Market View
Economics and Strategy

November 3, 2022 – (Vol. VI, No. 85)

No blinking at Jerome Powell’s Fed
By Warren Lovely & Taylor Schleich

Pro tip: Don’t get into a staring contest with Jay Powell; unlike some of his contemporaries, the man doesn’t blink. It was another informative week of central bank policy making, with each of the FOMC, BoC, RBA and Norges Bank announcing interest rate decisions. As a reminder, both the BoC and ECB had gone last week. In all cases, policy rates moved up as central bankers continue to tighten in response to elevated inflation. In all but one key instance, however, policy making seems to be adopting (or at least heading towards) a somewhat pragmatic, less panicked, more balanced stance. Consider:

- Bank of England (3-Nov) ➤ 75 basis point hike (in line with consensus, 2 dissenters favouring smaller hike)
  - “The majority of the Committee judges that, should the economy evolve broadly in line with the latest Monetary Policy Report projections, further increases in Bank Rate may be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets.”

- Norges Bank (3-Nov) ➤ 25 basis point hike (below consensus expectation for 50 bps, no dissenters)
  - “There are signs that some areas of the economy are cooling down, and prospects for lower-than-expected freight and energy prices may curb inflation ahead. The policy rate has been raised markedly over a short period, and monetary policy is beginning to have a tightening effect on the economy. This may suggest a more gradual approach to policy rate setting.”

- Reserve Bank of Australia (1-Nov) ➤ 25 basis point hike (in line with consensus, after surprising with smaller-than-expected hike 4-Oct)
  - “The Board recognises that monetary policy operates with a lag and that the full effect of the increase in interest rates is yet to be felt in mortgage payments” Note: Prior statement did not note lag

- [Last week] European Central Bank (27-Oct) – 75 basis point hike (in line with consensus, reportedly three dissenters)
  - “The Governing Council has made substantial progress in withdrawing monetary policy accommodation”
  - “The Governing Council […] expects to raise interest rates further” compared to “over the next several meetings, the Governing Council expects to raise interest rates further” in September’s decision

- [Last week] Bank of Canada (26-Oct) ➤ 50 basis point hike (below consensus expectation for 75 basis point hike)
  - “The effects of recent policy rate increases by the Bank are becoming evident in interest-sensitive areas of the economy”
  - “This tightening phase will draw to a close. We are getting closer, but we are not there yet.”

versus:

- Federal Reserve (2-Nov) ➤ 75 basis point hike (in line with consensus expectation for 75 bps, no dissenters)
  - “At some point, […] it will become appropriate to slow the pace of increases, as we approach the level of interest rates that will be sufficiently restrictive… There is significant uncertainty around that level of interest rates. Even so, we still have some ways to go, and incoming data since our last meeting suggest that the ultimate level of interest rates will be higher than previously expected.”

Clearly, many central bankers are trying to temper expectations for how high policy rates will ultimately climb, as some opt for smaller-than-expected hikes while others adopt more caution guidance. The problem, of course, is that global central banking is not a democracy. The majority does not rule, at least when it come to market sentiment, when the most powerful and influential central banking institution seems unwilling to back down, aiming the policy rate at (or perhaps above) 5% over coming months. So, notwithstanding the decidedly less hawkish bent to (non-Fed) central bank decisions, it may be more difficult for some to safely head to the sidelines. Currency considerations may not be the most important factor in guiding where terminal rates settle, but as we’ve heard from some central bankers, the big dollar can’t be ignored. And if you were looking for sympathy from Chair Powell on this front, you’ll be hard pressed to find it. No, in his view, “price stability and stability in the United States is a good thing for the global economy”. Buckle up non-Fed policymakers. You may be now prepping for an end to rate hikes, but the gravitational pull of a still-hawkish FOMC might keep your rates (and our rate forecasts) moving higher, albeit begrudgingly.

Chart 1: The Fed pulls ahead in the rate hike race
Total change & pace of adjustment in policy interest rates (2022:YTD)

<table>
<thead>
<tr>
<th>Rate Decision</th>
<th>Total (L)</th>
<th>Pace (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOMC 2-Nov</td>
<td>3.75</td>
<td>0.30</td>
</tr>
<tr>
<td>BoC 28-Oct</td>
<td>3.50</td>
<td>0.25</td>
</tr>
<tr>
<td>RBNZ 5-Oct</td>
<td>2.75</td>
<td>0.20</td>
</tr>
<tr>
<td>RBA 1-Nov</td>
<td>2.75</td>
<td>0.20</td>
</tr>
<tr>
<td>BoE 3-Nov</td>
<td>2.00</td>
<td>0.15</td>
</tr>
<tr>
<td>ECB 27-Oct</td>
<td>1.75</td>
<td>0.10</td>
</tr>
<tr>
<td>Norges 3-Nov</td>
<td>1.25</td>
<td>0.05</td>
</tr>
<tr>
<td>Riks 20-Sep</td>
<td>0.75</td>
<td>0.00</td>
</tr>
<tr>
<td>SNB 22-Sep</td>
<td>0.25</td>
<td>0.00</td>
</tr>
<tr>
<td>BoJ 27-Oct</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: NBF, BoC | Note: As at 3-Nov; label reflects last decision date

Chart 2: Some dovish surprises of late, just not at the Fed
Distribution/magnitude of policy rate surprises vs. consensus (2022:YTD)

<table>
<thead>
<tr>
<th>Rate Change</th>
<th>Larger than expected</th>
<th>Smaller than expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Nov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26-Oct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-Oct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-Nov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-Nov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27-Oct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-Nov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-Sep</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22-Sep</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-Nov</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: NBF, NBF, CBs, Bloomberg | Note: As at 3-Nov; bars reflect total surprise amount labels reflect # of surprise announcements based on 10 major CBs
Market View
Economics and Strategy

Economics and Strategy
Montreal Office
514-879-2529
Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca
Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca
Kyle Dahms
Economist
kyle.dahms@nbc.ca
Alexandra Ducharme
Economist
alexandra.ducharme@nbc.ca

Toronto Office
416-869-8598
Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca
Taylor Schleich
Rates Strategist
taylor.schleich@nbc.ca
Daren King, CFA
Economist
daren.king@nbc.ca
Jocelyn Paquet
Economist
jocelyn.paquet@nbc.ca
Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.
UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.

U.S. Residents

With respect to the distribution in the United States of America, National Bank of Canada Financial Inc. ("NBCFMI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFMI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO"). If you are in any doubt as to your status you should contact a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates’ businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc., is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.