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No blinking at Jerome Powell's Fed

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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, BoE, 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."

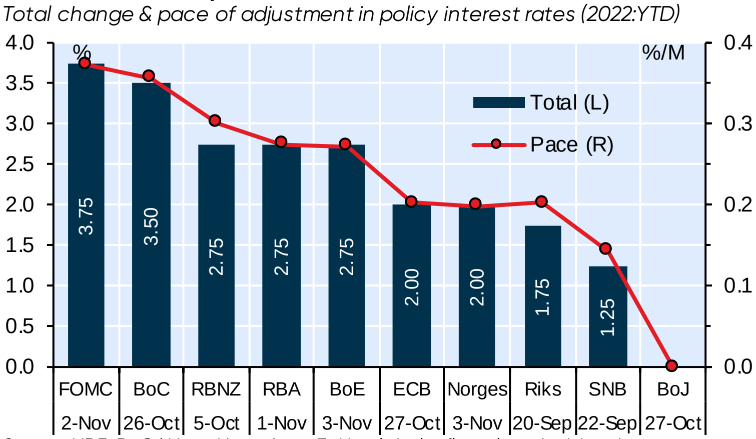
versus:

- *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 cautious 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

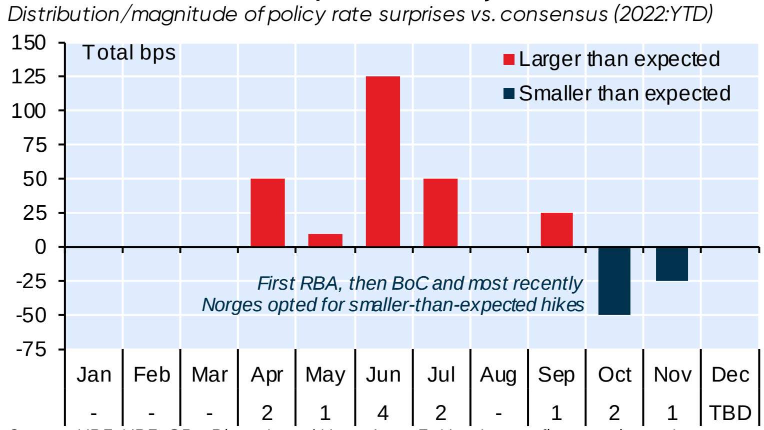
Total change & pace of adjustment in policy interest rates (2022:YTD)



Source: NBF, BoC | Note: 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)



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

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