



Last of the Large Rate Hikes

It would appear that the marked slowdown in the pace of global activity and growing risks of recession are beginning to weigh on the policy deliberations of central banks, despite continued very elevated readings for inflation. Both the Reserve Bank of Australia and Bank of Canada delivered smaller than expected rate hikes at their recent monetary policy meetings. The Bank of England also moved in the past couple of weeks to dampen down market expectations of very aggressive policy tightening by highlighting the severe damage that this would do to the UK economy.

Meanwhile, although the ECB clearly indicated at its meeting on Thursday that further policy tightening is in the pipeline, it sent a strong signal that rates may not rise to the extent priced in by markets when it commented “it has made substantial progress in withdrawing monetary policy accommodation”. The ECB had a significant impact on rate expectations across key markets. Futures contracts now see the ECB deposit rate peaking at 2.75% next year rather than 3%. The anticipated peak in both US and UK rates was also scaled back from 5% to 4.75% in the aftermath of the ECB meeting.

ECB President Lagarde, in her post meeting press conference, made direct reference to recession risks as something the central bank would take into consideration in deciding on monetary policy given the impact this would have on the future path of inflation. She also highlighted that monetary policy operates with a lag so the ECB would also be mindful of the impact the considerable tightening of policy to date will have on activity and inflation.

Attention is now turning to some key central banks meetings this week to see what message they deliver. The US Fed is widely expected to raise interest rates by 75bps on Wednesday evening for the fourth consecutive meeting. Looking ahead, though, recent reports suggest this may be the last 75bps rate hike from the Fed this cycle, with a shift to smaller rate hikes expected in December. Fed's projection, and thus consistent with a slowdown in the pace of rate hikes. Participants will be paying close attention to the post-meeting press conference for signals from Chair Powell that the Fed is likely to proceed with smaller rate hikes.



The Bank of England is expected to join the club of central banks who have implemented 75bps rate hikes when it meets on Thursday. In September, the BoE raised Bank rate by 50bps for the second time. Since then, a badly received UK mini-budget with subsequent many policy U-turns has complicated the outlook for monetary policy. In the aftermath of the aforementioned mini-Budget, market rate expectations hardened significantly, with UK rates projected to be increased by as much as 150bps at this week’s meeting, before going on to peak at 6% in 2023.

Following the appointment of a new PM and Chancellor, though, and a significant change in tack on fiscal policy from the Government, as well as comments from a number of BoE officials, a more modest 75bps rate rise, as mentioned above, is now expected at Thursday’s meeting, with a move back to smaller hikes thereafter. Thus, this week could mark the end of the large 75bps rate hikes.

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