HOW IN SYNC ARE GLOBAL CENTRAL BANKS?

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Without much fanfare, the Federal Reserve (Fed) provided its policy guidance earlier this month. Although no rate hike was implemented, the money and bond markets fully expect the U.S. central bank to continue on its tightening path for the remainder of 2018, if not beyond. While the lion's share of the focus has been Fed-centric on this front, it seems like a good exercise to check in on what the expectations are for the developed world's other key monetary policy makers

Heading into 2018, optimism for ongoing global growth seemed to be the norm. Indeed, along with the outlook for continued global growth, discussions were arising on whether central banks would soon turn their attention to any potential increase in inflation. While we still have more than seven months to go in this calendar year, recent data appears to be suggesting a plateauing of sorts on the economic front.

Implied Probabilities for Rate Hikes at Upcoming Meetings	
Federal Reserve	100.00%
Bank of Canada	33.00%
Bank of England	12.90%
European Central Bank	1.30%
Bank of Japan	0.00%

Source: Bloomberg, as of 5/11/2018.

One economic indicator that is widely watched for help discerning economic trends on a global basis are the various Purchasing Managers' Indexes (PMI) on a country or regional basis. While the levels being posted in the developed world still point toward further expansion, they don't necessarily indicate a pick-up in growth prospects on the immediate horizon. In fact, the readings for April on an aggregate basis were relatively flat, and in some cases—such as the eurozone, the UK and Canada—have actually slipped a bit from their recent peaks.

So, what should investors expect in near-term global central bank policy? As illustrated in the table above, expectations for the upcoming policy meetings certainly differ quite a bit. The overarching outlook is for the Fed to raise rates at its next convocation on June 13, with the Fed Funds Futures implied probability being 100%, as of this writing. The remaining four developed world central banks—the European Central Bank (ECB), the Bank of England (BOE), the Bank of Canada (BOC) and the Bank of Japan (BOJ) —all fall in the "no rate hike" camp.

The rate outlooks for ECB and BOJ should not come as much of a surprise. Rate hikes are definitely off the table for 2018, but the ECB will need to make a decision on its QE program, which has a September expiration date as of now. The implied probabilities for both the BOE and the BOC do not point to any imminent action either, but interestingly, the figures do suggest that increases are envisioned before year-end. In the case of the BOC, the percentage rises to 75% that a rate hike will be forthcoming at the following policy meeting, which is slated for July 11.

Conclusion

So, to the question we posed in the title, developed world global central bank policy is not yet in sync. However, the second half of 2018 could prove to be more interesting, data permitting.

Unless otherwise noted, source for all data is Bloomberg, as of May 11, 2018.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Tighten : a decline in the amount of compensation bond holders require to lend to risky borrowers. When spreads tighten, the market is implying that borrowers pose less risk to lenders.

Inflation : Characterized by rising price levels.

Purchasing Managers' Index (PMI) : An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction while 50 indicates no change.

Fed fund futures : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.