Daiwa Securities

Daiwa's View

Revisions to excessively hawkish stance becoming a global trend

- We have started to glimpse consideration being given to economic slowdown

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◆ Dovish surprise at ECB press conference

At yesterday's Governing Council meeting, the ECB decided to raise interest rates by 75bp, as expected. However, reflecting a dovish surprise in the statement and press conference, the 10-year German Bund yield declined by as much as 25bp only several hours after having logged 2.2% before the Governing Council meeting (closing at 1.96%). Last night, the US long-term yield fell to 3.89% at one point, declining by more than 40bp in one week from last Friday's peak of 4.33%.

◆ Trends towards change: Revisions to excessively hawkish stance and consideration being given to economic slowdown

Last Thursday, immediately after the terminal rate factored in by the US OIS market exceeded 5%, Fed officials (and Wall Street Journal correspondent Nick Timiraos) implied a slowdown in the pace of rate hikes, and the Bank of Canada reduced the size of its rate hike from 1% to 0.5%. Following this, we saw the surprise from the ECB. Therefore, these factors exerted an effect that was greater than the sum of each individual factor. The trend towards change with regard to revising excessively hawkish stances, which started last Friday with the Fed, has intensified globally, and appears to have exhibited a profound effect overall.

ECB President Christine Lagarde also stated that "risks to the economic growth outlook are clearly on the downside." In the US, as well, following warnings by Senator Sherrod Brown, Senator John Hickenlooper also called on the Fed to seriously consider the negative consequences of implementing rate hikes too quickly. We have started to glimpse consideration being given to an economic slowdown, which is one reason why I feel that the change that began last Friday is a turning point.

This means that authorities have started to face the need to consider achieving a balance between the two major items of employment (the economy) and inflation amid the plunge in the global PMI and intensifying downtrend in housing prices. Of course, with the US's real economy being particularly solid, the Fed will continue to raise interest rates. However, it is clear that central banks are breaking free from the hamster wheel of backward-looking large rate hikes based on actual CPI readings, and regaining a forward-looking perspective.

ECB President Lagarde stated that "the risks to the inflation outlook are primarily on the upside" and "risks to the economic growth outlook are clearly on the downside." These comments are remarkably similar to the message conveyed by the BOJ's Outlook for Economic Activity and Prices report. Previously, I had the impression that, of the BOJ, the Fed, and the ECB, only the BOJ was seriously concerned about the economic outlook. However, with actual inflation approaching 10% in the US and Europe, the Fed and ECB likely had no other choice but to emphasize a stance of reining in inflation. Once the economy actually deteriorates, things start to shift towards a more well-balanced approach. This past week, we confirmed that the situation has finally reached that point.

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