CEEMarketWatch

Emerging Markets Central Bank Watch | Nov 6, 2019

CONTENTS

ARGENTINA

MPC starts adapting monetary policy to FPV’s wishes

Argentina | Oct 30, 03:13

- **MPC tightens FX market access to keep exchange rate constant without selling reserves**
- **BCRA able to buy USD 160mn from market in first two days of new restrictions**
- **BCRA to stop paying for reserve requirements looking to slash stock of bills as FPV wants**
- **MPC likely relaxes control of monetary aggregates in November, reduces benchmark rate floor to 50.0-58.0% range**

The BCRA's Monetary Policy Council made significant alterations to the policy framework immediately after the result of the Oct 27 general elections were set, and the changes reveal members are adapting to what the Front for Victory's (FPV) economic advisers want. The MPC first tightened FX restrictions significantly, essentially blocking access for non-commercial reasons such as paying for maturing debt and imports. This was done to preserve FX reserves in a context in which the BCRA has been the main provider of FX supply for a few months now. The MPC also eliminated the possibility for banks to use 7-day Leliq bills as part of their reserve requirements on demand deposits, which is a first step to reducing the central bank's interest-bearing liabilities.

Tighter restrictions to FX market access were expected to come right after the elections, but the new rules imposed by the BCRA are much stricter than anticipated. The bank reduced the monthly limit for individuals to buy US dollars to just USD 200, down from USD 10,000. Businesses can only access the FX market to pay for imports or debt in foreign currency. In the first two days since the new restrictions were imposed demand plummeted to the point that the BCRA was able to buy some USD 160mn combined while the exchange rate remained stable. Surprisingly, parallel exchange rates appreciated so far, which suggests many had overbought US dollars in preparation for the restrictions and now had to sell a share in need of Argentine pesos. These parallel rates are likely to go up some starting next month, as citizens seek to turn whatever share of their monthly income they can save into US dollars. However, the sharp real depreciation of the currency over the last year and a half will act as a ceiling on how much FX Argentineans can buy in the black market.

The MPC was pretty much cornered into restricting FX market access by the FPV's politicians. President-elect Alberto Fernandez has been criticizing the BCRA for allowing the currency to depreciate so much, and for selling too many reserves. The combination of the two criticisms suggests that what Fernandez really wanted were strict capital controls that prevented further depreciation without putting pressure on the BCRA to sell out of its depleted net reserves.

The MPC also eliminated a provision allowing banks to invest in Leliq bills a share of reserve requirements on demand deposits, with the measure taking effect from November onwards. Until October banks were able to cover up to 16pps of reserve requirements on fixed-term deposits and 10pps of requirements on demand accounts with the BCRA's 7-day bills, but the central bank is now ruling that only reserve requirements on fixed-term deposits will be remunerated moving forward. The FPV's economists had been critical of the BCRA for holding a large stock of Leliq bills and for paying too much interest on them, so this move seems to have been planned in talks with them.

The replacement of remunerated reserve requirements for unremunerated ones hurts bank profits and that should lead to a wider gap between passive and active spreads in the financial system.This could discourage local-currency fixed-term deposits, but the impact will be limited because the FX market restrictions don't allow investors

many other options. Reducing reserve requirements, which are at 45% for demand account deposits, is an option to balance the impact of removing remunerated reserve requirements. But we assume that this MPC, which is likely getting entirely replaced by the new government in December, will maintain the high requirements and let the next administration choose the next big policy steps.

The change in the composition of reserve requirements makes the monetary base grow, though it doesn't impact the real supply and demand of cash in the short term. The MPC has not yet picked its monetary base goal for November, but we assume it will accommodate the growth caused by the reserve requirement changes instead of seeking to compensate by putting cash out of circulation. It would not be surprising if the MPC abandons the monetary aggregate targeting in November and simply commits to an interest rate floor to avoid relaxing monetary policy too much.

The floor for the benchmark rate is likely to be set somewhere between 50.0% and 58.0% in November, down from 68.0% in October. The effective rate will probably decline quickly from the current 68.0% in the first few Leliq auctions of the month since banks don't have better options to put their liquidity other than the central bank's short-term bills.

Monetary policy council

Member	Position
Guido Sandleris	Governor
Gustavo Canonero	Vice Governor
Veronica Rapoport	Second Vice Governor
Enrique Szewach	Director
Mauro Alessandro	Director of Research

Source: BCRA

Monetary policy statements

Monetary base goal tracking

Ask the editor

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Recent developments:

- Local analysts trim GDP forecast to 3.0% contraction in 2019, Nov 05, 15:38
- President-elect Fernandez hints FX controls won't change when he takes office, Nov 05, 15:03
- BCRA closes FX control loopholes, bans gambling and buying crypto abroad, Nov 01, 04:00
- MPC lowers benchmark rate floor to 63.0%, relaxes monetary base control, Oct 30, 23:45
- Leliq stock to fall at least 20% after reserve requirement changes, Oct 30, 15:03
- BCRA to stop remunerating reserve requirements in November, Oct 29, 15:00
- BCRA’s Sandleris says FX rules tightened to preserve policy space for next govt, Oct 28, 14:58
- BCRA restricts individuals’ FX purchases to just USD 200 per month, Oct 28, 13:25
- BCRA seen tightening FX controls next week if FPV wins election, Oct 25, 14:45
- FPV’s Fernandez slams BCRA’s Sandleris, dismisses call for MPC continuity, Oct 18, 17:32
- BCRA marginally relaxes FX controls to help importers and debt rollovers, Oct 18, 14:37

- Share of non-performing loans holds at 4.7% in August, Oct 11, 16:41

BRAZIL

BCB still says benign inflation outlook will permit additional stimulus

Brazil | Nov 05, 22:21

- **Next MPC meeting: Dec 11, 2019**
- **Current policy rate: 5.00%**
- **CEEMarketWatch forecast: cut (to 4.50%)**

The BCB's rate-setting Copom reaffirmed at its October meeting, according to the just-released minutes, that the still benign inflation outlook should permit additional stimulus of the same magnitude as to date. Inflation was expected to remain near the target in the policy horizon and economic slack was said to remain, meaning stimulus was still required. Analysts polled by the BCB this past week continue to expect the Copom to cut the key rate by another 50bps to 4.50% at the final sitting on Dec 11. The 4.50% would mark a new record low and would be well down from 6.50% at the start of the year.

Inflation remains in check and much lower than originally expected. IPCA-15 inflation decelerated to 2.72% y/y in the 12 months to mid-October from 3.22% at mid-September. This sets the stage for IPCA inflation, which the BCB targets and which slowed to 2.89% y/y in the 12 months to end-September, to fall further. Inflation should therefore remain at a low level and well below the BCB's 4.25% (+/-1.5pps) target for 2019. The analysts polled by the BCB expect IPCA to close the year at 3.29%, remaining well below the BCB's target. The Copom said in the minutes to its October meeting that inflation was running at a comfortable level. It added that core inflation was also stable, including those components most sensitive to business and monetary cycles.

Economic growth forecasts continue to be dismal. Analysts polled by the BCB most recently forecast GDP growth at 0.92% for 2019, which will be slower than the 1.1% pace posted in 2018 and well below the plus-2% levels once expected. The Copom said in the minutes that the latest data do continue to point to a resumption of economic growth, though it likewise recognized the economy would recover only gradually. The Copom's GDP expectations are underpinned by the fact a government stimulus program will help growth in Q4 2019.

Overall, the Copom cut its key rate by another 50bps at its Oct 30 sitting and we continue to expect another 50-bp cut on Dec 11. For 2020, we would expect the cycle to pause before potential hikes by end-2020 or early 2021. This will depend on developments in the economic and inflation outlook. President Jair Bolsonaro and his economic team delivered an administrative package to help shore up public finances that would have some impact on economic activity. The government will need to increase negotiations and reduce political turmoil to pass these measures.

Copom structure and latest voting results

Board member	Position	Latest vote
Roberto Campos Neto	Governor	Cut
-	Director of Economic Policy	-
Carolina de Assis Barros	Director of Administration	Cut
Maurício Costa de Moura	Director of Institutional Relations and Citizenship	Cut
Otávio Ribeiro Damaso	Director of Regulation	Cut

Paulo Sérgio Neves de Souza	Director of Inspection	Cut
Bruno Serra Fernandes	Director of Monetary Policy	Cut
Joao Manoel Pinho de Mello	Director of Financial System and Resolution	Cut
Fernanda Feitosa Nechio	Director of International Affairs and Corporate Risk Management	Cut

Source: BCB

BCB Inflation Reports (September is the latest)

Latest Copom policy sitting statement

Latest policy sitting minutes

Selic interest rate historical

Ask the editor Back to contents

Recent developments:

- BCB repeats that benign inflation should permit additional stimulus - minutes, Nov 05, 15:33
- Analysts keep rate view for 2019-20, but cut Selic forecast for 2021, Nov 04, 14:39
- BCB cuts policy rate by expected 50bps to 5.00%, Oct 30, 23:49
- Analysts reduce rate trajectory across the horizon, Oct 28, 13:39
- Analysts widen rate cut forecast to 100bps from 75bps for 2019, Oct 21, 13:56
- Economy would have grown 1.54% in '19 w/o domestic/external shocks – Campos Neto, Oct 17, 20:00
- Analysts now see no rate hike in 2020, cut inflation outlook for 2019 and 2020, Oct 14, 14:45
- Analysts hold or largely hold rate, growth, and inflation forecasts, Oct 07, 14:30

CZECH REPUBLIC

Interest rates to remain unchanged in view of external uncertainty

Czech Republic | Nov 06, 11:25

- **Next MPC meeting: Nov 7, 2019**
- **Current policy rate: 2.00%**
- **CEEMarketWatch forecast: Hold**

Rationale: The CNB board remains convinced that interest rate stability is the best policy course, even though its language became more hawkish after the latest MPC meeting on Sep 25. It is the first time after inflationary pressure has strengthened in recent months when the CNB has admitted that domestic inflation pressure may be considerable. However, external uncertainty and economic slowdown in main trade partners is what has been pushing inflation expectations downwards. The strongest argument in favour of keeping rates unchanged by the end of the year and into 2020 is a comment of CNB governor Jiri Rusnok at the press conference after the MPC meeting. He reiterated that if there was a rate hike this autumn, it would probably mean that a rate cut should follow very shortly in 2020, which he does not see as good policy course. It is not a new argument, as vice governor Tomas Nidetzky said something along that line before the August MPC meeting, and we believe it is what

the CNB board's majority believes.

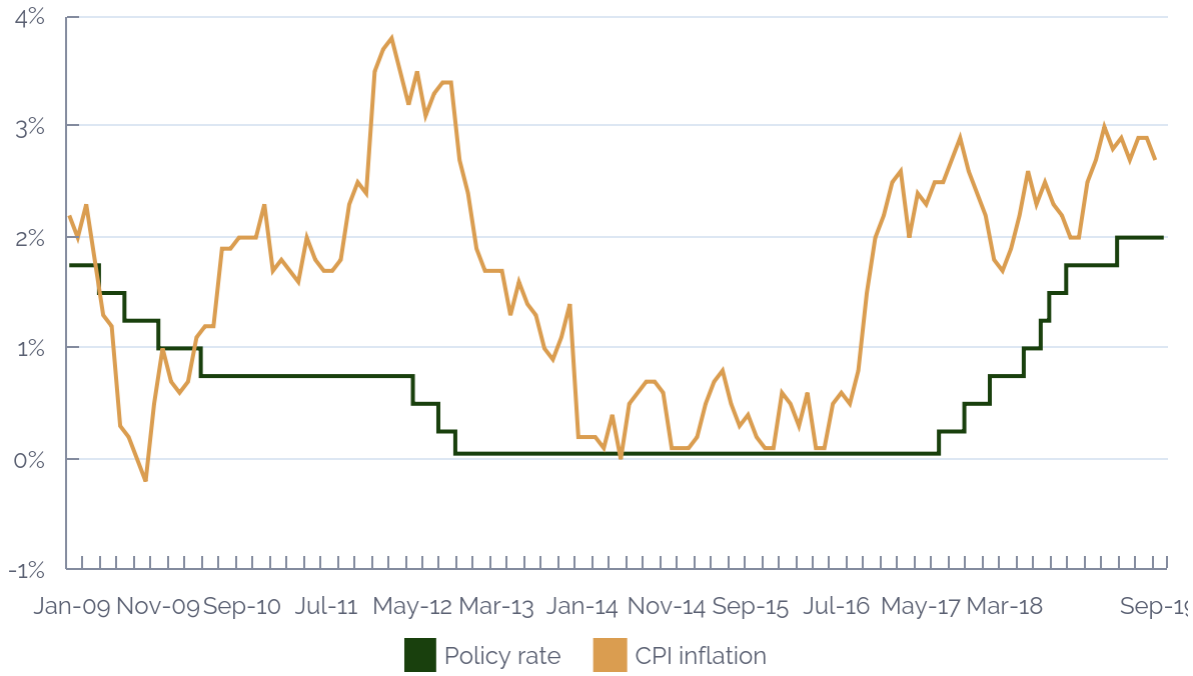
Interestingly enough, there was a debate on what should be considered fulfilment of the monetary policy mandate at the latest MPC meeting. A board member, who we believe was Oldrich Dedek, argued that as long as inflation is within the tolerance band (2%+/-1pp), the mandate should be seen as fulfilled. Other board members countered that inflation was already close to the band's ceiling, so it would be a good idea to tighten monetary policy, as otherwise the CNB would have a hard time justifying its monetary policy and could lose trust. There were also opinions that both pro- and anti-inflationary factors were very strong, which means that a sudden shift in any of those will cause a sudden change in the inflationary outlook, currently considered as slightly inflationary. The thing is, the latest CPI print surprised on the downside, showing 2.8% y/y in September, which plays into the rationale of those in favour of stable interest rates.

Speaking of board majority, the CNB board was once again split 5-2, with the dissenters being Vojtech Benda and Marek Mora. It doesn't change a lot, in our opinion, because Benda has already dissented a couple of times, without any influence on the overall policy course, while Mora has always been slightly hawkish. Benda indicated he could propose a rate hike yet again on Nov 7, so that is not news. On the other hand, almost all other board members remain in favour of stable interest rates, with Tomas Holub being the only one who hesitates. Concerns about external developments and the need for a rate cut soon seem to have weighed the most during the latest debate, and we believe it will continue to be an argument in the last two MPC meetings this year. There are also some lingering effects from administered prices, and there will be some minor inflationary pressure from second-round effects of indirect tax changes next year.

The only scenario where the board turns around is if external sentiment suddenly improves due to some reason, but we see the odds for such developments as low. The CNB is currently in a situation where it is keeping interest rates unchanged while other central banks are lowering theirs, so there is effectively policy tightening in relative terms. We believe it is what the CNB board majority is betting on. Thus, unless external anti-inflationary pressure suddenly subsides (i.e. external prices stop falling and growth slowdown ends), the odds are that the CNB still expect inflation easing in early 2020 and continue doing so until it converges to the 2% target towards the end of next year. In our opinion, this precludes any change in interest rates in 2019 and very possibly throughout Q1 2020.

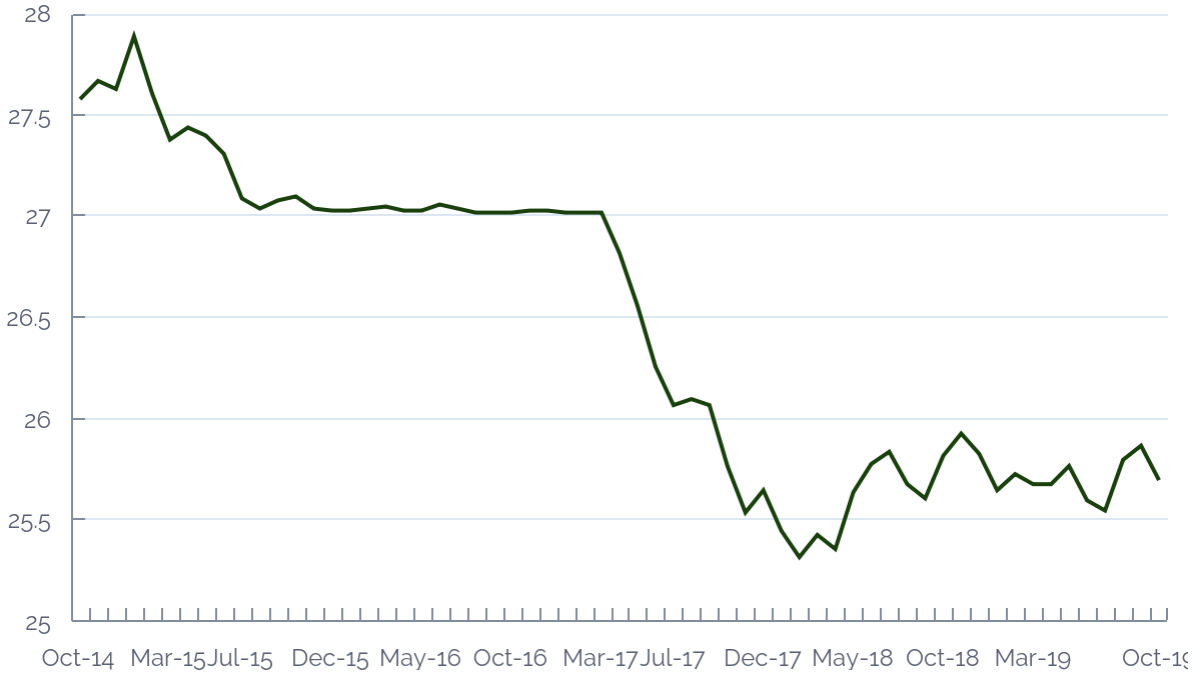
Inflation and interest rates

Source | CSU, CNB



EUR/CZK exchange rate

Source | CNB



CNB board summary

Board member	Overall Bias	Latest vote	Latest comment (ahead of Nov 7 meeting)
Governor Jiri Rusnok	neutral	hold	neutral (higher inflation an argument for a hike, but external events warrant caution)

Vice Governor Marek Mora	hawkish	25bp hike	neutral (will vote for stable interest rates, not to repeat hike vote from September)
Vice Governor Tomas Nidetzky	neutral	hold	neutral (expects rate stability throughout 2020)*
Vojtech Benda	hawk	25bp hike	hawkish (there is more room for rate hikes)
Oldrich Dedek	dovish	hold	neutral (still leans towards interest rate stability)
Tomas Holub	hawkish	hold	hawkish (equal odds whether to vote for no rate change or a hike)
Ales Michl	hawk	hold	neutral (favours stable interest rates, rate cut may come up if recession is near)

Note: * Older comments (before Sep 25 meeting)

Source: CEEMarketWatch estimates based on statements and voting behaviour of board members

Further Reading

CNB board statement from latest MPC meeting, Sep 25, 2019

Q&A after latest MPC meeting, Sep 25, 2019

Minutes from latest MPC meeting, Sep 25, 2019

Inflation Report, August 2019

Macroeconomic forecast, August 2019

Meeting with analysts, Aug 2, 2019

CNB board profile

CNB board members' presentations, articles, interviews (Czech)

CNB board members' presentations, articles, interviews (English)

Ask the editor

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Recent developments:

- CNB to leave policy rate unchanged on Thursday - survey, Nov 04, 06:26
- CNB's Mora to vote for stable interest rates on Nov 7, Oct 31, 09:27
- CNB's Michl favours stable interest rates, Oct 31, 09:12
- Inflation gives reason for a hike, but external events warrant caution - Rusnok, Oct 31, 06:37
- CNB's Holub sees equal odds in choosing between no rate change and a hike, Oct 30, 11:38
- CNB's Dedek still leans towards keeping interest rates stable, Oct 30, 11:09
- CNB unlikely to follow ECB easing - Holub, Oct 25, 15:28
- CNB's Mora less likely to vote for a hike in November than in September, Oct 23, 12:45
- CNB's Michl to vote for no rate change in November, supports QE, Oct 18, 06:32
- CNB's Benda still sees room for rate hikes, Oct 15, 12:51
- Inflation outlook slightly proinflationary, downside risk from abroad - Holub, Oct 15, 11:26
- September CPI print bears out message in current forecast - CNB, Oct 10, 12:12

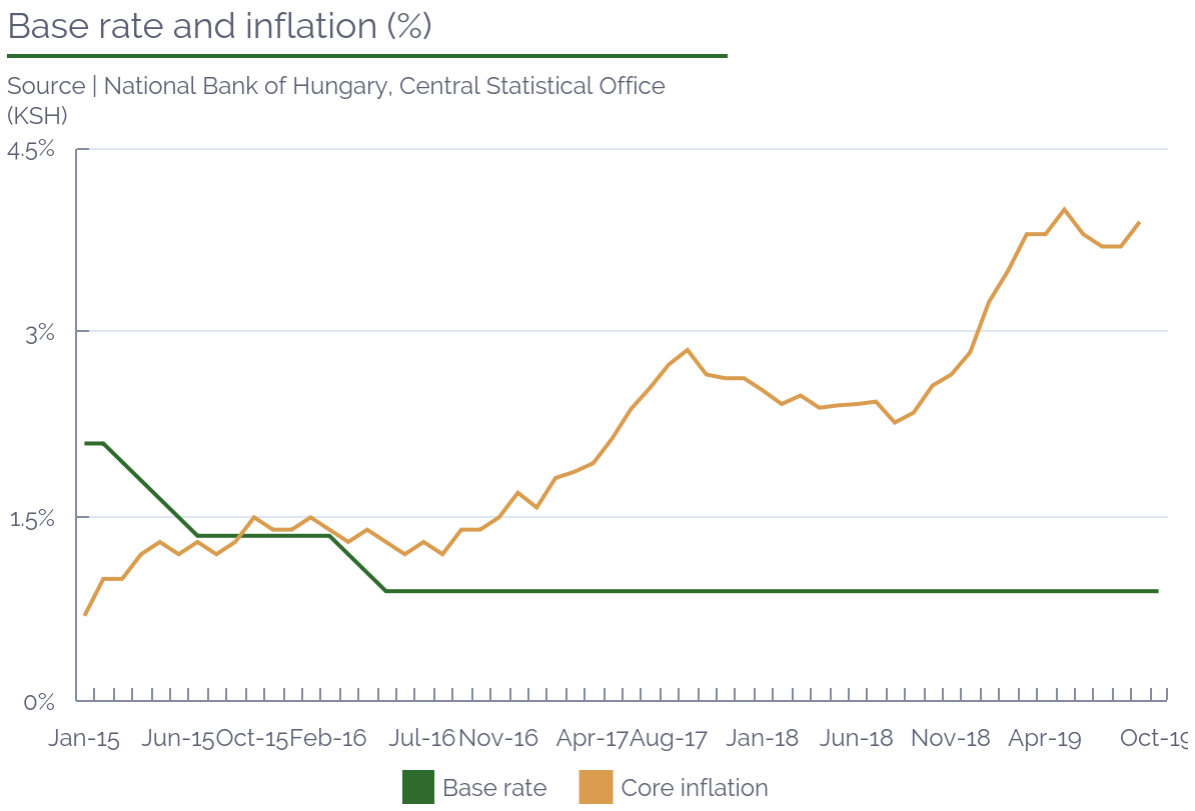
HUNGARY

MPC to maintain loose monetary policy stance

Hungary | Nov 06, 13:41

- **Next MPC meeting: Nov 19, 2019**
- **Current policy rate: 0.90%**
- **CEEMarketWatch forecast: Hold**
- **Rationale: MPC maintains view on downside risks to inflation after NBH forecast update**

The MPC will remain in dovish mode despite the recent significant weakening of the forint. The MPC loosened liquidity conditions on its latest meeting in September, increasing the crowded-out liquidity by HUF 100bn to HUF 300-500bn for Q4. It said that the previously symmetric risks to the inflation outlook have shifted to the downside but noted that a cautious approach was needed due to the dynamic external environment. Accordingly, we see no changes in the base rate or the overnight interest rate corridor in the short term and we expect the MPC to continue reacting to changes in the inflation outlook through fine-tuning of the size of its forint-liquidity swap portfolio. Changes in the monetary policy stance will continue to be based on the updated forecasts of the National Bank of Hungary's (NBH) Inflation Report, meaning that the MPC will next consider adjusting the monetary conditions in December. On its rate-setting meeting in October, the NBH maintained its monetary policy guidance unchanged. It said that new data did not suggest a change in the inflation outlook, possibly saying that developments so far might translate into a no-change stance on the December MPC meeting.



NBH deputy governor Marton Nagy confirmed in a press conference that the September MPC decision to increase the size of the forint-liquidity swap book represented monetary easing. He added that this was a response to the changes in the risks for the inflation outlook. The MPC did not mention the forint exchange rate at all on its September meeting while Nagy elaborated that the update of the NBH forecasts were made taking into account

current exchange rates, implying that the recent forint weakness did not change the assessment that the risks for inflation have shifted to the downside. His statement practically signalled that the forint has not fallen below the NBH's comfort level and we expect this to remain the case going forward.

The MPC maintained in September and October that the monetary policy stance will remain loose and financing costs for economic agents will remain favourable. Overall, the MPC has communicated clearly that no significant tightening can be expected in the short term while further loosening could be considered, given current trends. Nagy also clearly stated that there was no cycle in monetary policy at present and monetary policy decisions were dependent on incoming new data. Important factors for the inflation outlook, respectively monetary policy, will be the disinflationary impact of the external environment and the policies by leading central banks, according to the MPC statement. Brexit and global trade conflicts remain risk factors to monitor, the MPC said in October.

MPC Members (see full MPC profile)

Name	Institution	Views	Last vote, Oct 2019
Gyorgy Matolcsy, governor	President	dovish, trend-setter	Hold
Marton Nagy, deputy governor	President	dovish	Hold
Ferenc Gerhardt, deputy governor	President	dovish	Hold
Laszlo Windisch, deputy governor	President	dovish	Hold
Gyorgy Kocziszky	Parliament	strongly dovish	Hold
Kolos Kardkovacs	Parliament	dovish	Hold
Gyula Pleschinger	Parliament	conservative dove	Hold
Bianka Parragh	Parliament	dovish	Hold
Gusztav Bager	Parliament	dovish	Hold

Source: NBH, CEEMarketWatch estimates

Post-meeting MPC statement from October

Minutes from October MPC rate-setting meeting

Latest Inflation Report - Q3/2019

Strategic framework for unorthodox monetary instruments affecting short-term yields

MPC meeting calendar 2020

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Recent developments:

- MPC unanimous in keeping base rate unchanged in October, Nov 06, 13:35
- NBH hikes forint-liquidity swap portfolio by HUF 100bn, Nov 05, 06:52
- NBH to roll over mortgage bonds with maturity of less than one year, Oct 24, 06:19
- MPC leaves base rate unchanged at 0.90% in October, Oct 22, 14:23
- NBH boosts forint-liquidity swap stock by HUF 50bn on regular tender, Oct 21, 16:20

- NBH maintains forint-liquidity swap stock unchanged after tender, Oct 14, 16:19
- Forint liquidity of banking sector increases in September, Oct 11, 08:07
- MPC decides on monetary easing in September due to asymmetric inflation risks, Oct 09, 13:20
- Assets of NBH foundations rise by 0.3% q/q to HUF 274.3bn at end-Q3, Oct 08, 14:43
- Csaba Kandracs officially appointed NBH deputy governor, Oct 08, 09:31
- Forint-liquidity swap stock remains unchanged after regular tender, Oct 07, 16:33

ISRAEL

Policy rate to remain at 0.25% on Nov 25 but risks for cut appear

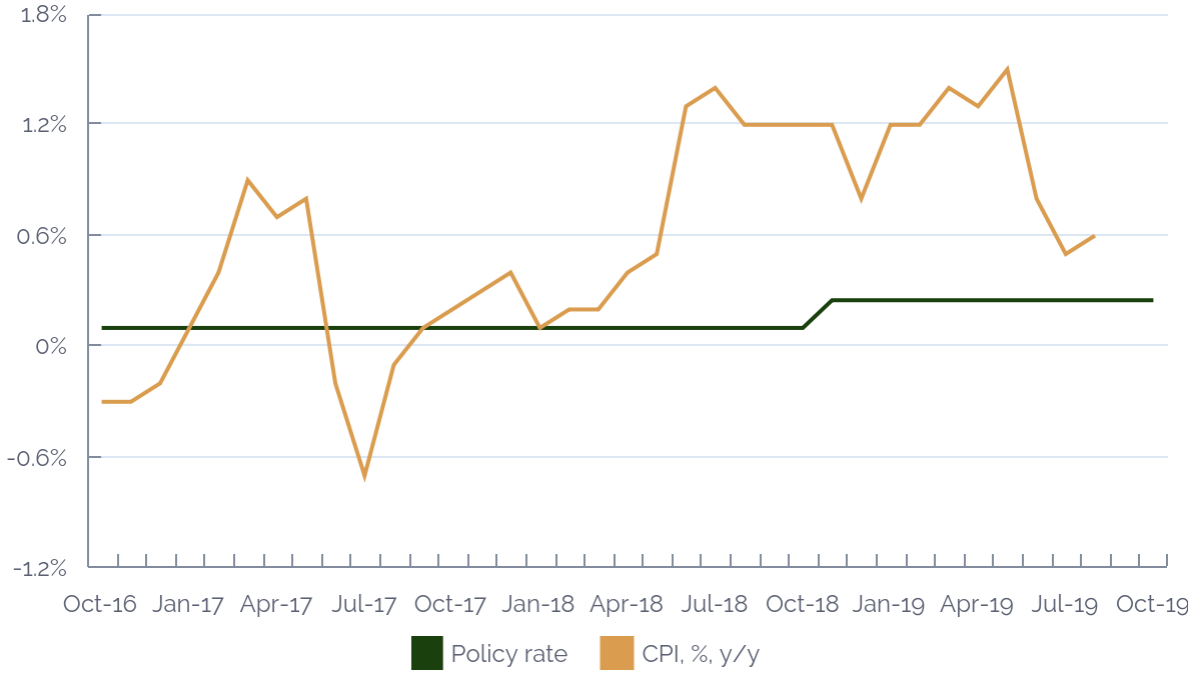
Israel | Oct 09, 09:46

- **Current policy rate: 0.25%**
- **Next monetary policy meeting: Nov 25, 2019**
- **Expected decision: hold, risk for cut or other accommodation measures**

We expect that the MPC will decide to keep the policy rate unchanged at 0.25% in its last meeting for the year on Nov 25 on constantly increasing risks and low inflation environment. However, the rhetoric continued changing to an even more dovish stance - from assumption for a hike until August, to confirmation that there would be no changes in the rate but other easing measures could be implemented, to an outright assumption for reducing the policy rate in the last rate-setting meeting on Oct 8. Governor Yaron indicated that even negative rates are being considered. Even if no timing for a cut was mentioned, we think that there are some risks for a cut back to 0.10% already in the next meeting since the Oct 8 on-hold decision was not unanimous and there were some voting for a cut. Recall that the benchmark interest rate in Israel stayed at 0.10% from early 2015 through last November. It is possible though other kinds of easing to be adopted too as mentioned by the MPC after the last rate decision.

Monetary policy stance

Source | BoI, CBS



Inflation has moved below the 1-3% target range in the last months, and the actual readings have been significantly lower than expected in Jun-Jul. The MPC sees the inflation continuing to decline in the next few months before converging to the lower band of the target a year from now. One of the main factors for this is the strong shekel, which has been gaining big this year and there are additional factors that can support its strength in the near future - the start in gas exports by the end of this year or early next year, and the inclusion of the country in the World Government Bond Index as of April next year. Another factor that might support relaxing the monetary policy in the country is the more accommodative policies of major central banks abroad.

There are also factors that might support keeping the current monetary conditions steady so it depends which group would prevail in about two months. Among those are the still solid economic growth, which is expected to remain such in Q3 and also by the end of the year. Some ramifications from world trade slowdown might be evident in 2020 but economic expansion in the country would overall remain similar to this year, according to the latest forecast of the BoI. Also, labour market remains tight. Risks coming from the global environment continued intensifying and there are no signs reversing the trends for now. There are also risks from the domestic political environment since the formation of the next government might well extend into early 2020, which keeps uncertainties high regarding fiscal policies. Potential effects on the real estate market from a rate cut might also stop the BoI from implementing such.

Overall, we have as a baseline scenario no change in monetary policy on Nov 25 if current conditions do not change materially and taking into consideration the composition of the MPC, which has also hawkish and more balanced members. It is possible though some unconventional accommodation to take place, like restarting forex purchases or start of buying bonds even if this latter has not been mentioned. We think that reducing the rate is also possible but we attach to such kind of scenario the lowest probability.

BoI Board Summary

Board member	Appointed	Term ends	Bias*
Governor: Amir Yaron	Dec-18	Dec-23	likely balanced
Deputy governor: to be appointed	n.a.	n.a.	n.a.
BoI member: Andrew Abir	Oct-17	Oct-21	Dovish
External member: Reuben Gronau	Oct-11	Oct-21	Hawk
External member: Moshe Hazan	Oct-17	Oct-21	Dovish
External member: Zvi Hercowitz	Oct-17	Oct-21	Balanced

Note: *CEEMarketWatch assessment made on media reports and speeches by MPC members

Source: BoI, CeeMarketWatch

Board statements and press briefings

Minutes from MPC meetings

Calendar of MPC meetings

Latest BoI macroeconomic forecast, Oct 2019

Monetary policy reports

Bank of Israel Law

The Monetary Committee

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Recent developments:

- Most market-based inflation expectations in October revised down, Nov 04, 05:50
- Forecasters' inflation expectations for next one year remain at 1.2% at mid-Oct, Oct 23, 15:30
- Two MPC members vote for rate cut to 0.10% on Oct 8 – minutes, Oct 22, 16:26
- Previous materials that negative rates were considered as policy option, Oct 11, 09:11
- Planned price increases in Israel next year, Oct 11, 08:58
- BoI governor says on-hold decision not taken unanimously, Oct 08, 09:12
- MPC keeps policy rate unchanged at 0.25%, hints of rate cut, Oct 07, 15:21

MEXICO

Weak GDP growth and slowing inflation all but assure 50bps easing in Q4

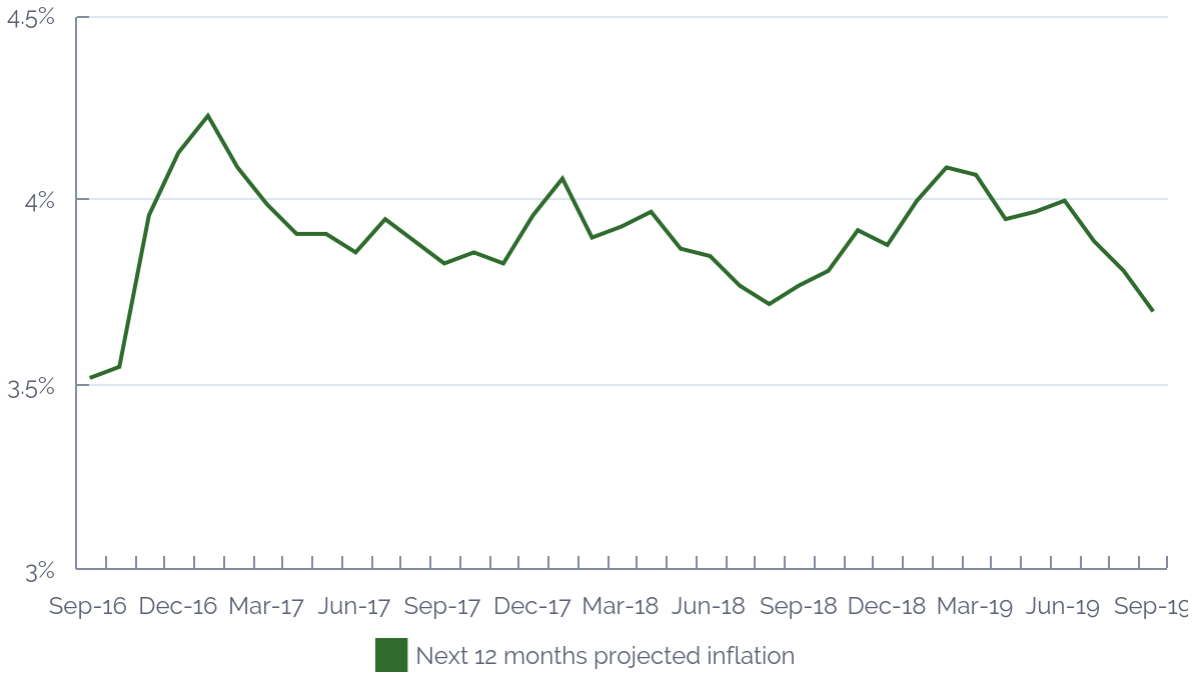
Mexico | Nov 06, 04:54

- **Next MPC meeting: November 14, 2019**
- **Current policy rate: 7.75%**
- **CEEMarketWatch forecast: Cut**

The economy posted 0.0% y/y growth in Jan-Sep, per figures published last week by the stats office INEGI. CPI inflation has slowed, in turn, standing at 3.00% y/y in October, per the market consensus, perfectly aligned with the CB's year-end target. These two factors all but assure the CB will cut its Monetary Policy Rate by at least 50bps in Q4, in our view.

Next 12 months projected inflation,% (y/y)

Source | Banxico



The Federal Reserve cut to its policy rate by a quarter-point assures the CB will cut its MPR by at least 25bps on November 14. We see the chances of a 50bps hike on that date above 50%. We'll fully expect the CB to cut its policy rate by 50bps on November 14 if CPI inflation comes below the expectation in October and if core CPI inflation continues to slow.

Experts seem to agree with our general projection, per all available polls. After cutting its Monetary Policy Rate (MPR) by a quarter point in both August and September, the market is forecasting the CB will cut its rate by 50bps in Q4, in faster than originally expected easing during the year. However, the combination is still to be seen, as the bank could decide to cut its policy rate by 25bps in November and in December or go ahead and slash its MPR by 50bps in November.

Looking at 2020, we believe this easing cycle is unlikely to end, barring an unexpected shock, given the stagnant economy and slowing CPI inflation. This should help lending maintain its recovering momentum, favoring private demand. However, the impact on GDP growth is still to be seen, with investment suffering because of reigning uncertainty and with exports set to slow as global demand loses a step.

The latest policy sitting minute confirmed deputy-governors Gerardo Esquivel and Jonathan Heath, both appointed by President Andrés López, voted for a 50bps cut during the September sitting, assuring they'll vote for a new cut in November. We expect both to vote for a 50bps cut again in November. However, the rest of the board showed a far more cautious approach.

Overall, we see the CB cutting its policy rate during its next sitting; our forecast on the magnitude of the cut will depend on the pace of CPI inflation in October; the stats office INEGI will publish such print on Thursday. We now see the chances of at least 50bps easing in Nov-Dec above 80%, as inflation continues to slow, and the GDP growth outlook continues to weaken. However, we insist there are no conditions for rapid policy easing in the immediate term, considering reigning uncertainty because of the government's unsound economic policies and the linked chances of a negative revision to the sovereignty's credit rate in the mid-term.

Monetary Policy Council members

Members	Overall bias	Latest known vote	Our grade
Alejandro Díaz de León (Governor)	Neutral	Cut	Neutral
Irene Espinosa	Neutral	Cut	Hawkish
Javier Guzmán	Hawkish	Cut	Hawk
Jonathan Heath	Dove	Cut	Dove
Gerardo Esquivel	Dove	Cut	Dove

Note: Overall bias calculated from voting behavior, our grade is supported on comments and political bias

Source: Banxico

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Recent developments:

- Minute confirms Esquivel and Heath voted to cut MPR by 50bps, Oct 10, 21:22
- CB to cut policy rate in November again - Consensus, Oct 08, 14:22

POLAND

MPC continues to be poised to keep rates flat for a long time to come

Poland | Oct 23, 12:12

- **Next MPC meeting: Nov 4, 2019**
- **Current policy rate: 1.50%**
- **CEEMarketWatch forecast: Hold**

Rationale: The Monetary Policy Council held interest rates at its Oct 2 sitting, as all and sundry expected, with the most important takeaway that NBP Governor and MPC chair Adam Glapinski reaffirmed his view that interest rates will most probably stay on hold through to the end of his term in June 2022. He had shied away from that statement in part in recent meetings and so the affirmation means he does not see a fundamentally altered outlook, one that perhaps would have pushed him to start talking about eventual cuts. CPI inflation is expected to rise early next year, but Glapinski and the MPC both said that it should then fall back. Citing NBP research, Glapinski sees inflation back near the 2.5% target by mid-2020 or so. Though some of the more hawkish members see more CPI trouble early next year, this would suggest the majority view will not react to slightly high inflation for a short period.

But if Glapinski doesn't think a hike is likely, he also said that there was no cause to cut interest rates either. MPC member Eryk Lon has been talking about cuts a lot these days, but if hawks like Eugeniusz Gatnar can't depend on majority support for tightening motions, it remains very unlikely that Lon can depend on any support for cuts either. Perhaps someone like Jerzy Zyzynski could one day back a cut, but he doesn't seem to be there now. At any rate, neither the hawks nor the doves is close to getting the needed majority for a move and so the most likely path forward remains no change.

Risks to inflation continue to be posed by food prices as well as power prices early next year. The Finance Ministry

just approved a maintenance of low excise taxes and transmission fees for power, which it said will cover 60% of the potential price rise. That will limit the possible increase of power prices. But it remains to be seen how much the Law and Justice (PiS)-led coalition, assuming it is re-elected in the Oct 13 election, as is likely, will really let power prices rise. The May 2020 presidential election will exert pressure on the government to limit the power price rise as much as possible. Some other administrative price pressure could come, but those like Glapinski point to the likely slowdown of economic growth next year and in subsequent years as meaning price pressures will fall. A cut, moreover, can be avoided since growth will be relatively high and inflation is to be near the target.

MPC breakdown

	Institution	Date in	Date out	Politics	Comment
Adam Glapinski	Pres/Sejm	Jun. 21, 2016	Jun. 21, 2022	PiS	Sees flat rates to 2022
Grazyna Ancyparowicz	Sejm	Feb. 9, 2016	Feb. 9, 2022	PiS	Sees flat rates to 2022 (likely)
Eryk Lon	Sejm	Feb. 9, 2016	Feb. 9, 2022	PiS	Top dove, says cuts should start now
Jerzy Zyzynski	Sejm	Mar. 30, 2016	Mar. 30, 2022	PiS	Dove, but has backed flat rates to 2022
Eugeniusz Gatnar	Senate	Jan. 25, 2016	Jan. 25, 2022	PiS	Hawk, backed hike in Jul-19 sitting
Jerzy Kropiwnicki	Senate	Jan. 25, 2016	Jan. 25, 2022	PiS	Likely to back flat rates, been missing meetings
Rafal Sura	Senate	Nov. 16, 2016	Nov. 16, 2022	PiS	Seems likely to back flat rates
Lukasz Hardt	President	Feb. 20, 2016	Feb. 20, 2022	PiS	Seems hawkish, but not ready to back hikes
Kamil Zubelewicz	President	Feb. 20, 2016	Feb. 20, 2022	PiS	Hawk, backed hike in Jul-19 sitting
Jerzy Osiatynski	President	Dec. 20, 2013	Dec. 20, 2019	PO	Has seen no move in 2019, possible hike in 2020, term expires after Dec

Source: NBP

Archived video of all MPC press conferences

MPC's post-sitting statements

Latest council minutes

Latest NBP inflation report (July 2019)

Most recent MPC voting result

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Recent developments:

- MPC holds key rate at record low of 1.50%, Nov 06, 13:45
- Gatnar says he would support change to make NBP profits more systematic, Oct 30, 13:23
- MPC's Gatnar says he'd back 15-bp hike to help address hot real estate market, Oct 30, 11:46
- MPC says 2020 budget assumptions are realistic, Oct 25, 16:47

- Glapinski says coming projection won't give grounds to change rates, Oct 25, 14:01
- Only Lon backed 25-bp rate cut in September, Oct 24, 16:06
- MPC's Sura suggests MPC might help NBP deliver more profit to govt, Oct 18, 16:46
- MPC defeats rate cut motion in Oct, majority backs hold, Oct 17, 15:44
- NBP: Analysts cut GDP forecast to 4.3% for 2019, 3.6% for 2020, Oct 14, 16:27
- MPC's Gatnar says negative real rates are a problem, Oct 11, 13:48
- MPC's Ancyparowicz sees no reason to cut rates or hike them, Oct 11, 12:53
- MPC's Lon says inflation could slow in 2019 and going into 2020, Oct 07, 16:05
- MPC's Gatnar puts CJEU ruling cost for banks at PLN 20bn-30bn, Oct 07, 12:48

ROMANIA

NBR unlikely to change policy rate in 2019

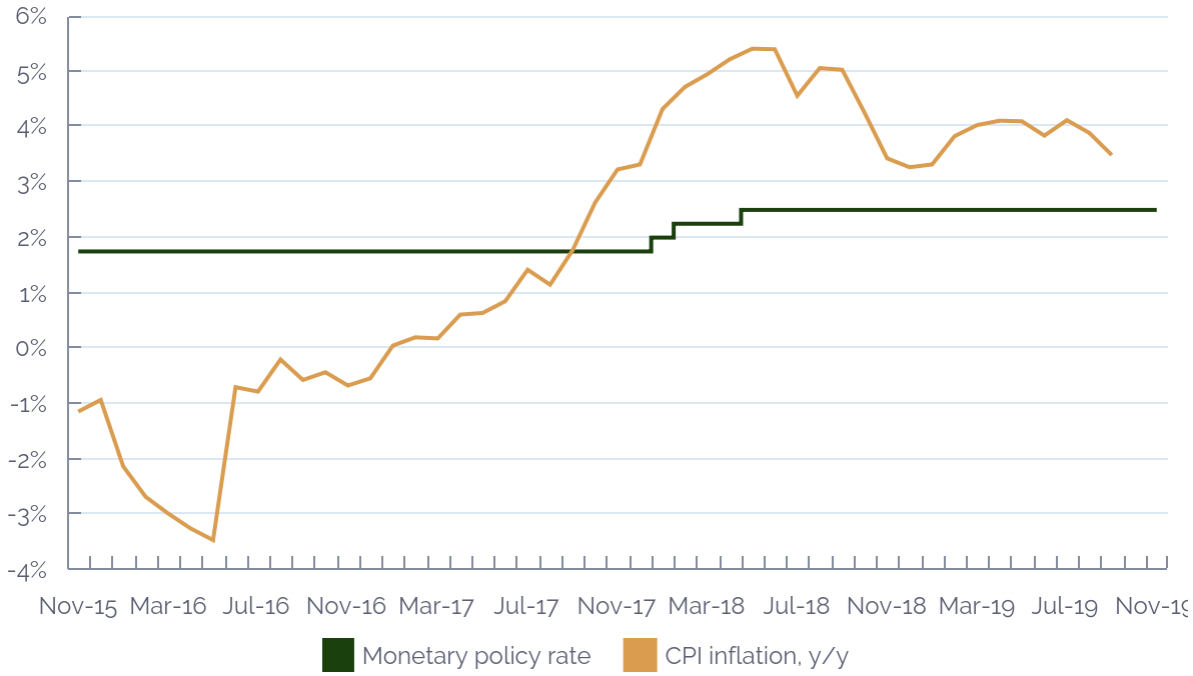
Romania | Oct 16, 10:48

- **Next MPC meeting: Nov 6, 2019**
- **Current policy rate: 2.50%**
- **CEEMarketWatch forecast: Hold**

Rationale: CPI inflation moderated stronger than expected to 3.49% y/y in September from 3.89% y/y in August, mainly over some lower contributions from non-food and food prices. In addition, inflationary pressure in services dissipated as the upward effects of the new telecom sales tax seem to fade. Thus, CPI growth was at its lowest since January and just 1bp below the upper limit of the central bank's target interval (2.5%+/-1pp). Inflation would probably speed in October, mainly because oil price started to increase in September and over some public spending hike that might come with the presidential election start. Yet, we doubt that it would jump above 4%, even if the NBR held on the current level of the policy rate. Besides, inflation moderation indicates that the central bank's strategy is working and rate hikes could be avoided, especially since the government abandoned some fiscal policy measures that might have triggered inflationary pressure. On top of that, the PSD government was dismissed in October, which means that risks of inflationary pressure from wage-led growth and fiscal easing policies diminished. Another important change envisaged the central bank, which partly changed its board as of October. Even though Governor Mugur Isarescu and other five members remained, it is highly unlikely that the new board would start its mandate with a rate change decision.

Monetary policy and inflation, %

Source | NBR



Some macroeconomic developments and external easing also indicated that a rate hike is not a very good idea. GDP growth slowed in Q2, mainly over weakening final consumption and a very bad performance in industry. Wage pressure is diminishing and unemployment rate seems to stop increasing, partly diminishing labour market tightness. At the same time, the investment outlook is still bleak, in spite of some occasional improvement in the gross fixed capital formation. On external front, fuel prices were decreasing which contributed to a consumption growth rebound at the beginning of H2. However, we expect slowdown to resume as future income uncertainties are rising. On top of those, global markets easing was directing capital flows into domestic market even if the policy rate was preserved at the same level resulting into some occasional appreciation of the local currency that was not seen favourably by the central bank.

The central bank decided to keep the policy rate at 2.5% in its previous MPC meeting on Oct 3, taking into consideration macroeconomic developments and higher risks arising from fiscal and income policies in election years, on the domestic front. Externally, the NBR sees as particularly relevant the ECB's and Fed's decision on monetary easing, as well as the stance of central banks in the region. NBR Governor Mugur Isarescu reiterated that the CA gap winding remained a major source of concern and called again for a balanced macroeconomic policy mix and the implementation of structural reforms.

To remind, the NBR hiked the policy rate three times at the beginning of 2018 and has kept it unchanged at 2.50% for more than a year so far. Facing piling up inflationary pressure, especially from rising inflation expectations last summer, the central bank managed to curb inflation inside the tolerance interval by end-2018 without making another hike, and we think the same will happen this year. The NBR's inflation forecast for end-2019 was revised notably upwards to 4.2% from 3.0%, way above the targeted interval (2.5%+/-1pp), chiefly on the back of stronger-than-expected inflation acceleration in some components outside monetary policy influence and due to inflationary pressure triggered by some measures included in the bank tax bill.

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Recent developments:

- NBR keeps policy rate at 2.5%, Nov 06, 11:06
- New NBR board starts 5-year mandate today, Oct 11, 15:17
- NBR board unanimously votes to hold policy rate at 2.5% - minutes, Oct 10, 14:02

RUSSIA

CBR to continue with monetary easing in December

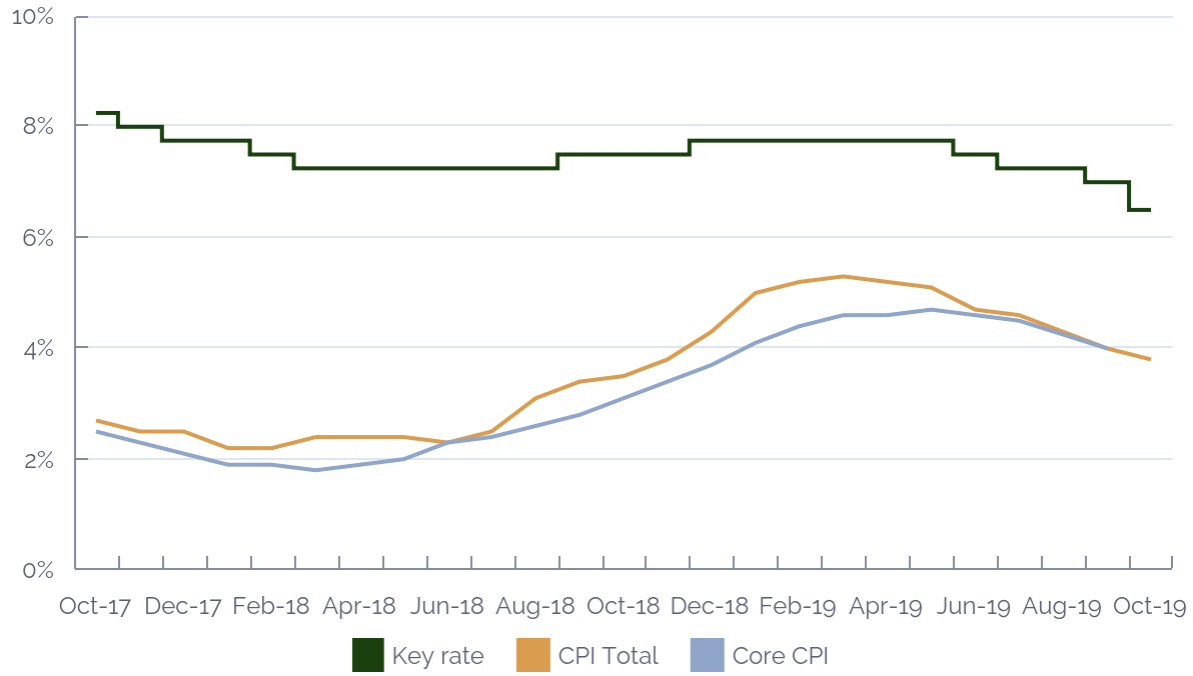
Russia | Oct 30, 11:51

- **Current policy rate: 6.50%**
- **Next monetary policy meeting: Dec 13, 2019**
- **Expected decision:25bp rate cut**

The CBR cut its key rate by 50bps last week, which was in line with our call in the last Central Bank Watch report. While it can be argued whether fundamental factors warranted a more radical cut just now, we think that the CBR is trying to make its decisions predictable and the comments by Nabiullina were clearly meant to shift market expectations toward the possibility of a 50bp cut. As for the December meeting, the CBR preserved the sentence about assessing the need for a rate cut at "one of the nearest monetary policy meetings" and we think this points toward another cut already in December. Unless there are data surprises, we expect a return to the 25bp pace. This would bring the key rate to 6.25%, still within the 6.0-7.0% range consistent with neutral monetary policy. Looking forward, more cuts are likely in 2020 as inflation is bound to drop significantly below the 4% target, most probably below 3% in Q1 2020.The latest guidelines on monetary policy suggest a somewhat larger weight of GDP growth in monetary policy decisions, which can lead even to an accommodative monetary policy stance if growth continues to disappoint despite government measures.

Inflation and key rate (%)

Source | Stat office, CBR



Headline CPI inflation dropped to the 4% target in September and weekly figures suggest it will reach 3.7-3.8% y/y in October. The drivers of disinflation are food prices, but non-food and services price growth is also easing, signalling that there are no pressures from the demand side. We expect inflation to decline toward 3.2% y/y, which in in the lower end of CBR's new inflation forecast (3.2-3.7% y/y for end 2019). The high base from Q1 2020 due to the VAT hike will push inflation further down toward 2.5%. Real sector data have been rather mixed recently. Monthly figures show disappointing growth of retail sales and the manufacturing PMI fell to a 10-year low. At the same time, GDP growth likely accelerated in Q3, driven by agriculture and industry, while the quarterly data on household incomes also showed surprisingly high growth of 3% y/y. The Q2 demand-side breakdown also surprised with 2.8% y/y growth of household consumption. National projects and higher public investments were expected to fuel growth in H2 2019, but there is a significant delay with most projects and budget spending is likely to be less than projected this year.

Fiscal risks and inflation expectations remain an argument against fast monetary policy easing, but their impact is falling. Inflation expectations declined by 0.3pps in October to 8.6% and they are now firmly on a downtrend, although they remain well above the target and a source of concern for the CBR. Fiscal risks have also abated as the FinMin agreed that investments from the National Wealth Fund would reach only RUB 1tn over 2020-2022, which translates into a manageable 0.2-0.3% of the GDP.

Press release after October 2019 monetary policy meeting (in English)

Medium term forecast (Oct 2019, in English)

Monetary policy guidelines for 2020-2022 (approved Oct 2019, in Russian)

Monetary policy guidelines for 2020-2022 (summary, in English)

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Recent developments:

- Consumer prices return to zero growth during Oct 22-28, Oct 30, 14:15
- CBR announces new timetable for 2020 monetary policy meetings, Oct 30, 05:54
- CBR cuts key policy rate by 50bps, more to come, Oct 25, 12:55
- Inflation expectations of households decline to 8.6% in October, Oct 24, 14:14
- Governor Nabiullina does not rule out larger rate cut, Oct 21, 06:54
- Consumer prices remain unchanged during week of Oct 8-14, Oct 16, 16:12
- Monetary easing is likely to be faster than previously expected – Nabiullina, Oct 10, 12:25
- Consumer prices remain unchanged in first week of October, Oct 09, 14:40
- Inflation drops to 4% target in September, Oct 07, 05:29

SOUTH AFRICA

Rate stability is expected and risk for easing is limited

South Africa | Oct 23, 13:37

Next MPC meeting: Nov 21, 2019

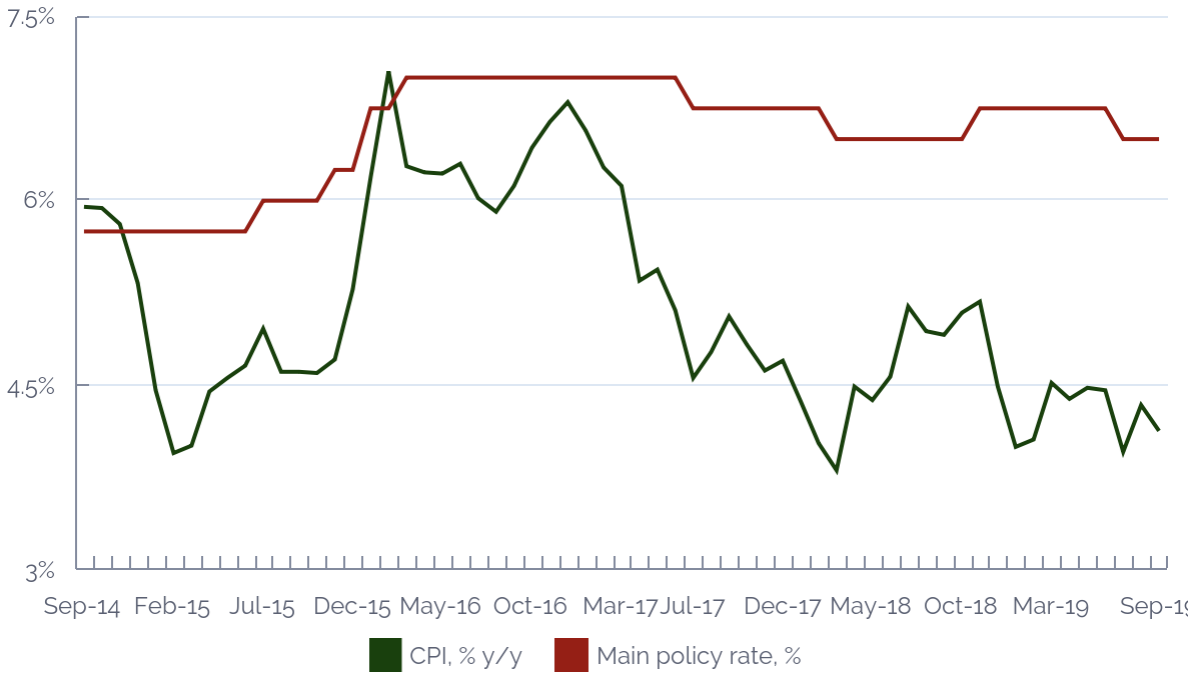
Current policy rate: 6.50%

CEEMarketWatch forecast: 6.50%

The inflation backdrop remains benign and the real economy struggles to gain momentum in the third quarter, according to the latest data releases. Global risk aversion and the domestic risk factors have contributed to weakening rand over the third quarter. The rand averaged USD/ZAR 14.99 so far in October which is 6.7% higher than the average rate in July when the MPC decided to cut the base rate by 25bps to 6.50%. The risks on the fiscal side remain and Moody's credit rating review is still pending on Nov 1. The economy is slow but uncertainty prevails which, in our view, would be enough for the central bank to leave the interest rate unchanged at the next meeting in November. It seems like a lot to expect, but if the government is able to deliver a credible structural reform plan, along with a solution for the debt crisis at power utility Eskom, investor confidence could rebound and support a reduction in risk premia, opening the scope for monetary policy maneuver. For the time being, however, we expect the interest rate to remain unchanged with a limited risk for a cut.

Inflation vs main policy rate (%)

Source | Statistics SA, SARB



CPI inflation came in line with the projections of the central bank at 4.1% in Q3 and is on track to meet the full-year projection at 4.2% which is below the mid-point of the 3.0-6.0% range targeted by the central bank. CPI printed at 4.1% y/y in September, below consensus market expectations for 4.2%. In the month of September, housing prices and transport costs have been the major contributors to the downside in the annual headline CPI change, while all other categories have retained unchanged contributions. The subdued housing market is putting a lid on rent prices growth, while public transport charges growth eased to 3.0% y/y in September from 8.3% y/y in June when they were last surveyed. As a result, core inflation grew by very subdued 4.0% y/y in September indicating weak demand-pull pressures on inflation.

Elsewhere, high-frequency data indicates the economy is struggling to gain traction in the third quarter and the risk from a recession has increased. The central bank has retained its 0.6% GDP growth forecast for 2019. However, output in the mining and manufacturing as well as retail sales in August delivered a disappointment to market expectations. Mining and manufacturing output contracted in annual terms, while retail sales growth halved since the preceding month. Mining and retail sales are likely to make positive contribution to GDP growth in Q3 but at weaker rates than in Q2, while manufacturing could subtract from growth in the third quarter. With load shedding reinstated for a few days in October and generating uncertainty for businesses, the outlook does not look encouraging.

Though the economy is weak and inflation is benign and even surprising to the downside, risks do exist that constrain monetary policy. The SARB took the liberty to discuss at greater length in the October Monetary Policy Review the implications of loose fiscal policies on the economy and the inflation rate. It warned the government that the deficits cannot be sustained and that structural measures are needed to boost growth. The SARB concluded that the interest rate could be lower if inflation comes further down and risk premia decline.

Monetary Policy Committee Statement

Monetary Policy Committee Assumptions

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TURKEY

MPC may continue easing cycle depending on lira performance

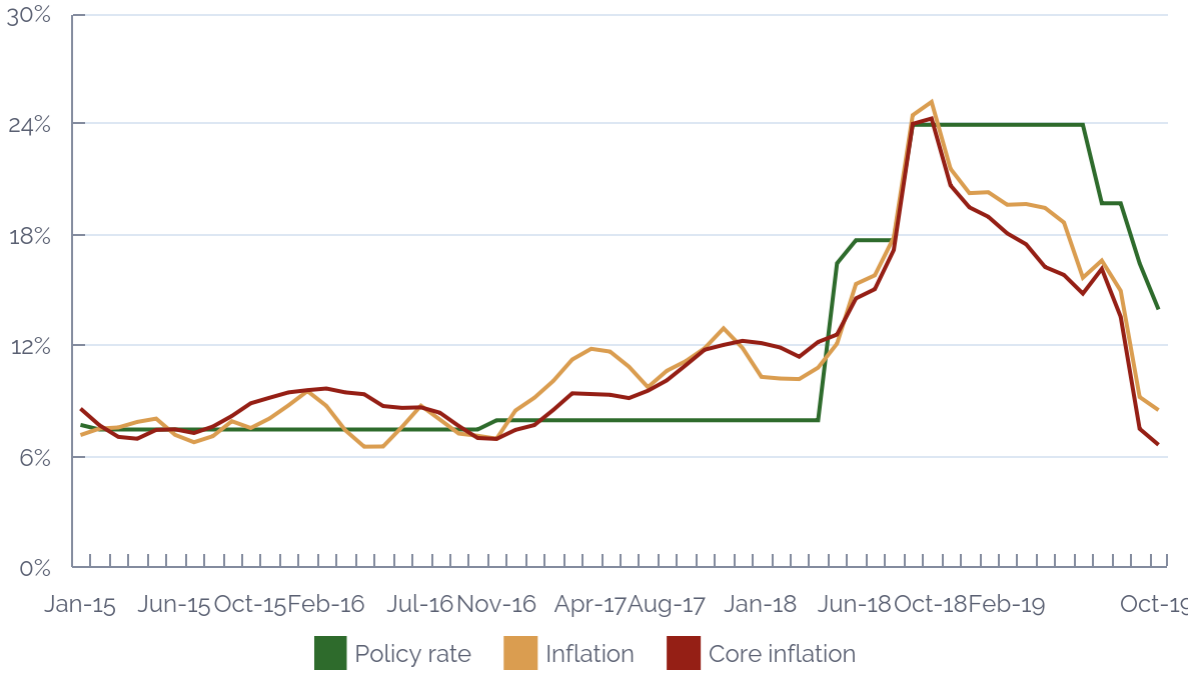
Turkey | Nov 06, 13:08

- **Next MPC meeting: Dec 12, 2019**
- **Current policy rate: 14.0%**
- **CEEMarketWatch forecast: Hold or mild rate cut depending on lira, geopolitical risks**
- **Rationale: CBT governor Murat Uysal says potential for interest rate cuts has been almost exhausted**

The MPC reduced the policy one-week repo rate by higher-than-forecast 2.5pps to 14.0% on its previous rate-sitting on Oct 2, citing mainly improved inflation outlook. The policy rate cuts under the CBT's monetary easing cycle since July totalled 10pps. The aggressive monetary loosening so far in H2 was helped by the disinflation trend on account of a high base from the last year, the partial recovery and relative stability of the lira exchange rate as well as still weak demand conditions. The strong rate cuts were also supported by the improvement in global liquidity conditions and the outlook on the monetary policy stance by leading central banks. Particularly for the October rate cut, the ease of geopolitical risks in relation to Syria was effective as well.

Inflation versus rates (%, y/y)

Source | Turkstat, CBT



Another significant driver of the aggressive monetary easing in Jul-Oct was increased government pressure following the dismissal of former CBT governor and a number of high-ranking officials of the CBT in Jul-Aug. In his

latest comments on the issue, President Recep Tayyip Erdogan said on Nov 5 that the former CBT governor was sacked because he did not listen to the government's instructions. Erdogan's repeated references to the dismissal of the former CBT governor hints that monetary policy will remain under government pressure in the coming term, given that the government's 5.0% GDP growth target for 2020 is subject to downside risks.

Headline inflation decelerated to 8.6% y/y in October mainly because of last year's high base and to a lesser extent owing to lira stability and moderate demand. Core inflation maintained a downward trend in recent months, also net of the base effects, according to the CBT. The base effects will reverse in Nov-Dec and headline inflation will most probably climb back to double-digit rates in November. The CBT expected headline inflation to rise to 12.0% at end-year in its Q4 Inflation Report released on Oct 31. Base effects should remain inflationary in Q1/2020 albeit to a lesser extent. The CBT forecast inflation to fall to 8.2% at end-2020.

In his presentation of the Q4 Inflation Report, CBT governor Murat Uysal said future monetary policy will be shaped in a way to offer a reasonable real interest rate over the underlying trend of inflation. He noted that the CBT's forecast path for the underlying inflation trend was mildly below its forecast disinflation path for headline inflation. More importantly, Uysal said that the potential for cuts in interest rates has been almost exhausted. This is in line with the MPC's October meeting statement that the current monetary stance was to a large extent compatible with the targeted disinflation path.

The CBT's recent communication signals that it sees limited room for further monetary easing. Although the CBT says the inflation outlook will be the main determinant of future monetary policy, we believe that developments of Turkey's risk premium and the lira exchange rate will be equally important. We, therefore, think that the MPC will either hold the policy rate or deliver a mild reduction in its next rate-sitting on Dec 12 depending on the financial market performance till then. If the lira remains relatively stable, the MPC may reduce the policy rate by around 100bps. A hold decision will be likely if volatility on Turkish financial assets rises, potentially because of risks about the relations with the US.

CBT rate decision, Oct 2019

Minutes from CBT's rate decision, Oct 2019

Latest Inflation Report - Q4/2019 (Only overview available in English)

MPC monetary policy strategy for 2019

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Recent developments:

- Current monetary stance largely consistent with target disinflation path – MPC, Oct 31, 12:17
- CBT cuts end-year inflation forecast to 12.0%, holds end-2020 forecast at 8.2%, Oct 31, 09:47
- MPC cuts policy rate by higher-than-forecast 250bps to 14.0%, Oct 24, 12:55
- CBT not concerned about market volatility – deputy CBT governor Kucuk, Oct 18, 06:31
- Erdogan implicitly calls CBT for further monetary easing, Oct 07, 06:11