

Previewing BoJ SOO, BoE, Banxico, RBI; Reviewing FOMC, ECB, BoC, Riksbank, BCB

### PREVIEWS

**BOJ SUMMARY OF OPINIONS (MON)**: Participants will scrutinise the Summary of Opinions from Friday 24th January for hints of the bank's thinking on future monetary policy. As a reminder, the BoJ raised its short-term interest rate by 25bps to 0.50%, as expected. The central bank signalled further hikes if economic conditions and inflation align with forecasts, aiming for a sustainable 2% inflation target. Inflation expectations have risen, and firms are planning solid wage hikes. However, the decision was not unanimous, with Nakamura dissenting. The Outlook Report showed higher Core CPI forecasts but a lower Real GDP projection for 2024, disappointing those hoping for a dovish hike. During the press conference, Governor Ueda initially struck a hawkish tone, citing strong wage growth. However, his later comments—stating there is no pre-set plan for future rate hikes—triggered a dovish market reaction, as investors were expecting clearer guidance on the timing of the next hike.

**BOE ANNOUNCEMENT (THU)**: All analysts surveyed by Reuters expect the BoE to cut the Bank Rate by 25bps to 4.5% with markets assigning a circa 85% chance of such an outcome. The economic backdrop to the upcoming meeting is one clouded by a disappointing outlook for growth with M/M GDP falling short of expectations in the past three releases. Survey data has continued to underscore the downbeat mood in the UK with the latest Composite PMI report noting "the first indicators of business conditions in 2025 add to the gloom about the UK economy". On the inflation front, headline Y/Y CPI slipped to 2.5% from 2.6%, core CPI declined to 3.2% from 3.5% with the services print slipping to 4.4% from 5.0% (MPC forecast 4.7%). In the labour market, the unemployment rate in the 3M period to November rose to 4.4% from 4.3%, whilst employment growth slowed and headline wage growth picked up. In the aftermath of the prior meeting, Governor Bailey remarked that market pricing for a February cut was "in a reasonable place". At the dovish end of the spectrum, external member Taylor has noted that his base case is for around 100bps of cuts this year. Elsewhere, notable interjections from the MPC have been lacking. Overall, given the growth outlook and the view that policy is still restrictive, a 25bps cut seems inevitable with consensus expecting the decision to be made via a 7-2 vote split with hawkish dissent from Mann and another (unclear who) expected to back an unchanged rate. In terms of guidance, it is expected that the policy statement will maintain phrasing that suggests the Bank will adopt a "gradual approach" to lowering rates and policy will remain "restrictive for sufficiently long". Beyond the upcoming meeting, markets don't fully price another cut until August with a total of 72bps of easing seen by year-end. In the accompanying MPR, Pantheon Macro expects the MPC "to raise its near-term inflation forecasts but to cut its growth forecasts and two-year-ahead inflation projection, to 1.9% from 2.1%".

**BANXICO ANNOUNCEMENT (THU)**: Banxico is expected to cut rates by 25bps to 9.75%, albeit there risks to a larger 50bps cut given language in the prior statement suggesting "larger downward adjustments could be considered in some meetings, albeit maintaining a restrictive stance". The threat of tariffs may also be a reason for Banxico to cut by 50bps. Deputy Governor Heath also said that at the February monetary policy decision the board may discuss a rate cut between 25 and 50bps, and the size of the cut would depend on policy announcements by Trump, inflation and unforeseen shocks. Heath touted the decision might not be unanimous, but he does see the benchmark rate likely to end 2025 between 8-8.5%, but many factors could influence that. Note, with February 1st the deadline for an announcement on tariffs on Canada and Mexico, expectations may shift after this upcoming weekend. Ahead of the Banxico rate decision, Oxford Economics highlights that the central bank is signalling larger cuts in Q1 than they and the consensus expected, given the high policy uncertainty environment. Banxico has increased its focus on the weakening economy, a shift in its reaction function, which adds downside risk to the consultancy's year-end 8.25% forecast. In terms of the magnitude, Oxford expects two 25bps rate cuts in Q1 to reach 9.5%, as the uncertainty around tariffs and a less dovish Fed limits the space for cuts. However, the desk adds the Banxico Board highlighted its preference for larger cuts at its December meeting and the monetary programme for this year. Attention for the Peso watchers will reside around the impact of potential Trump tariffs, whereby 25% tariffs take place from February 1st, unless a last-minute agreement is reached. Peso traders will also be cognizant of any governance challenges under the first year of Mexican President Sheinbaum.

**RBI ANNOUNCEMENT (FRI)**: The RBI will conduct its latest policy meeting next week where the central bank is expected to cut the Repurchase Rate from the current 6.50% level as a recent Reuters poll showed 45 out of 62 economists surveyed anticipate the RBI to cut the Repo Rate by 25bps to 6.25% and the remaining 17 economist expect rates to be kept unchanged, while it will also be the first policy meeting under the stewardship of Sanjay Malhotra who was appointed as the RBI Governor in December and previously held the positions of Revenue Secretary and Financial Services Secretary under the Ministry of Finance. As a reminder, the RBI kept its Repurchase Rate unchanged at 6.50% at the last meeting in December which was the final meeting with former Governor Das at the helm and it also maintained a neutral stance to the decision to stand pat on rates voted for by 4 out of 6 in the MPC with external members Dr. Nagesh Kumar and Professor Ram Singh the dissenters as both voted for a 25bps cut, while the decision to maintain the neutral stance was made unanimously. This suggests it could only take one more vote for a cut to occur as long as it was the Governor who would have the deciding vote in an evenly split decision. The central bank provided some hawkish-leaning comments on inflation at that last meeting as it noted the last mile of inflation is prolonged and that headline inflation is likely to be elevated in Q3, while it also stated the near-term inflation and growth outlook has turned somewhat adverse but added that a further alignment to the target is likely. Furthermore, it announced to cut the Cash Reserve Ratio by 50bps to 4% which would infuse liquidity of INR 1.16tn, as well as introduced a new benchmark called the secured overnight rupee rate and increased interest rate ceilings on FCNR-B deposits in order to attract more capital inflows. Since then, the RBI has been active with measures including frequent FX interventions to support the rupee, while it also recently purchased government bonds through open market operations for the first time in nearly four years and conducted longer-tenure variable rate repo auctions which boost funds in the banking system and pressures bond yields which suggest the central bank want to bring money market rates down and supports the view that it could be gearing up for a looming reduction in the Repurchase Rate.

### REVIEWS

**FOMC REVIEW**: The FOMC kept rates between 4.25-4.50%, as expected, in a unanimous decision. The statement showed a hawkish shift, removing a reference to inflation making progress towards the 2% target while still noting inflation remains elevated; Chair Powell claims it was language clean-up, used to shorten the sentence, and was not a policy shift. The statement also described the labour market as having stabilised at a low unemployment rate, contrasting December's assessment that conditions had eased. Despite this, the Fed maintained a balanced view on risks to employment and inflation and kept its data-dependent stance on future adjustments. He emphasised that the Fed is

not in a rush to adjust its stance several times, even when asked about a March cut. Powell noted that recent inflation readings, particularly in shelter, suggest progress, but stressed that this is not guaranteed. He acknowledged uncertainty in forecasting due to significant policy shifts but reiterated that the Fed is in a good place to monitor the economy. He confirmed that the Fed is above its long-run neutral rate estimate and is closely monitoring reserve levels, with no immediate plan to end quantitative tightening. Powell also stated that the Fed is awaiting clarity on potential changes in fiscal and regulatory policies under President Trump. After the announcement, analysts at Goldman Sachs said that it remains comfortable with its view that the FOMC will deliver two more 25bps cuts in June and December this year, and one more in 2026. "Over the course of the next few FOMC meetings, we expect Y/Y core PCE inflation to fall meaningfully and in a way that 'builds confidence' that Powell said he wanted to see."

**ECB REVIEW:** As expected, the ECB pulled the trigger on another 25bps rate cut, taking the Deposit Rate to 2.75%. The policy statement saw the GC reiterate that it will retain its meeting-by-meeting and data-dependent approach whilst not pre-committing to a specific policy path. Despite today's easing, policymakers still see policy as "restrictive". In terms of the economic assessment, the statement noted that the economy is still facing headwinds but demand should pick up over time. Elsewhere, inflation is seen as "high" but has developed in-line with expectations and the disinflation process is well on track. At the follow-up press conference, the overall lack of overtly dovish signals from Lagarde in her opening remarks elicited a hawkish reaction within the marketplace. However, as the Q&A segment got underway, this move faded as Lagarde noted that today's decision was unanimous and there was no discussion of the terminal rate despite recent comments from Germany's Schnabel that the ECB is getting closer to the point at which it needs to look at whether and how much further it can cut interest rates. Elsewhere, Lagarde noted that the debate about neutral rates is "entirely premature" and cannot say if rates will go below neutral. Note, on February 7th the ECB will publish a paper on the revision of the natural interest rate. Additionally, the ECB will publish its debut release of its latest wage tracker. Overall, the ECB is continuing to dial back the level of policy restrictiveness. However, it is cautious in doing so on account of the uncertainty stemming from the looming threat of tariffs by the Trump administration which has clouded the bloc's growth outlook. As the dust settles on the announcement, year-end pricing is little changed with around 70bps of easing seen by the December meeting. Post-meeting and press conference, both Reuters and Bloomberg sources implied another 25bps rate cut in March but further debate thereafter. Highlighting this, Reuters noted that ECB policymakers expect to cut rates again in March with a broader and deeper debate after that, potentially implying an April pause. Later, BBG stated the ECB may drop "restrictive" label on rate stance as soon as March, and with another 25bps rate cut highly likely then, bringing the deposit rate to 2.5%, such a level may not fully deserve that label anymore.

**BOC RATE DECISION AND MPR REVIEW:** The Bank of Canada cut rates by 25bps, in line with expectations, taking the target for the overnight rate to 3.00%, within the BoC's own estimate of the neutral rate, 2.25-3.25%. The BoC also removed forward guidance, noting that the cumulative reduction in the policy rate since last June is substantial, removing the line that "Going forward, we will be evaluating the need for further reductions in the policy rate one decision at a time". The BoC acknowledged that easing so far is boosting household spending, and the economy is expected to strengthen gradually while inflation is to stay close to target. The latest MPR saw upward revisions to inflation for 2025 and 2026, although growth forecasts were lowered. However, these forecasts do not incorporate tariffs threatened by US President Trump from 1st February. The central bank notes that if tariffs were imposed, the resilience of the economy would be tested. Money market pricing was little changed vs. beforehand with focus on trade updates from the US. BoC Governor Macklem in the press conference noted that the CAD movement has not constrained the Bank so far, but CAD depreciation will start to have some impact and it follows very closely with tariff threats from US President Trump. Macklem also noted that the bigger the moves in CAD, the more they will have to be taken into account as policy is set going forward. He acknowledged the BoC removed forward guidance due to uncertainty ahead, and that from a risk management perspective, the tariff threats reinforced the BoC's decision to cut rates by 25bps. The BoC also announced it plans to complete balance sheet normalisation, ending quantitative tightening and from early March, the BoC will start purchasing assets as part of normal balance sheet management. Treasury bill purchases will resume later this year while purchases of GoC bonds will likely not need to start until towards the end of 2026 at the earliest. It also made a technical adjustment to the deposit rate, which will be set at a spread of 5bps below the Bank's policy interest rate to improve effectiveness. It should also help mitigate some of the upward pressure seen on the overnight rate relative to the Bank's target rate.

**RIKSBANK REVIEW/MINUTES:** As expected, the Riksbank cut its rates by 25bps to 2.25%, and steered clear from explicitly sending strong signals regarding the next rate cut at the Bank. The bank highlighted that "forecast for the policy rate made in December essentially holds, but the Executive Board is prepared to act if the outlook for inflation and economic activity changes". The Bank also brought focus on economic activity, noting that it remains weak but are seeing "signs that an economic rebound is on the way". The Bank also remains cautious on the US and global developments, which may filter through to the Swedish economy/SEK. EUR/SEK knee-jerked higher following the release, but pared this almost immediately. The pair then edged a little higher in the minutes after, with dovishness stemming from some outside bets of a hold being unwound. Governor Thedeén then said at his press conference that his "best judgement is that rates have reached the bottom, but the outlook is genuinely uncertain"; a remark which sparked some modest upside in the SEK. CapEco (before Thedeén comments) wrote that it believes Riksbank made its final cut of the cycle, expecting a strong rebound in the economy this year; SEB (post-Thedeén) maintained its expectations of another quarter-point cut in May. The Minutes of this announcement will be released next week; on that, traders will be on the look out for if the Board is a little more aligned (given the mixed views seen in the last Minutes); focus will also be on what economic activity data warrants a next cut and then for insight into how close to the terminal the Riksbank is.

**BCB REVIEW:** In their Wednesday meeting, the BCB unanimously voted to hike rates by 100bps to 13.25%. This decision to continue their aggressive pace of tightening marks the highest Selic rate in eight years. Their statement remained rather hawkish, reiterating comments from the last meeting and stating that they "expect further adjustment of the same magnitude in the next meeting if the scenario evolves as expected". They also told us "the current scenario requires an even more contractionary monetary policy". Additionally, the BCB raised its inflation forecast for 2025 to 5.2% (prev. 4.5%), well above the target of 3%; adding, "Risks to its inflation scenarios remain tilted to the upside." In the statement, they said the total magnitude of the tightening cycle will be determined by the firm commitment of reaching the inflation target. Pantheon remarked that the BRL weakness remains the key driver of inflationary pressures - alongside a relatively strong labour market and robust economic activity during most of H2 last year.

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