Central Bank Weekly 13th December: Previewing FOMC, BoJ, BoE, Norges, Riksbank, PBoC LPR; Reviewing ECB, SNB, BoC, RBA, BCB

PREVIEWS

FOMC POLICY ANNOUNCEMENT (WED): The FOMC is expected to lower its Federal Funds Rate target by 25bps to 4.25-4.50% at its December 18th confab, according to a Reuters survey. Analysts then expect the central bank to pause on rates in January, amid some concerns about rising inflation risks, with price pressures potentially set to rise due to President-elect Trump's proposed tariffs and tax cuts. Money market pricing has become more dovish in the wake of the November jobs, CPI and PPI data; as this goes to publication, money markets are pricing around a 94% chance of a 25bps rate cut, and then see only a c.20% chance of another reduction in January. The headline payrolls bounce back was a function of a rebound after the end of strikes and a reversal of hurricane effects, while the rate of slack was judged to increase despite rising wages (Chair Powell will next week likely reiterate that wage gains are not expected to fuel inflation in the short-term). Meanwhile, the inflation data was largely seen as benign for the Fed, with some analysts pointing out that the details of the November release demonstrated progress on some of the stickier components of inflation, like housing. The Fed will update its quarterly economic projections, and the forecasts for core PCE are expected to be revised up; Pantheon Macroeconomics states that "the median forecast among FOMC participants for the average Q4 Y/Y rate will rise to 2.8%, from 2.6% in the September, because the M/M increases were bigger than anticipated in both September and October," and adds that "this upside surprise will bolster the case for a pause in January, which is already well made by elevated uncertainty over the incoming administration's economic policy plans." Further out, Reuters poll finds that the majority of economists see the FFR falling to between 3.50-3.75% or lower by the end of 2025. Traders will carefully watch the Fed's projection for the Federal Funds Rate in the longer-run (currently 2.9%) for clues about how much the Fed could cut rates ahead. NY Fed President Dudley, in a Bloomberg TV interview, said that he expects the neutral rate estimate will be revised up. He also highlighted that the upcoming Summary of Economic Projections will not include impact from tariffs as the Fed does not front-run fiscal policy.

BOJ POLICY ANNOUNCEMENT (THU): The BoJ will hold its final policy meeting of the year next week, with a decision expected shortly after the FOMC's anticipated interest rate cut. The latest sources suggested the BoJ is leaning toward keeping rates steady next week, according to Reuters sources. Sources added there is no consensus within the bank on the final decision, some believe conditions have been met for a December hike. Sources also said the BoJ could hike if the FOMC decision triggers a JPY selloff. The latest Reuters poll suggests the BoJ is to hold the key interest rate at 0.25% in December, according to 58% of economists polled (vs 44% in the Nov poll), while 51 of 52 economists say the central bank will hike to 0.50% by the end of March 2025. Markets currently assign a 23% chance of a 25bps hike. BoJ Governor Ueda telegraphed that a hike is on the horizon but remains non-committal about the timing. Recent sources meanwhile suggested the BoJ reportedly sees little cost in waiting for the next rate hike, according to Bloomberg, citing current prices. Should the BoJ decide to keep rates steady, attention will shift to Ueda's guidance on future policy direction and any hints at upcoming actions, especially ahead of the January meeting. Analysts at Goldman Sachs expect the Bank of Japan to remain on hold at 0.25% at the December meeting as they think the central bank "has not yet reached a situation where it can judge that it has sufficient confidence in the outlook", with GS' base case looking for a hike in January 2025.

BOE POLICY ANNOUNCEMENT (THU): Expectations are for the MPC to hold the Base Rate at 4.75% with markets assigning a 90% chance of such an outcome. The decision to keep rates unchanged will likely come via an 8-1 vote split with Dhingra the lone dissenter. The backdrop to the upcoming meeting has seen October Y/Y CPI rise to 2.3% from 1.7% with the upside driven by an increase in the energy price cap. Beyond the headline, core Y/Y CPI advanced to 3.3% from 3.2%, whilst services inflation ticked higher to 5.0% from 4.9%; matching the MPC's forecast. On the growth front, M/M GDP in October showed a contraction of 0.1% vs. expectations of a 0.1% expansion. More timely data from S&P showed the all-important services metric slipped to 50.8 from 52.0, manufacturing fell to 48.0 from 49.9, leaving the composite at 50.5 vs. prev. 51.8. In the labour market, data reliability issues persist, however, the broad consensus is that the labour market is gradually easing whilst wage growth remains stubborn. Overall, despite some concerns on the growth front, the pick-up in inflation is likely to keep policymakers cautious. Pantheon Macroeconomics is of the view that the "data give some support to the most hawkish of the MPC's three scenarios". Furthermore, commentary from officials has continued to show that the consensus on the MPC is for a "gradual" lowering of interest rates. As such, the policy statement will likely reiterate that "a gradual approach to removing policy restraint remains appropriate". Looking beyond the upcoming meeting, focus has been on a recent interview with Governor Bailey in the FT with the policy Chief noting that he sees four 25bps rate cuts in 2025. However, this merely reflected market pricing at the time of the last MPR. As it stands, markets look for 73bps of easing in 2025.

NORGES BANK POLICY ANNOUNCEMENT (THU): Norges Bank is expected to keep its key rate unchanged on Thursday at 4.50%; as a reminder, the September MPR implied a 20% probability of a rate cut at the December meeting, with a full rate cut to be delivered by March 2025. In terms of recent inflation metrics, core Y/Y cooled from the prior to 3% but at a slower rate than analysts had expected; this is in-line with Norges Bank's forecast, and as such further diminishes the chance of a 25bps cut. For reference, money markets currently assign a 12% probability of such a move, and analysts over at SEB agree and favour a first cut to be delivered in March. On FX developments, at the last meeting, Norges Bank once again brought the NOK into focus, noting that the "krone has been a little weaker than assumed" - a factor which has continued to play against any dovishness at recent meetings. Since the last meeting, the NOK has appreciated a touch, which may help to ease some concerns at the Bank. And finally, the recent Regional Network report for Q4 confirmed the slow but continuous growth in the economy; which should provide enough confidence for the Bank to stick to its current guidance.

RIKSBANK POLICY ANNOUNCEMENT (THU): Expected to cut by 25bps after delivering a 50bps cut to 2.75% (as expected) at the November meeting. A meeting which was accompanied by communication that the rate could be lowered in December and also H1-2025, guidance which was reiterated from September and has been repeated by officials in recent weeks. The November inflation report saw CPIF ex-energy lift to 2.4% Y/Y (prev. 2.1%). Overall, the reiteration of above guidance around December and H1-2025 means that another cut is likely while the uptick in CPIF in November means a 25bps cut is more likely than another 50bps move.

PBOC LPR (FRI): There are currently no forecasts for what the PBoC may opt to do to the Loan Prime Rate (LPRs) following the recent shift announced by the Politburo which said China's fiscal policy is to be more proactive next year, and monetary policy is to be moderately loose (prev. prudent), marking the first shift in the stance of monetary policy since 2011. As a reminder, in November, the PBoC left its one-year LPR unchanged at 3.1% and the five-year unchanged at 3.6%. Desks have previously anticipated that further rate cuts might be limited by external pressures, notably the economic policies of US President-elect Trump. Recent reports suggested China's top policymakers are considering allowing the Yuan to weaken in 2025 as Trump tariff looms, via Reuters citing sources, "The contemplated move reflects China's recognition that it needs bigger economic stimulus to combat Trump's threat of bigger tariffs", the sources added.

REVIEWS

ECB: As expected, the ECB delivered a 25bps cut to the deposit rate to 3.0%. The main takeaway from the policy statement was the Governing Council's decision to drop the reference to "keep policy rates sufficiently restrictive for as long as necessary". Elsewhere, the ECB stated it will continue to follow a data-dependent and meeting-by-meeting approach. The accompanying macro projections saw a reduction in the HICP forecasts for 2024 and 2025 with the 2026 forecast held below target at 1.9%, whilst growth forecasts were cut across the horizon. At the follow-up press conference, Lagarde was careful to note that the GC is not yet declaring victory on inflation, whilst later adding that risks to inflation are two-sided. With regards to the policy decision, Lagarde noted that all members agreed with the policy proposal. Adding that a 50bps move was discussed, however, this failed to gain any traction. The President stated that whilst not pre-committing to a specific policy path, the direction of travel is clear. Lagarde also refused to engage in discussions of where the GC sees the neutral rate, stating that it was not discussed at the meeting. Overall, ING says that "today's decision reflects a compromise between growth and inflation worriers, a gut feeling vs a model-based approach and doves against hawks". In terms of the next steps, given that policy is still seen as restrictive, further rates are clearly on the horizon, particularly when considering the economic fragility of certain core member states and the looming threat of Trump trade tariffs. As it stands, markets price 120bps of easing next year. Following the meeting and Lagarde's press conference, Reuters sources noted that a handful of policymakers were initially in favour of a 50bps cut and some argued that the ECB is overestimating growth, which could be below 1% next year under Trump tariffs. The Reuters sources further added that policymakers have little appetite for rushing policy amid uncertainty. Later on, Bloomberg sources reported that the ECB is prepared for a quarter-point rate cut at the next two meetings as inflation stabilizes at the 2% target and economic growth remains sluggish. BBG sources added a gradual approach to lowering borrowing costs is the most appropriate path forward provided the economy develops in line with current expectations.

SNB: Delivered a larger-than-expected 50bps cut to 0.50%; into the meeting, consensus was for a 25bps move though a handful of desks were looking for the larger magnitude. The 50bps cut has eroded much of the SNB's policy space and brings them into the realm of the neutral rate (thought to be somewhere between 0% and 0.50%). The larger cut was justified by inflation printing lower than expected and underlying inflationary pressures decreasing again in the quarter. As such, the SNB has trimmed its 2024 CPI view to 1.1% (prev. 1.2%) and more sharply trimmed the 2025 projection to 0.3% (prev. 0.6%); however, this is seen rebounding slightly to 0.8% (prev. 0.7%) in 2026. Overall, the projections keep inflation in the 0-2% band the SNB targets and assuming CPI doesn't continue to come in softer than projected, this could arguably be the low point for interest rates this cycle. However, recent significant deviations below forecast serve as a headwind to this and indeed market pricing is torn between a 25bps and 50bps cut in March'25 with the rate seen at 0.0% by June'25. Just after the announcement pricing implied a return to negative in the next few meetings however this retraced in the wake of Chair Schelgel remarking that the SNB does not like negative rates and the likelihood of a return to NIRP has become small. Overall, the SNB delivered a larger than expected cut in an attempt to stop inflation from continuing to undershoot their forecasts, it remains to be seen if this will hold or if further easing towards or even below the zero lower bound will be required.

BOC: The Bank of Canada cut rates by 50bps, taking the target for the overnight rate to 3.25%, in line with expectations and now matching the top end of the BoC's neutral rate estimate. The BoC also removed language from the statement about it being reasonable to expect further rate cuts if the economy evolves in line with forecast. Instead, the BoC said it will evaluate the need for further rate cuts one decision at a time, with decisions guided by incoming information and their assessment of the implications for the inflation outlook. The language around the decision to cut by 50bps was maintained, noting it was to support economic growth and keep inflation close to the middle of the 1-3% target range. The Central Bank noted that Q4 growth looks weaker than expected, and a reduction in immigration levels suggest that 2025 GDP growth will be less than their October forecast and effect on inflation will be more muted. The BoC are also cognizant of the proposed Trump tariffs, stating it has increased uncertainty and clouded the economic outlook, although Governor Macklem said in the press conference the BoC cannot front-run policy on something that might not happen. Elsewhere in the presser, the BoC Governor said they discussed a 25 and 50bps rate cut at the meeting, echoing the statement that going forward the BoC will consider further cuts but will be taking a more gradual approach. Macklem added that their policy focus now is to keep inflation close to the target, and that the economy remains in excess supply and the growth outlook appears softer than projected in October. He also stated how the unemployment rate has gone up, but they are yet to see widespread job losses as typically seen in a recession, something the BoC does not expect to occur. Macklem acknowledged the CAD, stating until recently, it has been stable, but most of the depreciation of the CAD is due appreciation of the USD and that CAD vs other major currencies shows very little change. To summarise, the BoC cut rates by 50bps but signalled a slower pace of easing ahead - likely as the BoC approaches the neutral rate, and as it assesses potential tariff updates from US President-elect Trump. Money markets are pricing in 14bps of easing for January, which implies a 55% probability of a 25bps cut, and 45% probability of rates being held steady. Looking ahead through end-2025, money markets imply 61bps of easing, vs the 72bps of easing beforehand as the BoC signals a slower path ahead.

RBA: The RBA maintained its Cash Rate at 4.35% in a decision accompanied by a dovish statement which expressed growing confidence that inflation is moving sustainably toward its target. While the RBA still expects inflation to remain above its 2–3% target for some time, it has softened its previous stance, no longer saying that it's "ruling anything in or out" on policy. At the post-meeting presser, Governor Bullock suggested neither a rate cut nor hike was discussed. Following the decision, analysts at Westpac indicated that the "change of language represents a welcome acknowledgement that disinflation remains on track and that we are getting closer to the point that some of the current policy restrictiveness can be withdrawn. And in the media conference, the Governor conceded that there were scenarios in which the Board ended up cutting in February, while prudently choosing not to describe one."

BCB: Brazilian Central Bank unexpectedly hiked its Selic interest rate by 100bps to 12.25%, with expectations for a 75bps move, in a unanimous decision. Ahead, the central bank said in light of a more adverse inflation scenario the committee sees hikes of the same magnitude at the next two meetings, which would take the Selic Rate to 14.25%. Inflation expectations for 2024 and 2025 collected by the Focus survey increased significantly and hover around 4.8% (prev. 4.6%) and 4.6% (prev. 3.9%), respectively. The Copom's inflation projections for Q2 2026, current relevant horizon for monetary policy, stand at 4.0% (prev. 3.6%). In addition, BCB announced and conducted a USD 4bln FX auction for the 12th Dec to provide liquidity to the spot market. ING notes that this aggressive rate hike is entirely down to the loose fiscal policy of the President Lula admin and the damage it has done to the exchange rate. As such the bank adds that unless some credible fiscal consolidation package is announced, the BRL will stay vulnerable. Ahead, ING's position is that fiscal consolidation will be difficult in the run-up to the 2026 Presidential election and combined with the new US admin's trade war on China, and the threat of secondary sanctions on Brazil, the bank thinks USD/BRL will probably head up to the 6.25 area.