

Previewing FOMC, BoJ, BoE, SNB, Riksbank, PBoC LPR; Reviewing BoC

PREVIEWS

FOMC ANNOUNCEMENT (WED): The FOMC is expected to hold rates at between 4.25-4.50% at its March meeting. Money markets are pricing a negligible risk of a cut – the first fully discounted rate reduction is priced for June, with around 70bps of cuts currently priced through the end of the year, implying two fully discounted cuts, and a decent chance of a third. Traders will therefore be looking to the Fed statement, updated economic projections, and commentary from Chair Powell, amid the weaker economic activity data that has been coming out of the US of late, underpinned by fears over tariff policy. The Atlanta Fed's GDPnow model is currently tracking Q1 growth of -2.4% (this will be updated on Monday). Analysts have suggested that this may be overstating the gloom, however; the model saw a hefty downward revision after the US trade deficit rose to a record in January, driven by stockpiling ahead of potential tariffs, but this might have been a function of gold imports, which do not directly impact activity – indeed, the Atlanta Fed said that the gold-adjusted tracking estimate was at -0.4%, still in contraction, but less severe than its headline. Accordingly, traders will be looking to see whether Chair Powell reassesses his view that the central bank is in no hurry to reduce rates in the near term. In its December projections, the Fed pencilled in rate cuts that would take the Federal Funds Rate target to between 3.75-4.00% this year, with rates seen falling further over its forecast horizon to 3.00-3.25% by 2027. The updated projections will be notable, and help to reveal whether the Fed is concerned about slowing growth, or whether its focus remains on inflation, where concerns remain about the level of inflation, as well as inflation expectations, as tariffs come into play; Capital Economics does not expect any major changes to the rate projections given that dynamic.

BOJ ANNOUNCEMENT (WED): The Bank of Japan will likely maintain rates. A recent Reuters poll showed 61 of 62 economists surveyed look for the central bank to keep interest rates unchanged at 0.50%; money markets are that scenario with 92% certainty. The BoJ hiked by 25bps at its last meeting in January, as was widely expected, and reiterated that it will continue to raise rates if the economy and prices move in line with forecasts, adding that it will conduct monetary policy as appropriate from the perspective of sustainably and stably achieving the 2% inflation target. The central bank also stated that inflation expectations have risen moderately, and the chance of Japan's economy moving in line with the forecast is heightening. It also noted that many firms are saying they will offer solid pay hikes in the Spring wage talks. The BoJ's decision was not unanimous in January, with Nakamura dissenting to the rate hike, stating that the BoJ should decide on changing the guideline for money market operations after confirming a rise in firms' earnings power from sources, and after checking sources such as financial statements and statistics of corporations at the next monetary policy meeting. Furthermore, BoJ Governor Ueda kept options open for when the next rate move will occur; he commented at the post-meeting press conference that the timing and scope of raising rates further is dependent on the economy, financial and price conditions, as well as noted there were no preconceived ideas around the scope and timing of the next rate rise which will depend less on economic growth but more on price moves and that that they would rather proceed with caution. This suggests that it is unlikely that the central bank will be quick to hike rates again, and recent comments from officials also point to a lack of urgency for a back-to-back hike; BoJ Deputy Governor Uchida also said it does not have a preset idea in mind on the pace of future rate hikes, and it is not as if they will be raising rates at each policy meeting. Elsewhere, Governor Ueda recently suggested that the BoJ is prepared to increase bond purchases if needed, and if markets make any abnormal moves, it stands ready to respond nimbly, such as through market operations to smooth market moves. The upcoming spring wage negotiations in Japan also support the case for the BoJ to hold steady, as officials would likely want to wait for the outcome of the 'Shunto' before acting again due to the potential impact this could have on inflation, although Ueda has previously acknowledged that a growing number of firms expressed intentions to continue increasing wages steadily, while Japan's largest labour union Rengo was reportedly seeking a wage hike of 6.09% for 2025 (prev. sought 5.85% for 2024). Furthermore, a recent report noted the BoJ is seen keeping policy steady at the upcoming meeting, although three sources familiar with BoJ thinking said inflationary pressures from wage gains and prolonged food price rises could prompt officials to discuss another hike as soon as May, while another recent sourced article stated the BoJ is leaning towards holding the key rate at the March meeting, and wishes to monitor the impact of the January hike and US policies, although no there is no final decision yet for March and they see wage developments as being within expectations.

BOE ANNOUNCEMENT (THU): Expectations are unanimous that the BoE will stand pat on the Base Rate at 4.5% with markets assigning a 92% chance of such an outcome. Since the prior meeting, UK Y/Y CPI has risen to 3.0% from 2.5%, core picked up to 3.7% from 3.2% and services jumped to 5.0% from 4.4%, albeit this was below the MPC forecast of 5.2%. Jobs data is due on the morning of the announcement, however, recent data has been characterised by ongoing upside in the unemployment rate, stubborn wage growth and declining vacancies. From a growth perspective, M/M GDP for January unexpectedly contracted (-0.1% vs. Exp. 0.1%) and slowed from the prior print of 0.4%; it's worth noting that monthly growth data is viewed as volatile. More timely survey data from S&P Global has shown the services metric advanced to 51.0 in February from 50.8 to 51.0, manufacturing slipped to 46.9 from 48.3, leaving the composite at 50.5 vs. prev. 50.6. As such, the economic landscape can be viewed as a stagflationary one. The MPC is expected to lean towards focussing on its inflation mandate in a potential 7-2 vote split with Dhingra and Mann to remain the lone dissenters (unclear what magnitude they will back). Albeit, there are a range of views in the market with Morgan Stanley expecting Taylor to join the dissenters, whilst Pantheon Macro thinks Mann will return to the unchanged camp after backing a 50bps move last month. In terms of the accompanying statement, policymakers are likely to reaffirm their "gradual and careful" approach to rate cuts (vs. prev. stated "gradual" approach) and that policy will be "restrictive for sufficiently long". Looking beyond the upcoming meeting, the next 25bps cut is not fully priced until June with a total of 54bps of loosening seen by year-end.

SNB ANNOUNCEMENT (THU): Market pricing currently implies around a 70% chance of a 25bps cut taking place. A 25bps cut would take the policy rate to 0.25% and would increase focus on the zero-lower-bound and negative rates. Recent commentary has been a little light but Chairman Schlegel has made clear that a return to negative rates, while not something they want, cannot be excluded. Inflation prints were in line and hotter than the market expected for January and February respectively, at 0.4% Y/Y and 0.3% Y/Y. Metrics which are in totality marginally hotter than the SNB's Q1 projection of 0.3% Y/Y, though more pertinently the SNB looks for inflation to moderate further to 0.2% Y/Y in Q2 before picking up modestly into end-2025. Internal metrics in February were a little sticky, with rental measures only easing marginally though this should moderate later in the year after a drop in the reference rate while goods inflation kept the core figure at a 0.9% rate. Overall, the February release justifies the SNB's relatively aggressive approach to easing thus far. However, for March's meeting, the sticky core could argue for the SNB to hold fire at this point and save some powder for Q2/Q3 if inflation moderates further as expected; a point which is particularly of note given the proximity to the zero-lower-bound and negative rates. For the CHF Rabobank highlights that, in the context of better EZ growth expectations following German stimulus announcements, such projections tend to soften the Franc which will be a relief for the SNB and increases the likelihood that rates will not need to go to 0.0% or negative.

RIKSBANK ANNOUNCEMENT (THU): The Riksbank is expected to keep rates unchanged at 2.25%; the focus for this meeting will be on any indication of the Bank's view on the terminal rate and on the accompanying rate path. It is interesting to note that whilst analysts at Nordea stick with their forecast for a hold at this meeting, some see the possibility of the Bank keeping the door open for a hike in the future, citing recent inflation developments. As a reminder, the Riksbank delivered a 25bps cut at the last meeting and steered clear from explicitly sending strong signals regarding the next rate cut at the Bank; it did highlight that an economic rebound is on the way but remains weak. The Minutes of that meeting highlighted the variety of views held by members at the Bank; Governor Thedeen suggested that rates are sufficiently restrictive; the likes of Bunge and Bremen kept the door open for more cuts in March or May – though recent inflation developments may have muddled that view. Headline CPIF Y/Y came in hot, printing at 2.9% (exp. 2.7%, prev. 2.2%, Riksbank view 2.4%); the core figure also printed above expectations – as such, analysts at SEB changed their view and expect the Bank to be on pause at the next two meetings (prev. saw a cut in May). Finally, the SEK is well off worst levels and as such has fallen out of the Riksbank's main focus over the past couple of meetings. For reference, the SEK has strengthened around 5% since the last meeting, amid the hawkish repricing, relatively decent European stock performance and Ukraine-Russia peace optimism.

PBOC LPR (THU): China's central bank will likely maintain its Loan Prime Rates at current levels (1-year LPR at 3.10%, 5-year LPR at 3.60%). As a reminder, the LPR, are the reference rate for which most new loans and mortgages are based, and have been kept at their current levels since October; the central bank has also kept 7-dat reverse repo rates unchanged for the last six months, which is its main policy tool to control liquidity and influence rates in the banking system. It all suggests that there is a lack of urgency for any near-term policy tweaks. Furthermore, the numerous support efforts and planned spending increases outlined in the recent government Work Report also provide scope for the PBoC to bide its time, while Governor Pan noted during the NPC that they will study and establish new structural policy tools, as well as cut interest rates and banks' RRR at the appropriate time. China also faces uncertainty around US President Trump's tariffs, and its own subsequent retaliations, as well as the recent mixed bag of Chinese data releases, including better-than-expected PMIs, deflationary CPI figures, and the miss on Exports and Imports – analysts say this all favours a patient approach.

REVIEWS

BOC REVIEW: The BoC cut rates by 25bps in line with expectations, taking the target for the overnight rate to 2.75%. Governor Macklem stated they will proceed carefully with any further changes to their policy rate, given the need to assess both upward pressures of inflation from higher costs and the downward pressures from weaker demand. The statement largely focused on tariffs. It said that heightened trade tensions and tariffs imposed by the US will likely slow the pace of economic activity and increase inflationary pressures in Canada, noting short-term inflation expectations have risen. It also noted how monetary policy cannot offset the impact of a trade war, but it must ensure that higher prices do not lead to ongoing inflation. It acknowledged that recent surveys suggest a sharp drop in consumer confidence and a slowdown in business spending as companies postpone or cancel investments. However, it also noted the negative impact of slowing domestic demand has been partially offset by a surge in exports in advance of tariffs being imposed. The BoC warned Q1 '25 growth will slow and there are warning signs that heightened trade tensions could disrupt the recovery in the labour market. It noted how wage growth has shown signs of moderation, and they are closely watching inflation expectations. Overall, the BoC is in wait-and-see mode to see how the trade war plays out and how it will affect the Canadian economy with both upside and downside risks to inflation as a result of tariffs. In the Q&A, Governor Macklem also acknowledged the estimate of the neutral rate is largely centered around 2.75%, implying the BoC is now at the neutral level. Looking ahead, the next rate cut is fully priced for April, (was at July pre-BoC), with 64bps of easing priced throughout year-end, which fully prices two further rate cuts, with a 56% probability of a third.

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