

PREVIEWS:

CBRT POLICY ANNOUNCEMENT (TUE): Turkey's central bank is widely expected to continue the direction of its cutting cycle. The consensus expects the CBRT to reduce rates by 250bps, and markets are pricing 226bps of cuts for the meeting. At its last policy meeting, it cut rates by 250bps to 45.0%, and noted that a tight monetary stance will be maintained until price stability is achieved via a sustained decline in inflation, and the committee will make its decisions prudently on a meeting-by-meeting basis with a focus on the inflation outlook. BofA highlights that it remains cautious on its rate call, following the CBRT's inflation revision; however, a 250bps reduction remains their baseline.

ECB POLICY ANNOUNCEMENT (THU): Markets assign a circa 97% probability of the ECB lowering its Deposit Rate by 25bps, to 2.5%. Data since the prior meeting has seen headline inflation rate tick higher in January to 2.5% Y/Y from 2.4%, super-core held steady at 2.7% Y/Y, and services slipped to 3.9% Y/Y from 4.0%. Nonetheless, the Governing Council remains confident that inflation will return to target over the course of the year. On the growth front, the second read of Eurozone GDP in Q4 was revised a little higher, to 0.1% vs. the 0.4% seen in Q3. More timely survey data from S&P Global has seen the EZ-wide manufacturing print rise to 47.3 from 46.6, services slip to 50.7 from 51.3, leaving the composite just about in expansionary territory at 50.2. The accompanying report noted "economic output in the eurozone is barely moving at all." Given confidence in the inflation outlook and concerns over the bloc's growth outlook, as the threat of tariffs from the Trump admin looms large, a 25bps reduction is nailed on. As such, attention will be on any tweaks to the policy statement, which currently states that "monetary policy remains restrictive." Morgan Stanley doubts that "restrictiveness will be dropped entirely" but thinks it could be "qualified." The desk adds that "rates could be described as nearing levels that are no longer restrictive, setting the stage for a pause at one of the next meetings." On the subject of the rate path, markets assign a circa 64% chance of a cut in April, with the next 25bps reduction fully priced by June, and a total of 83bps of easing seen by year-end. For the accompanying macro projections, MS flags the complex backdrop to generating forecasts which has seen "Euro area growth surprised on the downside, oil and gas prices are meaningfully up, tariffs are looming, France voted a 2025 budget, Germany held elections and European countries contemplate significant increases of their defense spending." Overall, the desk expects growth to be revised down across the full forecast horizon. On the inflation front, the desk expects higher energy prices will boost the 2025 forecast, but ultimately prove to be a temporary shock with 2026 and 2027 projections to be below the 2% target.

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ECB MINUTES REVIEW: The account of the ECB's January meeting, where it delivered another 25bps rate cut, passed with little in the way of fanfare given the stale nature of the release. In terms of its contents, members widely agreed that the incoming data were broadly in line with the medium-term inflation trajectory embedded in the December staff projection. Furthermore, the disinflationary process was judged to be well on track, and confidence in a timely and sustained convergence had increased. On the growth front, risks to the growth outlook remained tilted to the downside. Additionally, the view was also expressed that the economic outlook in the December staff projections had likely been too optimistic, and that there were signs of downside risks materialising. On tariffs, there was considerable uncertainty about the effect of possible US actions, however, the estimated impact on euro area inflation was small and its sign was ambiguous, whereas the implications for economic growth were clearly negative. In terms of the decision itself, reducing the deposit facility rate to 2.75% was seen as appropriate from a risk-management perspective as, on the one hand, it left sufficient optionality to react to the possible emergence of new price pressures; on the other hand, it addressed the risk of falling behind the curve in dialling back restriction and guarded against inflation falling below target. With the release now out of the way, attention turns towards next week's ECB policy announcement which is expected to deliver another 25bps reduction. Attention will be on accompanying macro projections and whether the statement still describes policy as restrictive.

PBOC MLF REVIEW: PBoC conducted its monthly Medium-term Lending Facility operation, where it injected CNY 300bln of funds via its 1-year MLF, and kept the rate unchanged at 2.00%, for a net drain of CNY 200bln as there were CNY 500bln of loans maturing. The decision to maintain the MLF rate was unsurprising as the central bank has refrained from any adjustments to its 1-year MLF rate since the last cut in September 2024, and after Chinese banks also opted to maintain the Loan Prime Rates last week for the fourth consecutive month. Furthermore, the PBoC had already lessened the role of the MLF as a policy tool last year in favour of the 7-day Reverse Repo, its main tool for influencing short-term rates and liquidity, although this rate has been kept unchanged since September, while the ongoing US tariff threat and recent mixed data releases from China, including disappointing PMIs for January and stronger-than-expected GDP for Q4, support the case for a wait-and-see approach. Nonetheless, some economists expect the central bank to deliver cuts as early as March following the annual "Two Sessions" parliamentary gathering in Beijing involving the Chinese People's Political Consultative Conference and National People's Congress where China is expected to acknowledge weaker domestic demand and potentially unveil fiscal stimulus details in an effort to support growth.

BOK REVIEW: The Bank of Korea cut its base rate by 25bps to 2.75%, which was widely expected, with the rate decision unanimous and the interest rates for the special loan programme also lowered. The central bank said that US tariff policies, Fed policy, and stimulus measures by the Korean government are some of the uncertainties for the economy, while it noted it is necessary to remain cautious about high FX volatility. Furthermore, Governor Rhee stated that four board members said current policy rates could be maintained for the next three months, and two said further rate cuts are possible for the next three months, which

suggests a likely pause at the April meeting; Rhee added that the market consensus expecting two more rate cuts this year aligns closely with the central bank's views.

RBA MINUTES PREVIEW: The RBA will release the minutes from its February meeting, where it delivered a widely expected 25bps rate reduction, lowering its Cash Rate to 4.10% – the central bank's first rate reduction since 2020 – while it stated that underlying inflation is moderating and the outlook remains uncertain, and also noted that sustainably returning inflation to the target is the priority, and the board will continue to rely on data and evolving risk assessments to guide decisions. The RBA also said it is more confident that inflation is moving toward the midpoint of its 2–3% target range, but added that upside risks remain, and it remains cautious on prospects for further policy easing. The RBA simultaneously released its quarterly statement on monetary policy, which noted that inflation and GDP have been softer than expected, while the labour market remains strong and domestic financial conditions are restrictive, with rates above neutral. It acknowledged a wide range of estimates for the neutral rate, with some estimates declining, while its projections for Real GDP and CPI assumed a cash rate of 4.0% in June 2025, 3.6% in December 2025, and 3.4% in June 2026. Furthermore, Governor Bullock provided some hawkish-leaning remarks at the post-meeting press conference, where she said that it is clear high rates have worked and cannot declare victory on inflation yet, as well as noted that the strength of the jobs market has been surprising and further rate cuts implied by the market are not guaranteed. Bullock continued to stress the cautious view in the days after the meeting in which she stated that there is no pre-commitment to any specific course of action on interest rates and the board remains cautious about further policy easing, as well as commented that they might have some more cuts in rates but have to be cautious.

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