Weekly round up (Week 12)

With a series of announcements made by monetary policymakers in the US, Europe and Asia in the space of a few days, investors around the world have been totally absorbed in the "Central Bank Super Week", watching for any change in direction or rhetoric.

As we noted in our commentary last week, the Bank of Japan (BoJ) was always the main event after higher-than-expected wage data paved the way for the end of negative interest rates and a first hike since 2007.

The BoJ did not disappoint, raising rates by 0.1% to a range of 0.0% to 0.1%, abandoning its yield curve control policy and ending its purchases of exchange-traded funds and real estate investment trusts. It will, however, continue to buy Japanese government bonds at a pace similar to that of recent history. BoJ's language was dovish, emphasizing that accommodative policy would be maintained for the time being.

In China, following last month's surprise reduction in the 5-year Loan Prime Rate (LPR) by the People's Bank of China (PBoC), investors remained on hold. At its meeting on March 20, the PBoC left the 1-year and 5-year LPRs unchanged, probably due to a recovery in industrial activity and solid retail sales data. Industrial production rose by 7% year-on-year in the first two months, well above the 5.2% forecast, thanks to strong capital spending. At the same time, retail sales rose by 5.5% over the same period.

In its recent communications, the PBoC has emphasized the abundance of tools at its disposal to simulate the economy. Moreover, the recent weakening of the yuan shows China's willingness to improve its terms of trade and stimulate exports.

The only surprising rate decision in the region came from Taiwan's central bank, which tightened its key rates by 0.125% to 2% and raised its inflation forecast from 1.9% to 2.2%. This suggests that the economy will exceed its 2% target for the third year running.

Lower interest rates in sight for the BoE

In Europe, the focus was on the Bank of England (BoE). While the Monetary Policy Committee voted by a majority of 8 to 1 to keep rates at 5.25% as planned, two of these votes were cast by committee members who had previously been in favor of raising rates, Jonathan Haskel and Catherine Mann.

In an interview with the Financial Times, BoE Governor Andrew Bailey said that rate cuts were "in play" and that it would not be necessary to see inflation fall to the 2% target before starting to cut rates. The risk of wage inflation appears to be receding after February data showed that consumer prices fell from 4% to 3.4%, below consensus expectations of 3.5%. The overnight interest rate swap market rates the probability of the BoE cutting rates in June at 85%.

Elsewhere, the Swiss National Bank (SNB) surprised almost everyone by cutting its key rates from 1.75% to 1.5%, with President Thomas Jordon claiming a victory in the fight against inflation. Meanwhile, Turkey's central bank, the CBRT, continued its policy of normalizing the economy, surprising some investors by raising its one-week repo rate by 5%. In a Bloomberg survey, 19 out of 21 economists expected the repo rate to remain at 45%. To justify this decision, the CBRT stated that it would seek to maintain a restrictive policy until it saw a sustained fall in inflation.

Fed determined to remain flexible

The key meeting of the Americas took place in the United States. After a series of stable inflation indexes and robust employment data, investors were on the lookout for any sign that the Federal Open Market Committee would backtrack on its commitment to loosen policy over the summer. The answer was negative. The Committee delivered a message: rate cuts are to be expected, even if inflation or growth are stronger than expected. Not sure that we agree fully. If GDP growth confirms itself the next 2Q , hardly.

The median of the dot plot continues to signal total cuts of 75 basis points this year, even though core PCE inflation forecast has risen from 2.4% to 2.6%, and growth forecasts for 2024 have risen from 1.4% to 2.1%.

In emerging markets, Mexico's central bank began normalizing its monetary policy by cutting rates by 25 basis points to 11%, after holding them steady for the past 12 months. However, the decision was not unanimous, with the bank's deputy governor voting against the cut and the committee still believing that inflation risks are on the rise. Interest rate movements will depend on the data from now on, but the path of least resistance indicates a cut of 25 basis points each quarter until rates reach a neutral level of around 8%.

Announcements by major Central Banks last week

Interest rate cuts -25bps: Switzerland, Mexico, Paraguay -50bps: Brazil, Colombia
On hold Australia, China, Indonesia, Pakistan, UK, Iceland, Morocco, Norway, Russia, US
Interest rate hikes +10bps: Japan +12.5bps: Taiwan +500bps: Turkey

Winning the inflation war?

As the dust settles on an epic week of central bank meetings, many financial market players remain convinced that the two-year battle against inflation has been largely successful. What's more, meeting inflation targets is no longer seen as a precondition for abandoning a restrictive policy.

There is perhaps no better indicator of this than the current lack of volatility on financial markets, with our preferred measure - the CBOE Volatility Index (VIX) - having fallen by 10%, from 14.4 to 12.8 (see this week's chart). This indicates that investors are increasingly confident about the direction of global monetary policy, believing that any future developments will support asset prices.

Chart of the week: Volatility remains contained

Disclaimer:

DC Advisory issues this report as general information only, without taking into account the circumstances, needs or objectives of any of its readers. Readers should consider the appropriateness of any recommendation or forecast or other information for their individual situation and consult their investment advisor.

The views and opinions expressed herein reflect the views of the authors of the content as of the date of the publications and are subject to change based on market and other conditions. Any reference to securities, sectors, regions and/or countries is for illustrative purposes only. The value of investments and the income from them may go down as well as up. Exchange rate fluctuations may cause the value of investments in foreign currencies to rise or fall.

DC Advisory shall not , nor its employees, associates or agents, be responsible for any loss arising from any investment based on any recommendation, forecast or other information herein contained. The contents of this publication should not be construed as an express or implied promise, guarantee or implication that the forecast information will eventuate, that readers will profit from the strategies herein or that losses in connection therewith can or will be limited. Any investment in accordance with the recommendations in an analysis, can be risky and may result in losses in particular if the conditions or assumptions used for the forecast or mentioned in the analysis do not eventuate as anticipated and the forecast is not realised.

DC Advisory utilises financial information data providers and information from such providers may form the basis for an analysis. Data collected from third parties is provided without warranty of any kind . DC advisory and the Data Provider assume no liability in connection with the Third Party Data and accepts no responsibility for the accuracy or completeness of any information herein contained.

Past performance is not indicative of future performance and may not be repeated.