



Central Bank Weekly - 10th January 2025

Previewing ECB Minutes and BoK; Reviewing FOMC Minutes

PREVIEWS

ECB MINUTES (THU): As expected, the ECB delivered a 25bps cut to the deposit rate, taking it 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. As ever, the account of the meeting will likely be deemed as stale by the market.

BOK POLICY ANNOUNCEMENT (THU): There are mixed views on whether the central bank will continue to cut rates with a third consecutive 25bps rate cut or maintain the Base Rate at the current 3.00% level. As a reminder, the BoK surprised markets at the last meeting in November by delivering a 25bps rate cut which many were not expecting given that it had just cut rates a month before at the October meeting although, the decision by the BoK to deliver a second consecutive rate cut was not unanimous as board members Chang Yong-Sung and Ryoo Sang-Dai dissented, while BoK Governor Rhee noted that three of the seven board members were open to rate cuts in the three months ahead and that those members said gradual easing looks appropriate. The data since that meeting has been mixed as CPI for December printed firmer than expected but the latest Industrial Production data disappointed, while the domestic political situation in South Korea remains uncertain with President Yoon impeached after briefly declaring martial law in December. As such, BoK Governor Rhee has pledged to be flexible on future rate cuts while closely monitoring risks amid the political turmoil and economic uncertainty.

REVIEWS

FOMC MINUTES REVIEW: The FOMC's December meeting minutes noted that participants believed the Fed was nearing a point where it would be appropriate to slow the pace of easing. If data met expectations, they agreed it would be suitable to gradually move towards a more neutral policy stance. The majority of participants favoured a 25bps reduction at the December meeting, although some suggested keeping rates unchanged due to concerns about persistently high inflation. The minutes also revealed that several participants had incorporated 'placeholder assumptions' on potential trade and immigration policy changes into their projections. Fed staff, in turn, adjusted their economic forecasts, projecting slightly lower GDP growth and a modest increase in the unemployment rate, incorporating recent data and assumptions of potential policy shifts from the incoming administration. Capital Economics writes that the Fed has seemingly expressed concern about the potential economic impact of Trump's trade and immigration policies, incorporating uncertainties into their projections, and despite recent stronger inflation, the decision to cut rates by 25bps was seen as "finely balanced"; CapEco sees the Fed slowing rate cuts ahead, with only 50bps expected this year, and sees the next potential rate cut in March.

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