is likely to be slower than that earlier in the year.”*

Another dovish part of the statement was the bank choice to continue the new pace of purchases until at least February 2022, compared to the prior of November. The significance of this move is that the bank essentially both increased the size and extended the time horizon of their asset purchases. Thus, the bank was hawkish in deed but dovish in word.

The outcome of the meeting doesn’t do much to change the overall outlook for RBA monetary policy as the main focus point for the economy remains the potential impact from the recent drop in commodity prices, the cyclical slowdown in China as well as the current virus situation.



Bank of Canada (BOC)

Governor	Tiff Macklem	Overnight Rate	0.25%	Next Meeting	27 Oct 2021
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Objectives	Economic Indicators		
<p>The Bank of Canada Act 1985 requires the BoC's to regulate credit and currency, control and protect the external value of the national monetary unit and to mitigate fluctuations in the general level of production, trade, prices, and employment within the scope of monetary action. Since 1991, the bank adopted inflation targeting with a target range for CPI between 1-3%.</p> <p>LINK TO MOST RECENT POLICY STATEMENT</p>		Actual	Prior
	GDP mm (%)	0.7	-0.3
	GDP QQ (%)	-0.3	1.4
	CPI Inflation mm (%)	0.6	0.53
	CPI Inflation YY (%)	3.7	3.1
	Unemployment Rate (%)	7.1	7.5
	Budget Balance (CAD)	-12.71	-13.98

Situation

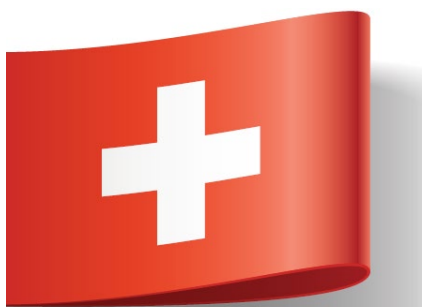
At the Sep meeting the BoC left all policy unchanged with rates kept at 0.25%, asset purchases kept at USD 2bln/week, and rates guidance left unchanged saying they are "committed to holding the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved," which they still see happening in H2 2022.

The bank also acknowledged that Q2 growth data was much lower than expected but explained that it was largely caused by contraction in exports which was mainly due to supply chain disruptions and most acute in the auto sector. However, they added that they continue to expect the economy to strengthen in the second half of 2021, but also warned that a COVID fourth wave and ongoing supply bottlenecks could weigh on the recovery.

Furthermore, the bank reiterated that even though inflation is currently high, that they still deem it to be mostly transitory. Overall, the meeting didn't provide any new material changes to the bank's views, tone or language and as a result the reaction in both the CAD and CA10Y was very muted. Market consensus still expects the bank to follow through with another tapering announcement of C\$1 billion per week at their October meeting.

With two more CPI print and one more labour report before the October meeting the incoming data will be scrutinized by markets for any chance that the bank might decide not to go ahead with another round of tapering. However, it would take a massive slowdown in CPI and jobs to see the BoC waver, unless of course the bank's fears of a major fourth Covid wave materializes before then.

For now, the bank and markets still expect QE to conclude by the second quarter of next year and for a first rate hike to take place somewhere in the second half of 2022.



Swiss National Bank (SNB)

Chairman	Thomas Jordan	Policy Rate	-0.75%	Next Meeting	23 September 2021
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Objectives	Economic Indicators		
<p>Outlined in Switzerland's National Bank Act, the objective of the SNB is to ensure prices stability and, in so doing, to take due account of economic developments. The SNB equates price stability with a rise in consumer prices of less than 2% per annum. The SNB uses medium-term inflation forecasts as the main indicator for monetary policy decisions.</p> <p>LINK TO MOST RECENT POLICY STATEMENT</p>		Actual	Prior
	GDP YY (%)	7.7	-0.5
	CPI MM (%)	0.2	-0.1
	CPI YY (%)	0.9	0.7
	Trade Balance (CHF)	5246	5529
	KOF Indicator (Trend)	113.5	129.8
	Unemployment Rate (%)	2.9	3.0

Situation

At its most recent meeting, the SNB maintained its prior monetary policy settings by keeping the policy rate -0.75% and a retention of their pledge to intervene in the Forex market as and when necessary. After the appreciation of the CHF over the past couple of months, we also saw the bank’s classification of the CHF being ‘highly valued’ intact.

This was surprising for some participants as recent comments from Chairman Jordan referred to the CHF as ‘very strong’ instead of the usual ‘highly valued’, however after the policy meeting with the same language retained it seems like Chairman Jordan’s comments was nothing more than an off-the-cuff comment.

In terms of the economic outlook, the bank noted that economic indicators have improved significantly of late & there are also signs of an improvement in the labour market. As a result, both CPI and GDP forecasts were upgraded, and the baseline scenario now looks for strong growth in Q2 and Q3.

Despite the updated forecasts below the bank did not make any changes regarding the rate path and kept rates unchanged throughout the forecast horizon. Finally, the SNB has been cautioning about the increase in mortgage lending and property prices in recent meetings, but more explicitly said the market's vulnerability has risen further and as such saw fit to remind participants that they regularly reassess the need for a countercyclical capital buffer.



European Central Bank (ECB)

President	Christine Lagarde	Refinancing Rate	0.00%	Next Meeting	28 October 2021
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Objectives	Economic Indicators		
Defined in the Treaty on the Functioning of the European Union, Article 127; the objective of the ECB is to maintain price stability within the EU. In 1998 the Governing Council defined price stability as inflation, measured by HICP, close to but under 2%. The ECB aims to support the general economic policies of the Union, which includes full employment and balanced economic growth. LINK TO MOST RECENT POLICY STATEMENT		Actual	Prior
	GDP Revised QQ (%)	2.2	2.0
	GDP Revised YY (%)	14.3	13.6
	Inflation MM (%)	0.30	-0.4
	Inflation YY (%)	1.6	1.7
	Unemployment Rate (%)	7.6	7.7
	Euro Zone Wages (%)	2.2	3.5

Situation

To no one’s surprise the ECB left all rates unchanged at their Sep meeting and kept their PEPP envelope unchanged at €1.85 trillion. The bank also delivered on the market’s consensus expectations to lower their pace of asset purchases under the PEPP program and announced that purchases will now be conducted at a “moderately lower” pace compared to Q2 and Q3, which was later confirmed by sources to be in the vicinity of €60 to €70 billion per month versus the current pace of close to €80 billion.

The bank reiterated that they maintain flexibility in the PEPP which would allow them to stop buying before the total envelope is used but would also allow them to increase the size should financing conditions require it. In terms of updated staff projections, the bank upgraded their 2021 growth forecast to 5.0% from the prior of 4.6%, but the market’s main attention was on the inflation projections which was also upgraded to 2.2% from the prior of 1.9%.

This was initially seen as a slight negative as markets were looking for a sizable upgrade to inflation projections, but since the majority of market participants as well as the ECB still sees inflation moving back below the bank’s 2% target in 2022 it had only marginal impact on assets. The bank reiterated that the currency prices pressures are deemed as transitory.

As expected, the move to slow purchases was not framed as ‘tapering’ but rather a recalibration of asset purchases to levels last seen in Q1, which technically speaking is tapering in deed but just not in word. The bank also refrained from providing any hints on the transition between the PEPP and the APP going into next year by saying that more information will be provided in December.

Overall, the bank just kicked the can down the road until the next meeting as they struck a balanced tone and didn’t deviate from market expectations in any material way.



Bank of England (BOE)

Governor	Andrew Bailey	Cash Rate	0.10%	Next Meeting	23 Sep 2021
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Objectives	Economic Indicators		
<p>Through the Bank of England Act 1998, the responsibility for formulating monetary policy, including the objective of stable prices defined by the government's inflation target of 2.0%, was delegated to the BoE's Monetary Policy Committee (MPC).</p> <p>LINK TO MOST RECENT POLICY STATEMENT</p>		Actual	Prior
	GDP Final QQ (%)	4.8	-1.6
	GDP Final YY (%)	22.2	-6.1
	CPI MM (%)	0.0	0.5
	CPI YY (%)	2.0	2.5
	AVG WK Earnings 3M YY (%)	8.8	7.3
	ILO Unemployment Rate (%)	4.7	4.8

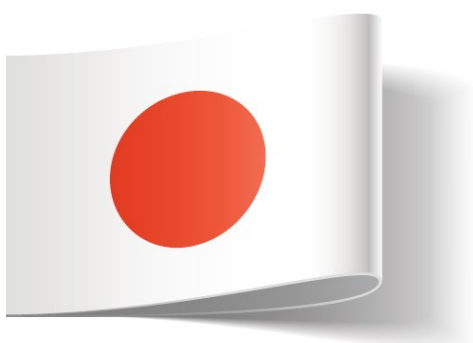
Situation

At their Aug meeting the BoE kept policy unchanged with the Base Rate at 0.1% and the QE program held at GBP 895bln. Even though the vote split on the bank rate was unanimous the QE vote saw a 7-1 split with BoE’s Saunders the only dissenter who voted for a GBP 50bln reduction in purchases based on his view that inflation is likely to remain above the bank’s 2% target for the next two or three years. As some were expecting BoE’s Ramsden to join the dissent this was initially taken as more dovish.

In terms of economic projections, the Q3 growth outcome remains uncertain as expected with 2021 GDP projections unchanged at 7.25% despite hopes of an upgrade. The inflation outlook was interesting with the bank now projecting a more pronounced period of above-target inflation in the near term with 2021 inflation now seen at 4.0% (revised higher from 3.0% prev.). However, the bank stuck to the familiar tone saying that elevated price pressures should prove to be transitory.

The more interesting change by the bank was their updated policy regarding their balance sheet with the bank saying they intend to begin reducing the balance sheet by ceasing to reinvest maturing assets when the bank rate reaches 0.5% (prev. threshold was 1.5%), and furthermore said they will consider to actively sell assets once the Bank Rate has reached 1%, depending on economic circumstances at the time of course. This change can be seen as both a positive and a negative, as one the one end it means the bank is confident enough to perform QT at a lower bank rate, but it also means that lower rates are here to stay for longer.

The bank also announced that the banking system has now made the necessary preparations to be able to accommodate negative rates if a future crisis warrants it which was largely expected. The meeting was a rather mixed bag with something for both the doves and hawks, but overall, with the bank’s comments that some modest tightening will eventually be required it just confirmed the market’s current expectations of a modest rise in rates somewhere in the second half of 2022.



Bank of Japan (BOJ)

Governor	Haruhiko Kuroda	Cash Rate	-0.10%	Next Meeting	28 Oct 2021
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Objectives	Economic Indicators
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Outlined in the Bank of Japan Act 1942, the purpose of the BOJ is to issue bank notes and to carry out currency and monetary control. The Act defines monetary control through achieving price stability, thereby contributing to the sound development of the national economy. As of 2013, the BOJ has defined price stability as a 2% year-on-year rate of change in CPI.

[LINK TO MOST RECENT POLICY STATEMENT](#)

	Actual	Prior
GDP Revised QQ	0.5	0.3
GDP Rev QQ Annualised	1.9	1.3
CPI, Overall Nationwide	-0.3	0.2
Current Account NSA Total	1910.8	905.1
Trade Balance Total Yen	441.0	384.0
Unemployment Rate	2.8	2.9

Situation

At the July policy meeting the BoJ kept all policy settings unchanged in line with market expectations, with rates held at -0.10% and the 10yr JGB yield target maintained at 0.0%. The Bank also tweaked its Outlook Report forecasts and confirmed that it will offer funds at zero interest rates for the scheme to combat climate change but will not provide an interest reward to banks that tap into the scheme.

The bank reiterated that the Japanese economy remains in a severe state but that it is picking and trending in the right direction and that it's likely to recover. However, activity remains low compared to pre-pandemic levels, and the bank reiterated that they will not hesitate to take additional easing steps if necessary.

According to the bank, inflation is likely to remain around 0% for the time being, and still deems the overall risks to economic and price outlooks as skewed to the downside. Even though the bank sees the economic outlook as being balanced in the longer-term, the noted that consumption is stagnating due to weak spending in the services sector and stressed that bank won't hesitate to take additional easing steps of necessary, with the Governor reiterating that they are not intending to reduce bond buying.

In terms of the forecasts, the BoJ reduced its Real GDP growth estimate for the current fiscal year to 3.8% from 4.0% but upgraded fiscal 2022 to 2.7% from 2.4% and raised Core CPI forecasts for fiscal 2021 and fiscal 2022 to 0.6% from 0.1% and to 0.9% from 0.8%, respectively. All in all, the meeting provided no surprises and no new information.



Reserve Bank of New Zealand (RBNZ)

Governor	Adrian Orr	Cash Rate	0.25%	Next Meeting	6 October 2021
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Objectives	Economic Indicators		
<p>The Reserve Bank of New Zealand Act 1989 identifies the RBNZ's economic objective as achieving and maintaining stability in the general level of prices over the medium term. In April 2019, the Act was amended to also include supporting maximum sustainable employment. In 1990, the RBNZ became the first central bank to formally adopt inflation targeting which as of 2012 is 1-3%.</p> <p>LINK TO MOST RECENT POLICY STATEMENT</p>		Actual	Prior
	GDP - Annual (%)	2.4	-0.9
	CPI QQ (%)	1.3	0.8
	CPI YY (%)	3.3	1.5
	Budget Cash Balance (NZD)	-25.277	-40.177
	Current Account Quarterly (NZD)	-2.895	-2.695
	HLFS Unemployment Rate (%)	4.0	4.7

Situation

At the RBNZ kept rates on hold at their highly anticipated Aug meeting. The decision was made in context of the level 4 lockdowns announced the day before in NZ. Governor Orr did later comment that they would have hiked rates if it weren't for the Delta uncertainty. Markets reacted with an initial knee jerk reaction lower, but as the previous day already saw sizeable downside in the NZD the move was contained, and markets soon pushed the NZD higher as the accompanying information was very optimistic.

The bank noted that employment is currently above the maximum sustainable level and house prices above sustainable levels, while capacity pressures were evident in the labour market and the broader economy. As a result, the bank explained that the committee agreed the least regrets policy stance was to further reduce monetary policy stimulus and concluded that they could continue removed stimulus following their decision to halt the LSAP in July.

The bank's MPR also highlighted that household spending had more than offset pressures on the travel industry and explained that the economy is in good shape and if lockdowns stick to shorter timeframes, it won't be enough to stop the current positive momentum. They also noted that keeping inflation expectations under control was a bigger concern for the bank at this time compared to the uncertainty surrounding the virus. The most optimistic part of the statement was the bank's updated rate path projections with 7 rate hikes projected between Dec 2021 and H1 2023 to bring the OCR back to 2.0%.

This was even more aggressive than the already aggressive bets from many participants heading into the meeting before the covid news hit the wires. The Governor later explained that they need to continue to move on policy and cannot wait for uncertainty as they have a lot of work to do to get back to the neutral rate of 2.0%. When asked about Oct Governor Orr said the meeting is live, but also acknowledged that they've made it very clear their next move is likely a hike so they can afford to wait.



Federal Reserve (FED)

Chairman	Jerome Powell	Cash Rate	0.00 – 0.25%	Next Meeting	22 Sep 2021
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Objectives	Economic Indicators		
<p>Since the Federal Reserve Reform Act 1977, congress has directed the Fed to conduct monetary policy with the objective of (a) maximum sustainable employment, (b) stable prices, and (c) moderate long-term rates. Objectives (a) and (b) are often referred to as the Fed's dual mandate. Since 2012, the Fed has stated that inflation (PCE) of 2% is most consistent with its statutory mandate of price Stability.</p> <p>LINK TO MOST RECENT POLICY STATEMENT</p>		Actual	Prior
	GDP Growth Final (%)	6.6	6.4
	Core PCE Prices Advance (%)	6.1	3.0
	Core PCE Prices Final (%)	6.1	2.5
	Unemployment Rate (%)	5.2	5.4
	Non-Farm Payrolls (Persons)	235	943
	Employment Wages QQ (%)	0.9	1.0

Situation

At the most recent meeting, the FOMC left the FFR at 0.00-0.25% & QE purchases (\$120 billion p/m) unchanged. There were two new additions. Firstly, they acknowledged that the *‘economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings’*, but don’t think that *‘substantial further progress’* has been met (as expected). Secondly, they took a more sanguine view of the virus situation by removing the comments that sectors affected by the pandemic *‘remain weak but have shown improvement’* and instead replaced it with *‘sectors most affected by the pandemic have shown improvement but have not fully recovered’*.

The tweaks were initially seen as hawkish with participants expecting a formal signal that tapering is coming in late August at the Jackson Hole Symposium, but subsequent and familiar dovish tones from Powell saw some push back of those expectations to the fall. This was mostly due to Powell’s take on the labour market where he reiterated that employment still has a *‘ways to go’* and noted that there was still *“some ground to cover”* on substantial further progress when it comes to the labour market. He did however note that the pandemic related negative drivers for employment should wane in the coming months.

On inflation the bank stuck to the transitory view by admitting that price pressures have been much higher than they initially expected but that the factors driving prices higher right now should be mostly transitory. All-in-all, Powell used his usual dovish tone to correct any ‘hawkish’ takes on the meeting and stressed that their decision to announce when they plan to eventually start tapering will be well in advance and that it will be dependent on the incoming data.

The release of the bank’s meeting minutes caused quite a ruckus as markets first interpreted it as dovish with the Fed stressing that substantial further progress was not net yet met. This was not new information, and after markets digested the minutes, we saw a hawkish reaction as attention shifted to comments that said many members thought tapering should start later this year, which was in line with recent Fed speak but confirmed that the median view has shifted to earlier tapering.



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