Central Bank Weekly - 25th April 2025

Previewing BoJ; Reviewing PBoC LPR/MLF

PREVIEWS

BOJ ANNOUNCEMENT AND OUTLOOK REPORT (THU): The Bank of Japan will conduct a two-day policy meeting next week where the central bank is widely expected to maintain its interest rate at 0.50% as a recent Reuters poll showed 84% of economists surveyed expect the BoJ to keep its key interest rate at the current level through to end-June. The central bank will also release its latest Outlook Report containing Board Members' median forecasts for Real GDP and Core CPI. As a reminder, the BoJ provided no surprises at the last meeting in March where it maintained rates at the 0.50% level which was widely expected, given that the central bank just hiked at the meeting before in January, while the decision on rates was made unanimously and the central bank refrained from providing any major clues on policy as 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. The BoJ also stated that 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, while it 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. As such, the central bank is anticipated to continue to refrain from making any adjustments given the highly uncertain global trade environment and recent global market volatility triggered by US President Trump's tariffs and occasional backtracking on policies. The recent rhetoric from officials continues to point to a lack of urgency to immediately raise rates as BoJ Governor Ueda said that Japan's economy is recovering moderately albeit with some weak signs, and that Japan's economy and prices are moving roughly in line with their forecasts but they must be vigilant to heightening uncertainty including from each country's trade policy. Ueda also stated that Japan's real interest rates remain very low and that the BoJ is expected to keep raising interest rates if the economy and prices move in line with projections made in the quarterly report. In addition, sources recently noted that the BoJ is likely to keep its rate-hike signal intact at the meeting next week despite Trump tariff risks, while sources also noted the BoJ is said to cut its 2025 growth forecast in the quarterly report, although this wouldn't be much of a surprise given the global economic risks from US tariffs and the Sino-US trade war.

REVIEWS

PBOC LPR/MLF REVIEW: PBoC maintained its key lending rates for the 6th consecutive month, with the 1-year Loan Prime Rate (LPR) at 3.10% and the 5-year LPR at 3.60%. The decision was in line with most of the expectations - 87% of market participants in a Reuters poll predicted no rate change. Desks suggest the central bank is in a wait-and-see mode to gauge the impact of tariffs. Analysts also believe stimulus is likely to be targeted rather than broad-based, focused on exporters. In terms of the Medium-Term Lending Facility (MLF) operation, injected CNY 600bln via 1-year MLF vs CNY 63bln net in the previous month. Since March, PBoC used a multiple-price bidding method for MLF, and no longer announces a fixed MLF rate. Desks suggest this implies a shift away from MLF and reinforces a targeted easing approach amid global uncertainty and trade friction. On Friday April 25th, China's Politburo held a meeting and said China's fiscal policy will be more proactive, economic recovery needs to be further reinforced, while China is to cut RRR and rates when needed and in a timely manner and vowed to fully prepare emergency plans for external shocks.

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