Week in Review

Contents[1]

Central Banks

RBA Rate Statement (12.07.23)[2]

The RBNZ **left the OCR unchanged** as expected:

- **Guidance unchanged:** The OCR will need to remain at a restrictive level for the foreseeable future
- **Global inflation** is coming down, global growth is weakening and has led to lower export prices for the New Zealand's goods
- **Domestic inflation** is expected to continue its decline; core inflation is expected to decline as capacity constraints ease (previously: core inflation pressures will remain until capacity constraints ease)
- There are now signs of labour market pressures dissipating (previously: signs of labour shortages easing and vacancies declining)
- They **removed the sentence that the lack of demand is the main constraint** on activity

Official Cash Rate (OCR) set to remain restrictive	Official Cash Rate remains on hold
Published date: 24 May 2023	Published date: 12 July 2023
The Monetary Policy Committee today voted to raise the Official Cash Rate (OCR) from 5.25% to 5.50%.	The Monetary Policy Committee today agreed to leave the Official Cash Rate (OCR) at 5.50%.
The Committee agreed the level of interest rates are constraining spending and inflation pressure. The OCR will need to remain at a restrictive level for the foreseeable future, to ensure that consumer price inflation returns to the 1% to 3% annual target range, while supporting maximum sustainable employment.	The level of interest rates are constraining spending and inflation pressure as anticipated and required. The Committee agreed that the OCR will need to remain at a restrictive level for the foreseeable future, to ensure that consumer price inflation returns to the 1 to 3% annual target range, while supporting maximum sustainable employment.
Global economic growth remains weak and inflation pressures are easing. This follows a period of significant monetary policy tightening by central banks internationally. International supply chain constraints have also eased following a period of disruption, and shipping costs have declined. The weaker global growth has led to lower export prices for New Zealand’s goods.	Global economic growth remains weak and inflation pressures are easing. This follows a period of significant monetary policy tightening by central banks internationally. Global inflation rates continue to decline, assisted by the normalisation of international supply chains, and the decline in shipping costs and energy prices. The weaker global growth has led to lower export prices for New Zealand's goods.
In New Zealand, inflation is expected to continue to decline from its peak and with it measures of inflation expectations. However, core inflation pressures will remain until capacity constraints ease further. While employment is above its maximum sustainable level, there are now signs of labour shortages easing and vacancies declining.	In New Zealand, inflation is expected to continue to decline from its peak, and with it measures of inflation expectations. Core inflation is expected to decline as capacity constraints ease. While employment is above its maximum sustainable level, there are signs of labour market pressures dissipating and vacancies declining.
Consumer spending growth has eased and residential construction activity has declined, while house prices have returned to more sustainable levels. More generally, businesses are reporting slower demand for their goods and services, and weak investment intentions. Businesses report that a lack of demand, rather than labour shortages, is now the main constraint on activity.	Consumer spending growth has eased and residential construction activity has declined, while house prices have returned to more sustainable levels. More generally, businesses are reporting slower demand for their goods and services, and weak investment intentions.
There has been a return of net inward migration since international borders reopened. The Committee expects the pace of immigration to ease back toward pre-COVID-19 trend levels over coming quarters. While immigration has assisted to ease labour shortages, its net impact on overall spending is uncertain. The recent recovery in tourism spending, to around three-quarters of its pre-COVID-19 trend level, is also supporting demand.	The return of net inward migration continues broadly as anticipated, and is assisting to ease labour shortages. The net impact of immigration on overall capacity pressures remains uncertain. The ongoing recovery in tourism spending is supporting demand.
The repair and rebuild facing significant regions of the North Island – due to the recent severe weather events – will support economic activity, in particular the horizontal construction sector. The timing of this predominantly government investment will be spread over several years. Broader government spending is anticipated to decline in inflation-adjusted terms and in proportion to GDP.	The repair and rebuild underway in regions of the North Island due to severe weather events will support economic activity in the near term. Broader government spending is anticipated to decline in inflation-adjusted terms and in proportion to GDP.
The Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range of 1% to 3% per annum, while supporting maximum sustainable employment.	The Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range of 1 to 3% per annum, while supporting maximum sustainable employment.

1 Clickable to navigate within the document
2 https://www.rbnz.govt.nz/hub/news/2023/07/official-cash-rate-remains-on-hold

Here are the highlights from the **RBNZ minutes**

Headline inflation has continued to fall in most countries, assisted by lower energy prices and a normalisation of international supply chains and shipping costs. However globally, core inflation remains high. This has prompted some central banks to further increase interest rates recently. In discussing recent central bank policy moves, the Committee noted that monetary policy in New Zealand reached a more restrictive level earlier than in many other economies.

Labour shortages have started to ease, partly in response to the recent arrival of more migrants. Firms report that it is becoming easier to find labour and economy-wide vacancy rates have fallen.

The Committee judged that after recent falls, house prices are now around sustainable levels. House prices have stabilised in recent months and the Committee noted that the outlook for the housing market has become more balanced. Higher net migration is supporting demand for housing but higher interest rates continue to exert downward pressure on housing demand.

The Committee noted that monetary conditions have continued to tighten with mortgage rates increasing further in recent months in response to higher wholesale rates. The Committee noted that bank term deposit rates had increased recently, broadening the transmission of tighter monetary policy. The lagged effects of previous monetary tightening is still passing through to households as more households move off lower fixed rates. Average mortgage rates on outstanding loans have increased from about 3% in early 2022 to about 5% currently. Based on current commercial bank pricing, average mortgage rates are expected to reach around 6% in early 2024.

BOC Rate Statement (12.07.23)[3]

The Bank of Canada **raised rates by 25 bps to 5.00%:**

- **Reasons for hike:** accumulation of evidence of excess demand and more persistent core inflation
- **Dropped statement** from June that rates are not sufficiently restrictive
- **Global inflation** is easing but pressures in services inflation remain
- **Global growth** has been stronger than expected, especially in the US; projection: 2.8% this year, 2.4% next year and 2.7% in 2025
- **Domestic growth projections:** 1.8% this year, 1.2% next year, 2.4% in 2025
- **Domestic inflation projections:** around 3% next year, gradual decline to 2% in the middle of 2025; the decline is slower than forecast in January and April
- **The GC remains concerned that progress towards 2% inflation could stall**
- Canadian growth and consumption have been stronger than expected, signs of persistent excess demand, the housing market has picked up, the labour market remains tight despite signs of more availability of workers, immigration is boosting demand and helping ease labour shortages
- Canadian inflation has dropped largely due to energy prices and base effects, less from underlying inflation; **underlying price pressures appear more persistent than anticipated**

Difftext on the following page…

[3] https://www.bankofcanada.ca/2023/07/fad-press-release-2023-07-12/

Bank of Canada raises policy rate 25 basis points, continues quantitative tightening

Ottawa, Ontario

June 7, 2023

The Bank of Canada today increased its target for the overnight rate to 4¾%, with the Bank Rate at 5% and the deposit rate at 4¾%. The Bank is also continuing its policy of quantitative tightening.

Globally, consumer price inflation is coming down, largely reflecting lower energy prices compared to a year ago, but underlying inflation remains stubbornly high. While economic growth around the world is softening in the face of higher interest rates, major central banks are signalling that interest rates may have to rise further to restore price stability. In the United States, the economy is slowing, although consumer spending remains surprisingly resilient and the labour market is still tight. Economic growth has essentially stalled in Europe but upward pressure on core prices is persisting. Growth in China is expected to slow after surging in the first quarter. Financial conditions have tightened back to those seen before the bank failures in the United States and Switzerland.

Canada's economy was stronger than expected in the first quarter of 2023, with GDP growth of 3.1%. Consumption growth was surprisingly strong and broad-based, even after accounting for the boost from population gains. Demand for services continued to rebound. In addition, spending on interest-sensitive goods increased and, more recently, housing market activity has picked up. The labour market remains tight: higher immigration and participation rates are expanding the supply of workers but new workers have been quickly hired, reflecting continued strong demand for labour. Overall, excess demand in the economy looks to be more persistent than anticipated.

CPI inflation ticked up in April to 4.4%, the first increase in 10 months, with prices for a broad range of goods and services coming in higher than expected. Goods price inflation increased, despite lower energy costs. Services price inflation remained elevated, reflecting strong demand and a tight labour market. The Bank continues to expect CPI inflation to ease to around 3% in the summer, as lower energy prices feed through and last year's large price gains fall out of the yearly data. However, with three-month measures of core inflation running in the 3½-4% range for several months and excess demand persisting, concerns have increased that CPI inflation could get stuck materially above the 2% target.

Based on the accumulation of evidence, Governing Council decided to increase the policy interest rate, reflecting our view that monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation sustainably to the 2% target. Quantitative tightening is complementing the restrictive stance of monetary policy and normalizing the Bank's balance sheet. Governing Council will continue to assess the dynamics of core inflation and the outlook for CPI inflation. In particular, we will be evaluating whether the evolution of excess demand, inflation expectations, wage growth and corporate pricing behaviour are consistent with achieving the inflation target. The Bank remains resolute in its commitment to restoring price stability for Canadians.

Bank of Canada raises policy rate 25 basis points, continues quantitative tightening

Ottawa, Ontario

July 12, 2023

The Bank of Canada today increased its target for the overnight rate to 5%, with the Bank Rate at 5¼% and the deposit rate at 5%. The Bank is also continuing its policy of quantitative tightening.

Global inflation is easing, with lower energy prices and a decline in goods price inflation. However, robust demand and tight labour markets are causing persistent inflationary pressures in services. Economic growth has been stronger than expected, especially in the United States, where consumer and business spending has been surprisingly resilient. After a surge in early 2023, China's economic growth is softening, with slowing exports and ongoing weakness in its property sector. Growth in the euro area is effectively stalled: while the service sector continues to grow, manufacturing is contracting. Global financial conditions have tightened, with bond yields up in North America and Europe as major central banks signal further interest rate increases may be needed to combat inflation.

The Bank's July Monetary Policy Report (MPR) projects the global economy will grow by around 2.8% this year and 2.4% in 2024, followed by 2.7% growth in 2025.

Canada's economy has been stronger than expected, with more momentum in demand. Consumption growth has been surprisingly strong at 5.8% in the first quarter. While the Bank expects consumer spending to slow in response to the cumulative increase in interest rates, recent retail trade and other data suggest more persistent excess demand in the economy. In addition, the housing market has seen some pickup. New construction and real estate listings are lagging demand, which is adding pressure to prices. In the labour market, there are signs of more availability of workers, but conditions remain tight, and wage growth has been around 4-5%. Strong population growth from immigration is adding both demand and supply to the economy: newcomers are helping to ease the shortage of workers while also boosting consumer spending and adding to demand for housing.

As higher interest rates continue to work their way through the economy, the Bank expects economic growth to slow, averaging around 1% through the second half of this year and the first half of next year. This implies real GDP growth of 1.8% in 2023 and 1.2% in 2024. The economy will move into modest excess supply early next year before growth picks up to 2.4% in 2025.

Inflation in Canada eased to 3.4% in May, a substantial and welcome drop from its peak of 8.1% last summer. While CPI inflation has come down largely as expected so far this year, the downward momentum has come more from lower energy prices, and less from easing underlying inflation. With the large price increases of last year out of the annual data, there will be less near-term downward momentum in CPI inflation. Moreover, with three-month rates of core inflation running around 3½-4% since last September, underlying price pressures appear to be more persistent than anticipated. This is reinforced by the Bank's business surveys, which find businesses are still increasing their prices more frequently than normal.

In the July MPR projection, CPI inflation is forecast to hover around 3% for the next year before gradually declining to 2% in the middle of 2025. This is a slower return to target than was forecast in the January and April projections. Governing Council remains concerned that progress towards the 2% target could stall, jeopardizing the return to price stability.

In light of the accumulation of evidence that excess demand and elevated core inflation are both proving more persistent, and taking into account its revised outlook for economic activity and inflation, Governing Council decided to increase the policy interest rate to 5%. Quantitative tightening is complementing the restrictive stance of monetary policy and normalizing the Bank's balance sheet. Governing Council will continue to assess the dynamics of core inflation and the outlook for CPI inflation. In particular, we will be evaluating whether the evolution of excess demand, inflation expectations, wage growth and corporate pricing behaviour are consistent with achieving the 2% inflation target. The Bank remains resolute in its commitment to restoring price stability for Canadians.

From the **Monetary Policy Report:**

Table 3: Summary of the quarterly projection for Canada*

	2022	2023			2022	2023	2024	2025
	Q4	Q1	Q2	Q3	Q4	Q4	Q4	Q4
CPI inflation (year-over-year percentage change)	6.7 (6.7)	5.2 (5.2)	3.6 (3.3)	3.3	6.7 (6.7)	2.9 (2.5)	2.2 (2.1)	2.1 (2.0)
Real GDP (year-over-year percentage change)	2.1 (2.1)	2.2 (2.0)	1.7 (1.4)	1.5	2.1 (2.1)	1.8 (1.1)	1.5 (1.9)	2.5 (2.6)
Real GDP (quarter-over-quarter percentage change at annual rates)†	-0.1 (0.0)	3.1 (2.3)	1.5 (1.0)	1.5				

* Details on the key inputs to the base-case projection are provided in **Box 1**. Numbers in parentheses are from the projection in the April report.

† Over the projection horizon, 2023Q2 and 2023Q3 are the only quarters for which some information about real GDP growth was available at the time the projection was conducted. For longer horizons, fourth-quarter-over-fourth-quarter percentage changes are presented. They show the Bank's projected growth rates of CPI and real GDP within a given year. As a result, they can differ from the growth rates of annual averages shown in **Table 2**.

Sources: Statistics Canada and Bank of Canada calculations and projections

ECB Minutes (13.07.23)[4]

- Members broadly concurred with the assessment that **inflation was still projected to remain too high for too long,** calling into question whether it was returning to target in a timely manner.
- **Doubts were expressed about whether a particular emphasis on core inflation was justified,** as it was not seen to be a leading indicator of future headline inflation. It was argued that the Governing Council should not put too much emphasis on core inflation, as i**ts mandate related to headline inflation.**

[4] https://www.ecb.europa.eu/press/accounts/2023/html/ecb.mg230713~f7e54fdb87.en.html

- It was cautioned that **strong wage growth was becoming a key driver of inflation,** and **convincing evidence that underlying inflation had peaked was still lacking** but according to recent data releases core inflation had stabilised and might have reached a turning point.
- Members generally concurred that **interest rates had reached restrictive territory,** while it remained **unclear at what point the stance would become sufficiently restrictive.**
- **A very broad consensus supported the 25 basis point rate increase** proposed, while a preference was also initially expressed for a 50 bps hike in view of the risk of high inflation becoming more persistent.
- A very broad consensus also prevailed in favour of confirming the end of reinvestments under the APP as of July.

Below are the highlights from the Minutes:

Starting with the inflation outlook, members broadly concurred with the assessment that, with the upward revision of the inflation path in the June staff projections, inflation was still projected to remain too high for too long, calling into question whether it was returning to target in a timely manner. With upside revisions to both headline and core inflation, the return to target had again been pushed out further into the future. Moreover, upside risks to the inflation outlook were judged to still prevail, mainly owing to more persistent wage-price dynamics than those incorporated into the projections. In addition, it was recalled that, for the inflation projections to materialise, the Governing Council had still, as a minimum, to deliver two successive interest rate increases in June and July, which were embodied in the assumptions on which the projections were based.

It was also argued that bringing inflation down from very high numbers to more moderate levels was easier than achieving a full return to the 2% medium-term target. In this context, it was remarked that an envisaged return of inflation to 2% towards the end of 2025 could be considered too late, because risks could materialise in the meantime that might keep inflation above the 2% target. It was seen as important for the Governing Council to stress the symmetry of its inflation objective, i.e. that upward and downward deviations from 2% were regarded as equally undesirable. Moreover, a scenario with high inflation and high interest rates was seen as possible if interest rates did not become and stay sufficiently restrictive.

Members also assessed the level and persistence of underlying inflation as being a source of concern. Core inflation had again been revised up significantly in the June staff projections. It was cautioned that strong wage growth was becoming a key driver of inflation, and convincing evidence that underlying inflation had peaked was still lacking, as had been underlined by the President during her recent appearance at the European Parliament. It was highlighted, however, that according to recent data releases core inflation had stabilised and might have reached a turning point, although it was likely to be some time before underlying inflation measures embarked on a steady path of decline.

In this context, it was argued that the Governing Council should not put too much emphasis on the behaviour of core inflation, as its mandate related to headline inflation. Moreover, core inflation did not represent the household consumption basket and had historically not been a good leading indicator of future headline inflation in the euro area.

Finally, turning to the assessment of monetary policy transmission, members generally concurred that interest rates had reached restrictive territory, while it remained unclear at what point the stance would become sufficiently restrictive. There was evidence that the tighter policy stance was being transmitted to financing conditions, credit volumes and the real economy, while the strength of transmission and the ultimate lags in transmission to inflation remained variable and uncertain. Higher borrowing rates were seen to be contributing to a softening in demand, which was required to dampen the underlying inflation dynamics. Moreover, the point was made that the tightening impact of interest rate increases was subject to uncertainty regarding the "neutral rate", which might be pushed up by structural changes in the labour markets and could itself be affected by monetary policy. In this context it was argued that adjustments towards a better functioning labour market needed time to unfold and would benefit from a gradual and cautious conduct of monetary policy.

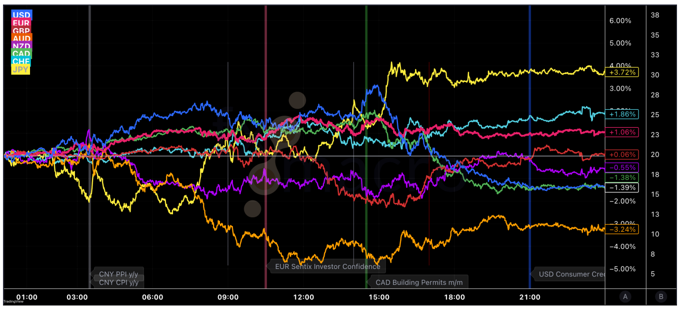
fx:macro

Economic Data

Monday, 10.07.23

data via forexfactory.com

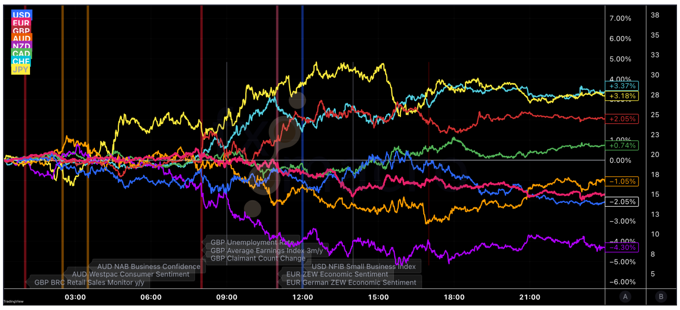
Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Mon 10.07.23	**03:30**	02:30	21:30	CNY	CPI y/y	0.0	0.2	0.2			AUD weaker
Mon 10.07.23	**03:30**	02:30	21:30	CNY	PPI y/y	-5.4	-5.0	-4.6			
Mon 10.07.23	**10:30**	09:30	04:30	EUR	Sentix Investor Confidence	-22.5	-18.9	-17.0			EUR higher
Mon 10.07.23	**14:30**	13:30	08:30	CAD	Building Permits m/m	10.5	7.3	-18.8			CAD lower
Mon 10.07.23	**21:00**	20:00	15:00	USD	Consumer Credit m/m	7.2	21.1	23.0			USD sideways



Tuesday, 11.07.23

data via forexfactory.com

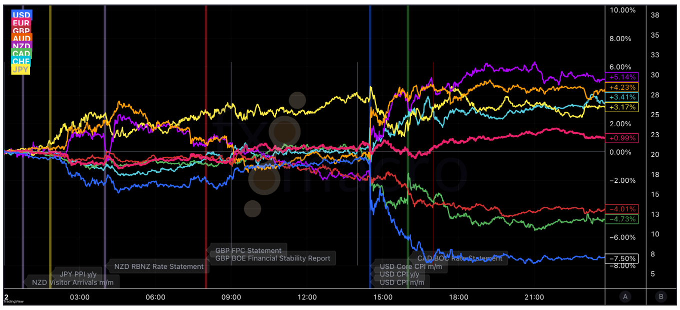
Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Tue 11.07.23	**01:01**	00:01	19:01	GBP	BRC Retail Sales Monitor y/y	4.2	4.6	3.7			GBP unchanged
Tue 11.07.23	**02:30**	01:30	20:30	AUD	Westpac Consumer Sentiment	2.7		0.2			AUD briefly higher
Tue 11.07.23	**03:30**	02:30	21:30	AUD	NAB Business Confidence	0		-4			AUD lower
Tue 11.07.23	**08:00**	07:00	02:00	GBP	Claimant Count Change	25.7	20.5	-13.6			GBP stronger
Tue 11.07.23	**08:00**	07:00	02:00	GBP	Average Earnings Index 3m/y	6.9	6.8	6.5			
Tue 11.07.23	**08:00**	07:00	02:00	GBP	Unemployment Rate	4.0	3.8	3.8			
Tue 11.07.23	**11:00**	10:00	05:00	EUR	German ZEW Economic Sentim	-14.7	-10.7	-8.5			EUR weaker
Tue 11.07.23	**11:00**	10:00	05:00	EUR	ZEW Economic Sentiment	-12.2	-10.2	-10.0			
Tue 11.07.23	**12:00**	11:00	06:00	USD	NFIB Small Business Index	91.0	89.9	89.4			USD sideways



Wednesday, 12.07.23

data via forexfactory.com

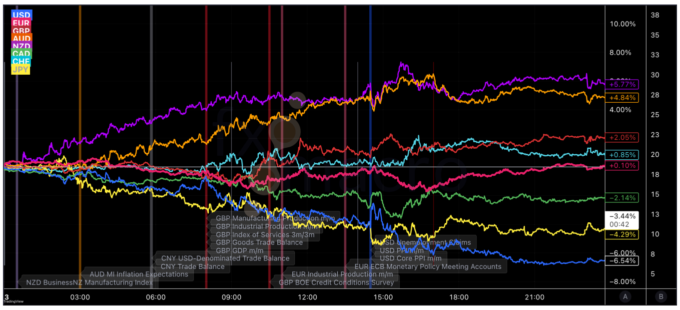
Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Wed 12.07.23	**00:45**	23:45	18:45	NZD	Visitor Arrivals m/m	-27.5		-16.9			NZD unchanged
Wed 12.07.23	**01:50**	00:50	19:50	JPY	PPI y/y	4.1	4.3	5.1			JPY stronger
Wed 12.07.23	**04:00**	03:00	22:00	NZD	RBNZ Rate Statement						NZD initially lower
Wed 12.07.23	**08:00**	07:00	02:00	GBP	BOE Financial Stability Report						GBP unchanged
Wed 12.07.23	**08:00**	07:00	02:00	GBP	FPC Statement						
Wed 12.07.23	**14:30**	13:30	08:30	USD	CPI m/m	0.2	0.3	0.1			USD sharply lower
Wed 12.07.23	**14:30**	13:30	08:30	USD	CPI y/y	3.0	3.1	4.0			
Wed 12.07.23	**14:30**	13:30	08:30	USD	Core CPI m/m	0.2	0.3	0.4			
Wed 12.07.23	**16:00**	15:00	10:00	CAD	BOC Rate Statement						CAD only briefly higher



Thursday, 13.07.23

data via forexfactory.com

Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Thu 13.07.23	**00:30**	23:30	18:30	NZD	BusinessNZ Manufacturing Inde	47.5		48.9			NZD higher
Thu 13.07.23	**03:00**	02:00	21:00	AUD	MI Inflation Expectations	5.2		5.2			AUD sideways
Thu 13.07.23	**05:49**	04:49	23:49	CNY	Trade Balance	491	470	452			AUD/NZD higher
Thu 13.07.23	**05:50**	04:50	23:50	CNY	USD-Denominated Trade Balan	70.6	74.0	65.8			
Thu 13.07.23	**08:00**	07:00	02:00	GBP	GDP m/m	-0.1	-0.3	0.2			GBP weaker for a bit
Thu 13.07.23	**08:00**	07:00	02:00	GBP	Goods Trade Balance	-18.7	-14.9	-15.0			
Thu 13.07.23	**08:00**	07:00	02:00	GBP	Index of Services 3m/3m	0.0	-0.2	-0.1			
Thu 13.07.23	**08:00**	07:00	02:00	GBP	Industrial Production m/m	-0.6	-0.4	-0.3			
Thu 13.07.23	**08:00**	07:00	02:00	GBP	Manufacturing Production m/m	-0.2	-0.5	-0.3			
Thu 13.07.23	**10:30**	09:30	04:30	GBP	BOE Credit Conditions Survey						GBP down briefly
Thu 13.07.23	**11:00**	10:00	05:00	EUR	Industrial Production m/m	0.2	0.3	1.0			EUR unchanged
Thu 13.07.23	**13:30**	12:30	07:30	EUR	ECB Monetary Policy Meeting A						EUR unchanged
Thu 13.07.23	**14:30**	13:30	08:30	USD	Core PPI m/m	0.1	0.2	0.2			USD briefly higher
Thu 13.07.23	**14:30**	13:30	08:30	USD	PPI m/m	0.1	0.2	-0.3			
Thu 13.07.23	**14:30**	13:30	08:30	USD	Unemployment Claims	237	251	248			



Friday, 14.07.23

data via forexfactory.com

Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Fri 14.07.23	**08:30**	07:30	02:30	CHF	PPI m/m	0.0	0.2	-0.3			CHF stronger
Fri 14.07.23	**11:00**	10:00	05:00	EUR	Trade Balance	-0.9	-10.3	-7.1			EUR stronger
Fri 14.07.23	**16:00**	15:00	10:00	USD	Prelim UoM Consumer Sentimen	72.6	65.5	64.4			USD stronger
Fri 14.07.23	**16:00**	15:00	10:00	USD	Prelim UoM Inflation Expectatio	3.4		3.3