Central Bank Weekly - 21st March 2025

Previewing PBoC MLF, Norges Bank, BoC Minutes, Banxico; Reviewing FOMC, BoJ, BoE, SNB, PBoC LPR, Riksbank

PREVIEWS

PBOC MLF (TUE): PBoC will conduct its monthly Medium-term Lending Facility operation next week with the central bank likely to maintain its 1-year MLF rate at 2.00% where it has been since September last year. As a reminder, the central bank kept rates unchanged and decided to only partially roll over maturing funds at last month's MLF operation in which it released CNY 300bln of loans through the facility 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 Chinese banks had also opted to maintain the Loan Prime Rates in the week prior to that operation, while China's major banks have continued to refrain from adjusting the benchmark LPRs for this month which also suggests the unlikelihood of any changes in the MLF rate next week. 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 which is its main instrument for influencing short-term rates and liquidity although the rate on this has also been kept unchanged since September. Nonetheless, future policy action is anticipated as the central bank has signalled it will deliver cuts with PBoC Governor Pan pledging to reduce rates and RRR at an appropriate time.

BOC MINUTES (WED): The BoC meeting saw the Central Bank cut rates by 25bps to 2.75%, in line with expectations. BoC Governor Macklem noted that the BoC will be proceeding carefully when it comes to the policy path, and is primarily due to the uncertainties ahead with the impacts of tariffs from US President Trump, with fears of tariffs boosting inflation and slowing growth, putting the central bank in a difficult position. Macklem also noted they did not seriously consider a 50bps move at the meeting, while he also stated the BoC estimate of neutral is centered on 2.75% - the current rate. The Minutes will be eyed to see what the BoC think about the impact of Trump's tariffs on the Canadian economy, and its implications for monetary policy. However, it will likely echo Macklem in that they must now proceed carefully. Any clues about whether they focus on keeping inflation down or boosting economic growth will also be of note. The BoC essentially reached their inflation target, although it has since been creeping back up slightly since the lows.

NORGES BANK (THU): At the January meeting, the statement reiterated that "the policy rate will likely be reduced in March", guidance which stemmed from the progress of inflation to target and a general assessment that the time for easing was approaching. However, February's CPI-ATE came in markedly hotter than expected at 3.4% (exp. 2.9%, prev. 2.8%) and surpassed the 2.7% Norges Bank forecast; a release which marked a second consecutive month of above forecast inflation. Internals from the release were also hot and have sparked a return of the sticky-inflation narrative. Following the February metrics, Nordea has shifted to no longer expect a cut at any point in 2025 or 2026. Most recently, the Regional Network was hawkish and has seemingly cemented the view that the Norges Bank will not be easing in March.

BANXICO (THU): In the prior meeting the Mexican Central Bank cut ruts by 50bps to 9.5%, as expected, in a 4-1 vote split with Heath the dissenter, voting for a 25bps cut. Within the meeting, it noted the Board estimates that looking forward it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes. In the forecasts, headline inflation is expected to converge to the target in Q3 '26, while it anticipates that the inflationary environment will allow it to continue the rate-cutting cycle, albeit maintaining a restrictive stance. For Banxico, significant focus continues to reside around the incoming tariffs from the US, which are due to be implemented on April 2nd. On which, Banxico's Deputy Governor Mejia recently noted that tariffs have been a negotiating tool for the US and it is yet to be seen when they are applied, and if they will have a lasting impact.

REVIEWS

BOJ: The BoJ provided no surprises at this week's meeting as it maintained rates at 0.50%. The decision was widely expected given that the central bank hiked at the last meeting in January. The decision on rates was made unanimously and the central bank refrained from providing any major clues on policy in which it noted that Japan's economy is recovering moderately, albeit with some weak signs, and that consumption is increasing moderately as a trend and inflation expectations are also heightening moderately. BoJ stated they must be vigilant to the impact of financial and FX market moves on Japan's economy but added that Japan's economy is likely to continue growing above potential. It also expects underlying inflation to converge towards a level consistent with the price target in the latter half of the three-year period projected under the quarterly Outlook Report but noted that uncertainty surrounding Japan's economy and prices remains high. Furthermore, it acknowledged that risks include the trade policy of each country and its impact on overseas economies and prices, while the 'early' release of the decision with the announcement made before the start of the Tokyo lunch break suggested there was less time needed for debate than usual.

FOMC: The Federal Reserve kept rates unchanged, as expected, and maintained its forecast of two rate reductions in 2025. It removed language from its statement suggesting risks to its goals were balanced, citing increased uncertainty. However, it reiterated that "economic activity has continued to expand at a solid pace," labour market conditions "remain solid,", and inflation "remains somewhat elevated." Although, it did add that "Uncertainty around the economic outlook has increased". Its 2025 and 2026 growth projections were lowered, with higher unemployment, and it lifted its PCE inflation forecasts. It also announced that, starting April, the pace of balance sheet runoff will slow, reducing the monthly Treasury redemption cap to USD 5bln (from the current USD 25bln), though the MBS cap remains unchanged at USD 35bln. Though the tweak was not signalled explicitly in advance, analysts were not very surprised by the announcement, given the use of its reverse repo facility has declined significantly

Copyright © {{ copyright-year }} Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

this year. The projections also showed that FOMC members are divided on the number of cuts in 2025; the dot plot continues to show two rate cuts this year, and projections for 2026 and the long-term forecast was left unchanged, but four participants now expect rates to be unchanged in 2025 (vs just one previously), and four members expect only one rate cut. In his press conference, Chair Powell stressed a wait-and-see approach, emphasising uncertainty ahead. He noted rising short-term inflation expectations, but highlighted that long-term expectations remain stable. Powell acknowledged tariffs contribute to higher goods prices but are hard to quantify in terms of inflation. He said the Fed could either cut or hold rates at a "clearly restrictive" level. On the balance sheet, he clarified that the slowdown in runoff was a technical adjustment, not a policy shift. He also clarified that removing the language about balanced risks was not a signal. Meanwhile, ahead of PCE data due on March 28th, Chair Powell sees the headline at 2.5% Y/Y (vs 2.5% in January), and core PCE rate at 2.8% Y/Y (vs 2.6% in January).

BOE: As forecast, the MPC opted to overlook growth concerns and instead focused on its inflation mandate by holding the Base Rate at 4.5%. The decision to do so was unexpectedly via an 8-1 vote split with Dhingra the lone dissenter after Mann moved back into the unchanged camp despite supporting a 50bps reduction in February. The consensus on the MPC to hold rates was based on the view that progress on disinflation in domestic prices and wages had generally continued. However, there had "been relatively little news since the previous meeting from UK economic developments, notwithstanding the intensification in global uncertainties". In terms of economic commentary, it was noted that GDP has been slightly stronger than expected in February, however, surveys still suggest weak growth, and employment plans. It remains the case that CPI is expected to rise to around 3.75% in Q3 before falling back thereafter. As expected, the MPC maintained guidance that "a gradual and careful approach to policy restraint remains appropriate" and reiterated that monetary policy is not on a preset course over the next few meetings. That being said, Governor Bailey is still of the view that interest rates are on a gradually declining path. Overall, the announcement gave markets little in the way of fresh information to feed off other than the chop-and-change approach to rate-setting by external Mann. Market pricing is marginally more hawkish with the next cut not fully priced until August (June pre-release) with a total of 46bps of loosening seen by year-end vs. 53bps pre-release.

SNB: In-fitting with the majority of views the SNB cut by 25bps to 0.25%. A cut which sparked a knee-jerk dovish move in the CHF, as the market unwound the handful of calls for a hold. Additionally, the inflation forecasts for 2025 were subject to a modest upward adjustment while the 2026 and 2027 figures were essentially reiterated; forecasts which, despite the upward adjustment, are still at a low absolute level and as such do not shut the door to further easing. However, the subsequent press conference saw Chairman Schlegel say that the cut has reduced the probability that monetary policy will need to be revised lower, though they will reassess in June given the high levels of global uncertainty. Overall, the rate decision was as expected with the accompanying statement and forecasts acknowledging recent developments and pointing to a wait-and-see approach to further action and as such the base case appears to be that, as things stands, 0.25% will be the low point this cycle but further easing remains a possibility given elevated uncertainty.

RIKSBANK: As expected, the Riksbank left its policy rate unchanged at 2.25% in Thursday’s Meeting and signalled that rates will remain at current levels going forward. The lack of additional easing has been attributed to the recent higher-than-expected outturn for inflation. On the trade front and how it could impact monetary policy, the Riskbank had little to say (unlike other global central banks such as BoC) other than "uncertainty abroad is unusually high due to the escalating trade conflict". Within its accompanying rate forecasts, the Bank sees the Q1'25 rate averaging 2.37% (prev. saw 2.44%); both Q2 and Q3 forecasts were incrementally revised lower, whilst 2026 and 2027 were left unchanged. Riksbank's Thedeen in his post-policy announcement press conference struck a hawkish tone; he highlighted his concern for the recent uptick in inflation, adding that the Bank is "ready to act if it spreads... patience for higher inflation outcomes has shrunk". Following the release, CapEco believes the CPIF ex-energy is likely to remain above 2% for the next couple of years, and so see the Bank's next move to be a hike. The Minutes of this meeting is due next week; within that, focus will be on the readiness each member has to deliver a hike, should inflation develop unfavourably.

PBOC LPR: Chinese major banks unsurprisingly maintained the benchmark Loan Prime Rates with the 1-year LPR kept at 3.10% which is the rate most new loans are based on, and with the 5-year LPR maintained at 3.60% which is the reference for mortgages. The decision to maintain the Loan Prime Rates was widely expected as there hasn’t been any adjustment to the LPRs since the last cut in October, while the PBoC has also refrained from any adjustment to its main policy tool, the 7-day reverse repo, which has been left unchanged at 1.50% since September. Furthermore, the recent key data releases from China have been mixed which supported a wait-and-see approach as activity data was mostly encouraging but trade data disappointed in February, while PMIs were strong but inflation figures showed a sharper than expected deflation for both consumer and factory gate prices. Another factor that is likely influencing policymakers to keep the powder dry is the uncertainty surrounding trade policies after the recent US-China tit-for-tat tariffs since US President Trump’s return to the White House, as officials may prefer a patient approach until the impact of the tariff war is known although future near-term policy easing cannot be ruled out as PBoC Governor Pan has previously stated that they will study and establish new structural policy tools, as well as cut interest rates and banks’ RRR at an appropriate time.

Copyright © 2025 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Copyright © {{ copyright-year }} Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com