



Weekly round up

Last week, central banks took center stage - thirteen rate decisions were announced worldwide. Three central banks raised rates, one cut rates and nine left rates unchanged. In a sign of the times, it was the banks that left rates unchanged that surprised investors.

The Bank of England was expected to raise its key rates, but after a run of 14 consecutive hikes, the Monetary Policy Committee chose to keep its benchmark rate unchanged at 5.25%, following a vote of 5 to 4, with the Governor of the Bank of England casting the deciding vote. The Bank cited the recent weakening in activity data and the encouraging trend towards disinflation in August's inflation data. In July, the overnight interest rate swaps (OIS) market estimated that key rates would peak at 6.25%. The market now implies only a 60% chance of a further 25 basis point (bp) hike for the cycle.

The US FOMC (Federal Open Market Committee) maintained its status quo (as expected), but investors seemed surprised by the committee's optimistic economic projections. Growth was significantly revised upwards (a tad too optimistic in our view) for 2023, doubling to 2.1% from 1% previously, and rising from 0.4% to 1.5% in 2024. At the same time, the unemployment rate was revised down to 4.1% in 2024-2025. The committee continued to forecast a further 25 basis points of hike for the cycle, but significantly reduced the monetary easing planned for 2024; the median policy rate is expected to end 2024 at 5.1%, an upward revision from the June projection of 4.6%, effectively removing 50 basis points of easing in 2024.

Other central banks of note include the Swiss National Bank (SNB), which left its key rates unchanged, despite the Bloomberg consensus forecasting a 25 basis point hike, as did the European Central Bank (ECB) the previous week. In our view, SNB President Thomas Jordan summed up the thoughts of many central bankers when he declared that "the significant tightening of our monetary policy in recent quarters is helping to counteract the inflationary pressures that remain". The Central Bank of the Republic of Turkey continued to rebalance its orthodox economic policy, raising its key one-week rate by 5% to 30%. With inflation at 59%, we believe that further tightening will be necessary to move policy rates into restrictive territory (positive real rates). However, we are beginning to see encouraging signs that the policy implemented since the election is starting to work, with loan growth falling from a peak of 110% in April to 31% in September.

The only central bank to reduce its key rates was the Central Bank of Brazil (BCB), which voted unanimously to cut its key rates by 50 basis points to 12.75%. Inflation is expected to remain comfortably within the Bank's target range next year. Key rates should also continue to adjust downwards in 50 basis point increments until long-term neutral rates are reached (neutral rates in Brazil are centered on real rates of 4.5%). The main constraint cited by the BCB is the execution of fiscal targets - a wake-up call to the government to balance its budget in 2024.

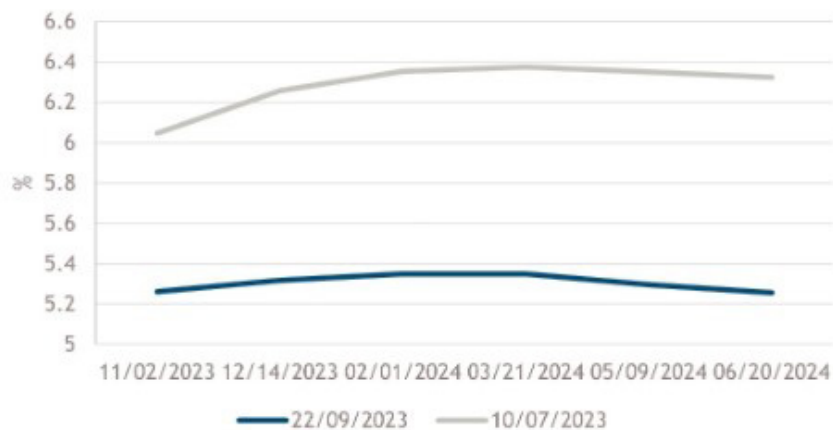


As the dust settles after a hectic week for investors, it looks like it's been hard to make money. What conclusions can we draw? In our view, aggressive orthodox monetary tightening was the most effective approach to combating accumulated inflationary pressures, as witnessed by the success in Brazil and the reversal of the policy approach in Turkey. The growing consensus among central banks seems to be that the policy tightening already in place is sufficient to keep disinflationary trends on track. In Europe, the risk of recession now seems to outweigh inflation fears, and the short-term effects of energy prices may be overlooked. Looking ahead, Western central banks hope to return to their preferred stance of maintaining monetary policy, currently announced as "higher for longer".

Chart of the week: 3 rises, 1 fall and 9 holds

Central Bank	Consensus	Decision	Policy Rate	Comment
United States	On Hold	On Hold	5.25	
England	Hike	On Hold	5.25	Surprise
Japan	On Hold	On Hold	-0.10	
Switzerland	Hike	On Hold	1.75	Surprise
Philippines	On Hold	On Hold	6.25	
Indonesia	On Hold	On Hold	5.75	
China	On Hold	On Hold	2.50	
South Africa	On Hold	On Hold	8.25	
Taiwan	On Hold	On Hold	1.88	
Norway	Hike	Hike	4.25	
Sweden	Hike	Hike	4.00	
Turkey	Hike	Hike	30.00	
Brazil	Cut	Cut	12.75	

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