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# ECB and Fed speakers in scope after dovish retaliation

This week was dominated by central bank meetings and the pushback by G10 policymakers on money market expectations. The Reserve Bank of Australia kickstarted proceedings on Tuesday by abandoning its yield curve control policy but tying the decision with dovish forward guidance on rates, while on Wednesday the Federal Reserve began the tapering process but cast a dovish message by keeping language around inflation being transitory. Compounding this, Chair Powell refused to discuss rates or the next steps in the normalisation cycle beyond the tapering towards year-end. In between the two meetings, the National Bank of Poland offset the dovish pushback by G10 central banks by hiking rates 75bps, but Governor Glapinksi followed up on Friday by saying "everything indicates" no need for more Polish hikes. The largest pushback came from the Bank of England who held rates at 0.1% by 7 votes to 2 on Thursday. The repricing of rate expectations and the climb down in G10 front-end rates supported the dollar, with the DXY index closing the week back above the 94.5 handle.

Next week, despite the absence of any major central bank meetings, the focus will remain on **monetary policy pricing**, especially as the Fed's media blackout period ends.

Notable speeches from Chicago Fed Evans and San Francisco's Daly will be in scope for US rate traders, while opening remarks from the ECB's Chief Economist Lane will be top of mind for euro money markets. On the data front, Australia's labour market data for Q3 on Thursday and US CPI data on Wednesday will be viewed in relation to this week's dovish RBA and Fed meetings.

## Calendar (all times GMT)

### Monday – 08/11

The Swiss National Bank will open the week's data calendar when **sight deposit data is released at 09:00** for the week of November 5th. With the EURCHF rate etching towards the 1.05 level, a rate that previously resulted in direct FX intervention by the SNB, FX traders will be paying close attention to the intervention proxy data to see if the SNB has taken any precautionary steps thus far.

Then, at **09:00, the National Bank of Poland releases its inflation report**. Following last week's hawkish surprise and Governor Glapinksi's comments that there is no need to hike rates further, the inflation report will be carefully examined, especially as the initial readings in the press release see headline CPI at 5.1%-6.5% in 2022, which is substantially above the NBP's 2.5% ± 1% inflation target. At **13:10, ECB Chief Economist Lane gives opening remarks at the ECB conference on money markets** before speaking at the **Brookings Institute on ECB and Fed monetary policy frameworks at 14:00**.

> Lane's comments on both **money markets and policy frameworks** will be monitored closely by markets, especially given the ECB's attempt to quell money market pricing lately and its move to a symmetric inflation target.

It is then all about central bank communications for the rest of the day, with **Philadelphia Fed President Harker speaking at 17:00** at the Economic Club of New York. While Harker won't be voting on policy until 2023 and is regarded as a moderately hawkish member of the FOMC, his views on the economic outlook will be the first by regional Fed presidents in the aftermath of last week's decision. In this regard, they will be viewed with a great level of intent by market participants, especially given Powell's reluctance to provide much forward guidance in the November press conference. Following Harker is **Chicago Fed President Evans at 18:50**, who is set to discuss the economy and monetary policy at the automotive supplier conference. Unlike Harker, Evans is an FOMC voter this year and sits on the opposite side of the spectrum as a moderate dove.

## Tuesday – 09/11

**The German ZEW survey of expectations opens the Tuesday session at 10:00** following the release of the less impactful German trade balance data for September at 07:00. The ZEW index is likely to mirror the recent trend in industrial production data, which this week showed a continued contraction in output due to supply bottlenecks. Sticking with the theme of sentiment indices, the **US NFIB small business optimism measure is released at 11:00** for October. **Mexican CPI data for October is then released at 12:00** but is likely to be overshadowed by the release of **US PPI data at 13:30.**

> **Producer prices** have been growing at a steady monthly pace over the past six months as reopening effects result in **higher input costs**.

**San Francisco Fed President Daly** then speaks at the NABE conference at 16:35, where further headlines around the Fed's economic outlook are likely to be generated. Completing Tuesday's data roster is **Australia's Westpac consumer confidence data at 23:30**, which is likely to rise in November as key territories such as Victoria exit strict lockdown conditions.

## Wednesday – 10/11

Following on from the US PPI release on Tuesday, **China's producer price index is released early on Wednesday at 01:30.** While the data is released along with the CPI index, PPI has garnered all of the attention as the growth in factory gate prices crack into double digit figures, spurring concerns around the global inflation environment. Expectations sit at 12.5% for Wednesday's PPI release, while CPI is expected to print at a much more moderate 1.4%. Fast forward and **CPI data from Norway and Germany are released at 07:00**.

A continued rise in Norway's headline CPI rate above 4% YoY will only reinforce the market's confidence in the Norges Bank's hiking cycle, which has been heavily telegraphed by the central bank.

Meanwhile, German CPI is a final reading, and is unlikely to inflict a large market reaction. CPI remains the theme of the day, with the **US reading released for October at 13:30.** Expectations are for the data to continue climbing higher towards the 6% barrier, but given the Fed's continued messaging that inflationary pressure will be transitory, a substantial upside surprise would be needed to stir front-end rates again.

## Thursday – 11/11

Thursday holds the week's standout data releases, with **Australia's labour market data for October released at 00:30** and **UK Q3 GDP at 07:00.** Both readings come hot on the heels of the latest RBA and BoE policy meetings and will be viewed in relation to the Banks' latest outlooks.

"Employment in **Australia** is expected to rise by 50k in October, reversing some of the Q3 declines as lockdown conditions are unwound."

Meanwhile, GDP in the UK is expected to rise by 1.5% in the third quarter according to the median economist forecast supplied to Bloomberg. This would be a slight upwards surprise relative to the BoE's November projections, which see the economy expanding at 1.3% in Q3. Closing out the day's data calendar is a speech by the SNB Governing Board member Andrea Maechler at 17:30 and the latest monetary policy decision by Banxico at 19:00.

## Friday – 12/11

Friday's data session is relatively light, with releases focusing on Europe. The first reading of **polish Q3 GDP is released at 09:00** with expectations of an acceleration in growth from 2.1% to 2.2%. However, the data is likely to have a limited impact on the zloty as inflation dominates market concerns.

Then, at **13:50, the ECB's Chief Economist Philip Lane speaks** again, with the topic of conversation shifting from monetary policy to the future of the EU's fiscal governance frameworks.

# Monetary Policy

## Central banks generally push back on market pricing

As labour markets and general activity are gradually recovering across economies, central banks are turning towards tighter monetary policy. With fears around inflation remaining prominent and central bank normalisation imminent, financial markets have generally been pricing more aggressive bets on interest rate hikes than what some central banks have been relaying. This has been the case for the Federal Reserve, Bank of England, and European Central Bank, all of which have pushed back on market expectations recently.

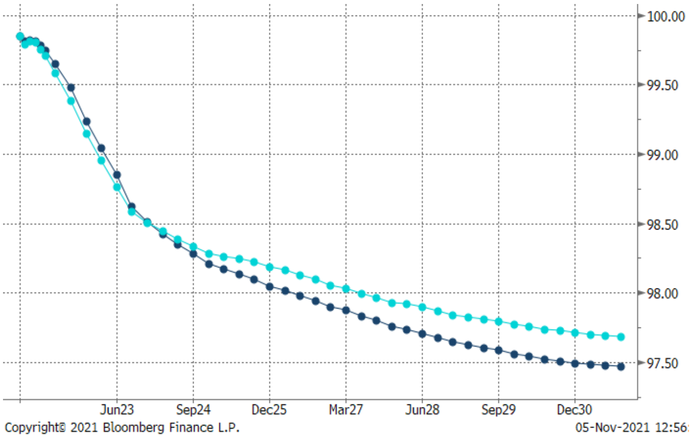
"The Bank of England showed the most dovish pushback as markets were expecting the Bank to hike rates this week, so when it held rates by a vote split of 7-2 and hit back at market pricing of the Bank Rate hitting 1% by the end of 2022 via its forecasts, the pound tumbled."

In comparison, the ECB's Christine Lagarde spoke to the media to push back on market pricing just a week after the ECB meeting as her guidance in the meeting itself was not convincing enough for markets. Sitting in the middle of the two was the Federal Reserve, whose announcement of the start of the QE taper was coupled with the retention of the word "transitory" when discussing inflation. Additionally, Powell did his best to stop speculation around a 2022 rate hike, but markets turned a blind eye to his comments. In the EM space, the National Bank of Poland surprised markets with another large rate hike, leaving investors confused as guidance until the October meeting had been very dovish before the NBP decided to throw its patient stance on inflation out of the window. However, Governor Glapinksi followed up the meeting by saying that rates will remain on hold going forward.

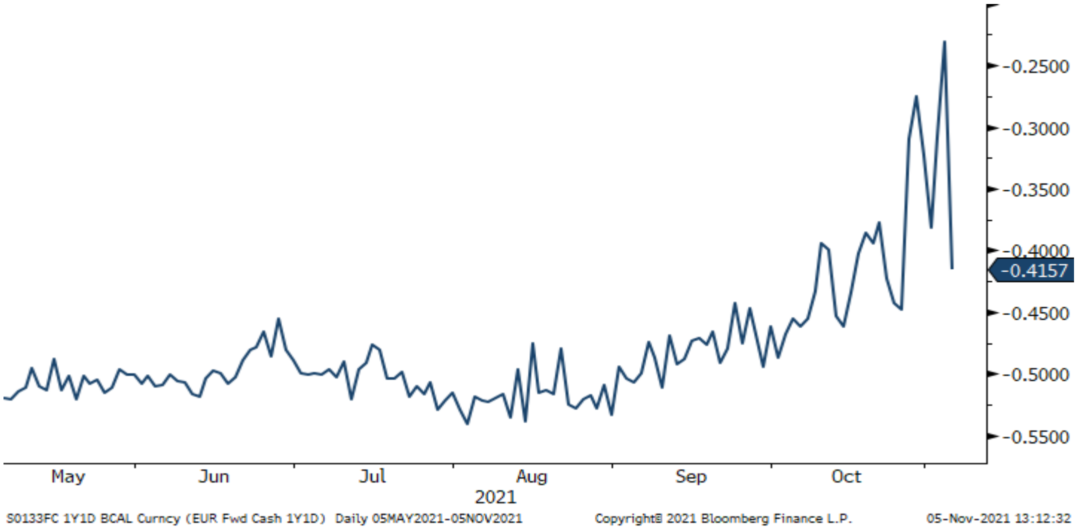
Market pricing has changed substantially over the last weeks for some of these central banks, but for the Fed the pushback on rate hike expectations was less successful.

Eurodollar futures (chart 1), which can be used as an indicator for implied rates, showed limited reaction to the Fed meeting as markets still price in a rate hike for when the QE programme is set to end, despite currency markets taking the meeting as dovish at the margin. In the case of the ECB, the actual policy meeting did little to soothe markets that a rate hike is not incoming next year, but Lagarde's return to the media where she stated a 2022 rate hike is "very unlikely" seemed to do the trick. After the meeting, the market implied rate, as evidenced by the 1y1d forward cash rate (chart 2) showed markets pricing a total of 25bp of hikes over the next year. This has now come down to 10bp. Although this shows some convergence to the ECB's forward guidance, it is still not completely in line.

**Chart 1: Eurodollar future curve 1 day ago (turquoise) vs 2 weeks ago (navy) shows a flatter hiking path for the Fed.**

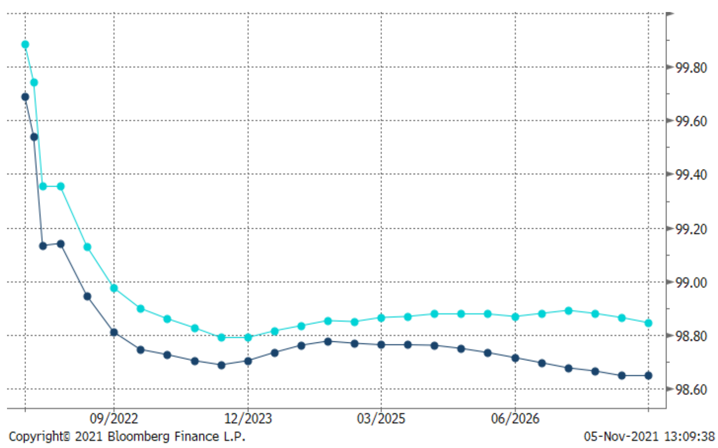


### Chart 2: 1y1d EUR forward cash rate comes down after ECB officials hit the newswires

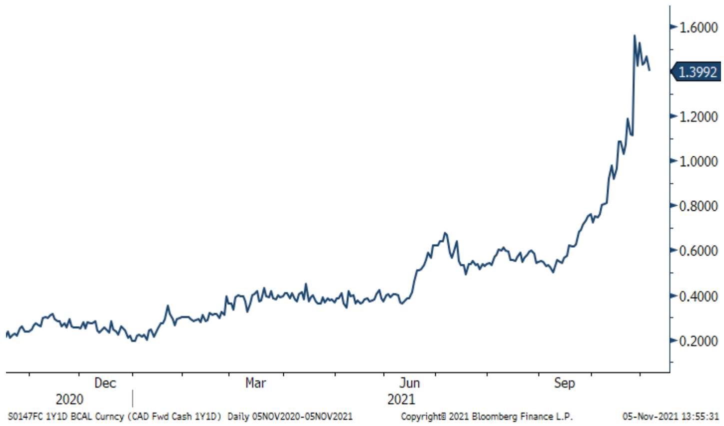



For the BoE and BoC, pricing changed materially, albeit in opposite directions. Large moves in expectations for the Bank of England are centred around the 1-month horizon as all focus is now on the December meeting. Short sterling futures began to fall in line with our BoE rate expectations with the Dec 21 future implying an interest rate of 0.25%, while Dec 22 moved towards a 1% terminal rate (chart 3).

### Chart 3: Short sterling curve 1 day (turquoise) vs 2 weeks ago (navy)

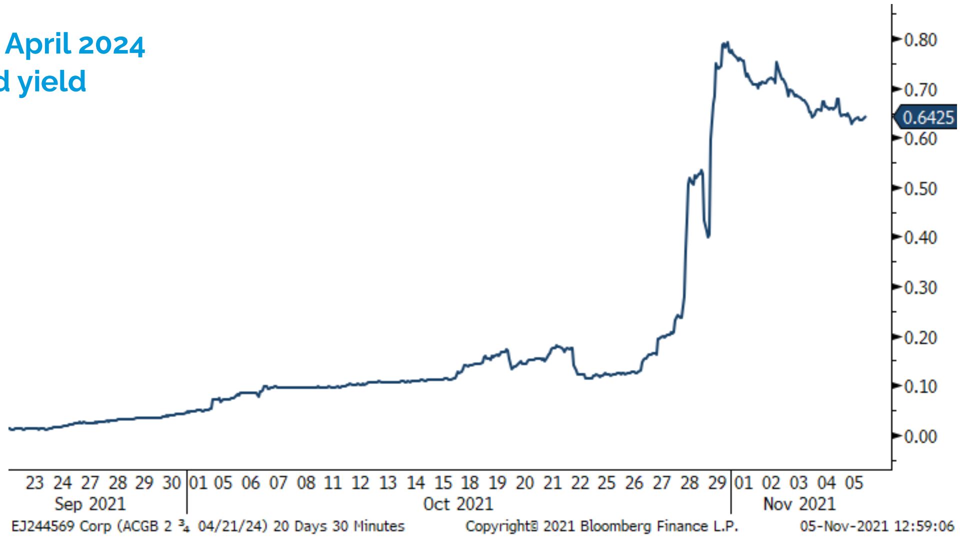



### Chart 4: CAD 1y1d forward cash rate remains hawkish as fundamentals point towards imminent monetary tightening



Moves in the Australian bond market were also notable after the Reserve Bank of Australia failed to live up to markets' hawkish expectations. A couple days before the meeting, the yield on Australia's April 2024 bond – which is the last bond subject to the 0.1% yield curve target – jumped to nearly 0.8%. The RBA decided to not step in and defend the yield target, which emboldened hawkish expectations for the meeting. At the policy meeting, despite the RBA abandoning its yield curve control programme and letting yields climb on its April 2024 bond, the meeting was deemed dovish as Governor Lowe added to this that the decision to abandon the yield target does not mean rate hikes in the near-term are likely. This led to a decline in front-end Australian bond yields while the Aussie dollar took a hit as well. Since then, yields have been falling steadily across the front-end of the curve (chart 5).

**Chart 5: Australia April 2024 government bond yield**




Developments in **bond markets will be key to watch for currency traders** in the coming months as central banks turn increasingly hawkish while the economic recovery progresses and inflation picks up more durably.

As stated by Governor Andrew Bailey during this week's BoE meeting, the nature of the current inflationary pressure means a central bank rate hike could be less impactful than in "normal" times, as the inflation surges are driven by energy prices, supply chain disruptions and base effects. While this means interest rates are unlikely to rise as high as they would if inflation was driven by economic fundamentals, the shift in front-end yield spreads will still remain an important factor for FX markets as central banks try to keep inflation expectations anchored.