FORECASTS AT A GLANCE: MAJORS

G3	CURRENT (%)	DIRECTION OF NEXT POLICY MOVE*	UPCOMING CB MEETINGS	RISK OF MOVE AT NEXT MEETING	THREE-MONTH F/C (%)	SIX-MONTH F/C (%)	TWELVE-MONTH F/C (%)
Fed Funds	4.75-5.00	↑	May 2-3	70% hike 25bp 30% steady	5.00-5.25	5.25-5.50	4.75-5.00
T-Note (10 Yr)	3.56				4.05	4.00	3.75
ECB depo	3.00	↑	May 4	70% hike 25bp 30% hike 50bp	3.50	3.50	3.00
Euro 10 Yr	2.32				2.50	2.20	2.00
Japan o/night Call	-0.10	↑	April 28	99% steady 1% hike 25bp	-0.02	-0.02	-0.02
JGB b/mark 10 Yr	0.30				0.40	0.40	0.40
EUROPE							
BoE Repo	4.25	↓	May 11	70% steady 30% hike 25bp	4.25	4.25	4.00
Gilts 10 Yr	3.47				3.70	3.40	3.00
Swiss 3 mth Policy Rate	1.50	↑	June 22	80% hike 25bp 20% steady	1.75	1.75	1.75
Conf 10 Yr	1.15				1.50	1.30	1.00
Swedish Repo	3.00	↑	April 26	100% hike 50bp	3.75	3.75	3.25
SGB 10 Yr	2.16				2.50	2.20	1.90
Norges Bank depo	3.00	↑	May 4	100% hike 25bp	3.50	3.75	3.25
NGB 10 Yr	3.03				3.40	3.10	2.90
DOLLAR BLOC							
BoC o/n Target	4.50%	↓	April 12	100% steady	4.50	4.25	4.00
Canada 10 Yr	2.93				3.25	3.05	2.90
RBA OCR	3.60	↑	April 4	8% hike 25bp 92% steady	3.95	4.00	3.75
Australia 10 Yr	3.35				3.50	3.20	2.90
RBNZ	4.75	↑	April 5	85% hike 25bp 15% steady	5.00	5.10	4.70
NZ 10 Yr	4.17				4.30	4.00	3.80

FORECASTS AT A GLANCE: EMERGING MARKETS

Emerging Markets	CURRENT (%)	DIRECTION OF NEXT POLICY MOVE*	UPCOMING CB MEETINGS	RISK OF MOVE AT NEXT MEETING	THREE-MONTH F/C (%)	SIX-MONTH F/C (%)	TWELVE-MONTH F/C (%)
NBH base rate	13.00	↓	April 25	100% steady	13.00	13.00	10.00
CNB 2 wk repo	7.00	↓	May 3	100% steady	7.00	6.75	6.00
NBP reference rate	6.75	↓	April 5	90% steady 10% hike 25bp	6.75	6.50	6.00
CBT 1-wk Repo	8.50	↓	April 27	80% steady 20% cut 50bp	8.00	7.50	7.00
SARB repo	7.25	↑	March 30	80% hike 25bp 20% hike 50bp	7.50	7.75	7.00
Bank of Russia key policy rate	7.50	↓	March 17	90% steady 10% cut 25bp	7.50	7.25	6.50
BC do Brasil selic	13.75	↓	May 3	100% steady	13.75	13.50	13.00
BC de Chile o/n	11.25	↓	April 4	100% steady	11.25	11.00	10.50
Banco de Mexico o/n	11.00	↑	March 30	90% hike 25bp 10% hike 50bp	11.25	11.00	10.25
PBoC 1 year MLF	2.75	↓	April 17	75% steady 25% cut 10bp	2.65	2.65	2.55
RBI repo	6.50	↑	April 6	50% hike 25bp 50% steady	6.75	6.50	6.25
BoK Base Rate	3.50	↓	April 11	20% hike 25bp 80% steady	3.50	3.50	3.25

Current yields as of 30th March 2023. n/a = not applicable.

* Note: The IGM view of the next monetary policy move (conventional or unconventional), whenever it occurs.
Tightening = ↑ Easing = ↓

Boxes in red denote significant changes to our outlook.

THEMES

Banking sector issues have yet to push central banks off the tightening course with inflation remaining the main focus. Tighter credit standards could force a rethink although many CBs are either at or close to terminal rates. There has been an effort to distinguish between tools aimed at pricing stability and those to support financial stability. Crucial going forward is whether lending standards tighten sustainably and compound the impact of higher official interest rates.

G3

US - FED

- A second consecutive 25bp hike in March should be followed by a third in May.
- Underlying pricing pressures remain sticky and the labour market tight supporting demand.
- However, post banking sector turmoil, tighter credit standards are probably on the way which will compound what were already tighter financial conditions facing the real economy. Ironically, the problems from the banks will do some of the Fed's work, but still see at least another 25bp hike unless underlying inflation shows signs of sustained slowing.

EUROZONE - ECB

- Hiked 50bp in March, as per guidance. After months of saying forward guidance had ended, looks to finally have become data-dependent.
- No mention of needing to hike more in statement but Governor noted that once uncertainty related to banks has been completely eliminated and baseline persists 'we know there is a lot more ground to cover'. Plenty of hawkish talk since the meeting.
- Core inflation seen above target across the forecast horizon. Underlying pricing pressures remain strong, wage rises strengthening.
- Credit flow to private sector was dropping, suggesting tighter financial conditions impacting, before banking sector problems that might compound tighter credit conditions via stricter lending standards. Bank Lending Survey out a few days before next meeting of interest.
- Currently think at least two further 25bp likely. Clear upside risks though.

JAPAN – BoJ

- While incoming governor Ueda established a fairly high bar for policy normalization in his Diet remarks, stressing that it would require "further improvement in the underlying inflation outlook," he set a lower bar for changes to yield curve control (YCC), stating that "the BoJ may need to consider a more sustainable format of monetary easing, taking into account the side effects." He also acknowledged the possibility that such adjustments may need to be delivered by surprise.
- We continue to opine it is just a matter of time before the BoJ increases the flexibility of the YCC with a high risk of this occurring in H1 FY23.
- We expect the Ueda in general to proceed cautiously and gradually with policy normalization in order to avoid damaging the nascent recovery in Japan's economy and underlying inflation.
- Upside risks include further policy revisions in 2023. Downside risks include conducting additional operational tweaks to defend YCC.

EUROPE

UK - BoE

- Hiked 25bp in March to 4.25%. Kept option open for another hike in May when MPR, with new forecasts, accompanies along with a presser.
- Growth and employment look stronger than anticipated. Inflation trends the deciding factor. A suggestion that these favour a pause (services CPI in line with the outlook, wages pressures topping, corporate price-setting behaviour moderating).
- As-long-as underlying inflation doesn't accelerate (and banking sector stress contained), expect a pause in May. Some MPCers are not far off voting for a cut, but May probably too early.

SWITZERLAND – SNB

- Raised rates by 50bp to 1.5% at their first monetary meeting of the year in March, leaving rates at their highest level since November 2008.
- The decision was complicated by the issues surrounding Credit Suisse which led to its acquisition by UBS, but SNB President Jordan insisted that the measures have put a halt to the crisis.
- The SNB remained very concerned about inflation developments, adding that it cannot rule out that additional increases in the policy rate may be necessary to ensure price stability in the medium term. Another 25bp rate hike is the central forecast at the next, June, meeting.

SWEDEN - Riksbank

- The commentary from the Riksbank board members since the 50bp rate hike to 3% in February has remained extremely hawkish, justifiably so, after core inflation accelerated way above expectation in the January and February inflation reports.
- Underlying CPI on a y/y basis rose to 9.3% y/y in February, its highest rate since July 1991. Another 50bp rate hike to 3.5% is the consensus at the next, April, convene, but there are already signs of the impacts of recent rate rises. Swedish household lending slowed to 2.8% y/y in February, its lowest level since the survey began in 2003, while net credit growth for mortgages was negative for the first time ever.
- A terminal rate of 3.75% is now expected, but growth concerns have heightened and the Krone has not benefited much from the Riksbank's moves in February, which at the time seemed designed to deliver a boost to the currency..

NORWAY – Norges Bank

- Returned to hiking at its March meet after pausing in January, delivering a 25bps increase to 3%.
- It was a hawkish update, raising the rate path significantly to show a 40% chance that rates hit 3.75% in Q4. Two more 25bps rate hikes were signalled by the summer, i.e. May and June.
- The more hawkish update, despite the recent global banking issues, seems to have been in response to the recent Krone weakness.
- Governor Wolden-Bache insisted that Norwegian banks are well poised to weather losses and market turbulence given their solid profitability, capital adequacy and liquidity, while adding that the CB expects to see some appreciation in the currency.

DOLLAR BLOC

CANADA - BoC

- A bit of an outlier in the world of central banks, given the decision to implement a flagged pause at the March meeting.
- The faster than expected slowdown in Canadian inflation seen in the January and February CPI reports has justified their decision and another unchanged decision is expected in April.
- While consumer spending has held up well over the winter, rising debt servicing costs and the full impact of higher interest rates on households is still to come, which should mean that households will curb their spending significantly in H2.
- Future interest rate expectations have been very volatile since the banking issues started, but they currently imply that BoC rate cuts will arrive before the end of the year.

AUSTRALIA - RBA

- The biggest driver of AUD strength in 2023 has likely been the rapid China reopening and this is well on its way to being priced in.
- A strong US labor market and the stickiness of core services inflation suggest the Fed will continue to push back against market pricing of rate cuts in 2023 which is likely to support the USD near term. At least one RBA hike is set for continue into Q2. Relative rate differentials are likely to be neutral for AUD/USD for now.
- In April, we now expect the cash rate target on hold at 3.6% (same as marker pricing), given the decline in monthly inflation indicator from 8.4% (Dec) to 7.4% (Jan) and now 6.8% (Feb) vis-à-vis the CB’s official forecast of 6.7% by June 2023.
- For guidance, the RBA will likely keep the option open for further tightening should inflation remains sticky or higher than expected wage growth from the still tight labor market.
- The downside risk to our forecast profile arises from deterioration in China's reflation sentiment and associated risk-off, which also drives commodity prices lower.

NEW ZEALAND - RBNZ

- Hiked 50bp to 4.75% in February. The Governor noted that “very little" consideration was given to a 25bp hike. Surprisingly/hawkishly, did not consider pause given effects of Cyclone Gabrielle.
- Yet to be seriously tested by the markets in balancing sharply weaker economic growth/still-elevated inflation. CB's expectations for the OCR are marked slightly lower for Q2 2023 (now: 5.14% from: 5.41%), left unchanged thereafter at 5.50% for Q4 2023 and 5.32% for Q4 2024. It is projecting rate hikes during a recession, which we think is an aggressive policy posture.
- We expect a 25bp hike in April. The market currently prices in a total of +25bp by April 2023.
- Near-term risks are to the downside due to USD strength and a potential RBNZ dovish pivot.

EMERGING MARKETS

EUROPE, RUSSIA & SOUTH AFRICA

CZECH REPUBLIC - CNB

- Czech CPI slowed to 16.7% y/y in February from 17.5% y/y prior, with CNB Deputy Governor Zamrazilova following that inflation is likely to ease rapidly this year and may slow to less than 10% in H2 2023, unless there is a "negative shift in the (Russian-Ukraine) war."
- On interest rates, the policymaker said she believes rates will still have to stay above the "neutral level" for longer than initially expected so that CPI does not flare up again.
- Most policymakers believe that the current interest rate is tight enough, saying that declining household consumption and a cooling property market are signs that home-grown price pressures are easing.
- Still, some board members see an overheating labour market as a potential inflationary risk and have warned that more tightening may come if wages jump too much and threaten to cause a wage-price spiral.
- Following the pause in monetary tightening last summer, which saw rates aggressively hiked by 675bps to 7% before being held there since June 2022, we will be watching closely for any signals about the timing and pace of monetary easing that we believe will start when CPI falls to single-digits. We expect the central bank to hold rates at 7% up until July before considering a rate cut in early 3Q23 if CPI continue to fall towards the CNB's target range. MORE INSIGHT

HUNGARY - NBH

- Continued to keep the interest rate steady at 13.00% in March, pushing back against government pressure to start monetary easing while inflation remains at an EU-high.
- Despite PM Orban’s Cabinet’s call for lower rates to blunt the effect on the economy, Deputy Governor Virag has said that patience is required and that they will need to keep the base rate and 1-day deposit rate (18%) for a “prolonged time” and will only be cut after a “trend-like improvement.”
- Recall, Hungary's inflation slowed for the first time in 19 months to 25.40% y/y in February vs 25.70% y/y prior (f/c 25.40% y/y) and Virag added that the pace of expected disinflation would be key to the outlook, which he said would become clearer toward mid-year.
- We expect that the NBH will keep the base interest rate steady for now and will begin lowering the 18% effective rate in June, matching 13% in Q423. MORE INSIGHT

POLAND - NBP

- Headline inflation picked up again in February to 18.40% y/y from 16.60% y/y prior (f/c 18.50% y/y), with the latest print expected to be the 26.5-year peak. March CPI is forecast to slow to 15.9% y/y, but it is core-CPI that remains a worry after rising more-than-expected to 12.00% y/y in February from 11.70% y/y (f/c 11.90% y/y).
- The board remains mixed on the timing of rate cuts, with Governor Glapinski expecting CPI to slow to single digits in September and the first rate cut in Q4 this year. Still, there are some MPC members, including Litwiniuk and Kotecki, who have called for the NBP to raise interest rates to better fight inflation, highlighting that it would be better if Poland's key rate was at 7% vs 6.75% currently.
- The NBP’s inflation forecasts were cut in March but the CB has yet to officially end their monetary hiking cycle, citing possible inflation risks to the upside from war-inflicted neighbour, Ukraine.
- We believe the NBP's next move will be to cut the interest rate (currently at 6.75%), but we do not expect this to happen until Q3 2023 at the very earliest. MORE INSIGHT

RUSSIA – Bank of Russia

- Left its interest steady at 7.50% for the fourth consecutive meeting as inflation is predicted to fall back to target later this year.
- Said in a statement following the March decision that "if pro-inflation risk intensify, the central bank will consider the necessity of

an increase in the key rate at its upcoming meetings."

- The CBR sees inflation falling to 5 - 7% in 2023 and return to 4% in 2024 and following the February CPI print, which slowed to 10.99% y/y from 11.77% y/y prior, their target should be reached in the coming months due to last year's high base effects, before a possible rebound seen towards the end of the year.
- Governor Nabiullina mentioned that though rate hikes are on the agenda if CPI comes back under pressure, the prospect of higher rates has been decreasing. Instead, Nabiullina is diverting the CB's focus to address the budget expenditure surge, labour shortage due to the Kremlin's call-up to fight in Ukraine and challenges to the RUB (after losing almost a third of its value to the USD).
- Looking ahead, the inflation slowdown, which falls into the CBR's lower bound inflation forecasts, boosts our expectations that the central bank will continue to hold rates at 7.50% into Q2 23 before resuming monetary easing in Q3 and to be more gradual, perhaps of 25bp. MORE INSIGHT.

TURKEY - CBT

- Kept the interest rate steady at 8.50%, refraining from cutting interest rates as the TRY comes under pressure and as the economy absorbs the fallout of last month's earthquakes. The decision came in line with the CBRT's forward guidance that the benchmark was at an "adequate" level following the 50bp cut back in February.
- With the presidential elections around the corner, President Erdogan has called for rate cuts, but the CBRT continues on hold for now as CPI remains stubbornly high, despite easing in February to the lowest level in a year at 55.18% y/y from 57.68% y/y prior (f/c 55.70%), with core CPI also having slowed more-than-forecasted to 50.58% y/y vs 52.97% y/y prior (f/c 51.50% y/y).
- Erdogan projects that CPI will slow to 40% "in a few months," before decelerating further to around 20% by 2023-end.
- We see the CB holding the base rate to assess how CPI reacts to the recent quakes, before pushing on with a 25bp cut in April ahead of the May presidential elections and to shore up the TRY. MORE INSIGHT.

SOUTH AFRICA - SARB

- Consistent power cuts and an energy crisis pushed South Africa's inflation higher in February to 7.00% y/y from 6.90% y/y prior (f/c 6.80% y/y), with core CPI also having surged more-than-expected to 5.20% y/y vs 4.90% y/y prior (f/c 5.00% y/y) – with much higher production costs.
- SARB member Cassim prewarned that there were still clear risks of adverse developments which could require further monetary tightening to contain CPI as power cuts drive up food prices - specifically through the disruption to production and storage.
- Note, at the last rate meeting Governor Kganyago voiced that they are raising rates in line with their current view of inflation and the risks associated with it, highlighting that the tightening cycle is far from over amid CPI showing its persistence.
- So, after the heavily unexpected February inflation numbers, we expect the SARB to follow suit with the Fed and continue with a 25bp hike at the late March meeting. If CPI does not cool in the coming months, then we can expect the CB to hike once more, by 25-50bp, before ending the tightening cycle - with a terminal rate seen somewhere between 7.50%-8.00%. MORE INSIGHT

ASIA

SOUTH KOREA - BoK

- Expected to continue its pause on rate hikes in April due to concerns about growth and financial stability, despite a moderation of inflation. South Korea's growth in 2023 is expected to be weak, as private consumption is moderating and exports are facing weakness. Notably, exports plunge by 17.4%y/y in February and shipments to China fell sharply by 36.2%y/y in the same month, indicating weak global demand amid tight global financial conditions, which may suggest that BoK's growth forecast may have been too optimistic.

- In February 2023, headline and core inflation moderated driven by easing services inflation. Weak exports, coupled with moderation in inflation, could alleviate pressure on for another rate hike despite the fact that CB members had previously expressed the possibility of a 3.75% terminal rate. Furthermore, the financial distress that the US is currently facing may lead to a slowdown in the Fed's rate hike path, easing some pressure to keep pace with the Fed. This reduces the likelihood of one-sided Won depreciation, potentially reducing the probability of South Korea's financial instability and imported inflation.
- While BOK is expected to balance the risks of inflation, growth, and financial stability, it is unlikely there will be a pivot towards rate cuts, as Governor Rhee has maintained that such talks would be "premature." The CB is expected to keep rates restrictive until clear signs of inflation are under control.

INDIA - RBI

- We expect a final 25bps rate hike at the first meeting of the 2023-24 fiscal year in April.
- To provide context, at its previous meeting, RBI delivered a 25bp rate hike with a 4-2 vote, taking the repo rate to 6.5% in its attempt to bring down core inflation while considering the lagged transmission effects.
- In March, Governor Shaktikanta Das emphasized that India's financial sector remained stable, while reiterating that "the worst of inflation was over". However, it is worth noting that Das made a similar statement at the February meeting, while also cautioning that RBI would not be complacent in curbing inflation.
- Since the previous meeting, headline inflation in India has moderately declined from 6.52% to 6.44% in February, but it still remains above the 6% upper target threshold. The Ministry noted that the inflation rate across all categories remained elevated and sticky, underscoring the need for to maintain policy tightening.
- RBI is expected to encounter resistance from Varma and Goyal, with Varma suggesting that RBI may become "complacent about growth", and Goyal warning of the risks of overshooting due to excessive hikes in real policy rates.
- PMIs indicate that both manufacturing and services remained strong. The manufacturing sector was well supported by the domestic manufacturing sales, which offset the moderation in international sales. The services PMI rose to its highest level in 12 years, driven by a sharp increase in output and strong renewal of new orders. This data would likely help alleviate some of the RBI's concerns regarding economic growth, supporting the case for the final rate hike in April.

CHINA - PBoC

- On March 17 announced a universal 25bp cut in the reserves requirement ratio (RRR), effective from March 27. The cut was unexpected as it came after the PBoC conducted a large amount of MLF on 15 March. This series of easing moves, to a certain extent, reflected the CB's concerns about the economic outlook regardless of the strong data in February. After the 25bp cut, the average reserve requirement ratio of the banking system reached as low as 7.6% and liquidity of about CNY525bn was injected into the banking system.
- Since the 25bp RRR cut was announced, the CGB yield curve has flattened a bit further, suggesting market expectations of a growing unlikelihood of a near term interest rate cut. While the 10-yr yield continues to be top-heavy, the 1-yr yield has an upwards bias. That resulted in a much tighter 10-yr vs 1-yr spread at 62bp, vs year-wide of 82bp set late-January. As such, we won't be surprised if multi-year tight of 55bp set in December last year will be revisited over the next few weeks especially if PBoC keeps the MLF rate unchanged at 2.75% on 17 April.

LATAM

BRAZIL - BCB

- Held its Selic rate steady at 13.75% for the fifth consecutive meeting in March - defying intense pressure from President Lula and his government wanting a looser monetary policy.
- Still, the CB continue to warn that additional rate hikes may occur if the pace of CPI doesn't slow as expected, noting that inflation expectations have shown "additional deterioration," especially in the longer-term forecasts.
- The statement had no reference to any rate cuts which they may face increased criticism from the government.
- Still, BCB Director Guillen has said that Brazil's slow disinflation process requires patience, as headline inflation and core measures are still above levels that would guarantee convergence with current goals.
- With this in mind, and as the government's fiscal framework forward trajectory remains uncertain, we see the CB continuing to hold rates and for a potential rate cut towards the end of H1 23 when a disinflation trend remains consistent. MORE INSIGHT

CHILE – BCCh

- Chile's headline inflation beat forecasts and slowed to 11.9% y/y in February from 12.3% y/y in January (12.3% forecast) - the third consecutive month of disinflation. Still, core CPI numbers remain elevated, giving the BCCh little room to begin cutting interest rates, boosted by comments from CB President Costa, who said the economy is reacting slowly to its current tight monetary policy.
- Recall, the BCCh maintained the interest rate steady at 11.25%, for the second consecutive time at their last meeting - the highest level in more than two decades and reiterated that rates will stay higher for longer until a slowdown in CPI has been consolidated.
- Costa has also scaled back bets for incoming rate cut bets in April, highlighting that inflation remains "extraordinarily high," which requires the CB more time to ensure that CPI falls to target and that they will warn the markets when they believe its right to ease monetary policy.
- Policymakers also showed weak employment growth, easing wage and credit growth, with business and consumer confidence expectations in negative territory. Looking ahead, we see the BCCh maintaining the interest rate at 11.25% into Q2 23 and only expect consideration of rate cuts in H2 2023. MORE INSIGHT

MEXICO - Banxico

- Banxico officially decoupled from the Fed and surprised the markets with a unanimous decision to hike rates by 50bp, bringing the current rate to a record high 11%.
- From this, inflation slowed more-than-expected to 7.62% y/y in February from 7.91% y/y prior (f/c 7.68% y/y), along with core CPI, which eased to 8.29% y/y from 8.45% y/y prior (f/c 8.35% y/y), giving the CB some room to possibly reduce the pace of their interest rate hike at the next, March 30, meeting.
- Supporting this was CB Governor Rodriguez, who said that Banxico is facing a delicate balance in their rate decisions but could raise rates by a smaller magnitude at their next meeting.
- Although inflation still remains above the Bank's 3% target, it still remains consistent with Banxico's expectations that anticipate inflation steadily falling over the next two years and should reach their target by the end of 2024.
- We expect Banxico to hike by 25bp at the March 30 meeting before a possible end to the tightening cycle. MORE INSIGHT.

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We hope you find this report useful and welcome your feedback. If you have any comments or questions, please contact our analysts on the above email addresses.

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