

Previewing FOMC, BoE, Riksbank, Norges Bank; Reviewing BoJ

PREVIEWS

FOMC ANNOUNCEMENT (WED): The latest Federal Reserve rate decision is on Wednesday 7th May at 14:00EDT/19:00BST, with Chair Powell's press conference following 30 minutes later. We will not get updated SEPs at this confab and will have to wait until the June meeting for updated forecasts. The central bank is widely expected to keep rates unchanged at 4.25-4.5%, with almost all surveyed by Reuters seeing that as the outcome, although Citi is a notable outlier and sees a 25bps cut. In terms of Refinitiv money market pricing, it currently assigns just a 3% probability of a 25bps reduction. Heading into the meeting, Fed Chair Powell's recent remarks have seen him continue to toe the line that the Fed is well-positioned to wait for greater clarity before considering altering its policy stance, sticking to his 'wait-and-see approach'. However, other influential officials, such as Governor Waller, have leant dovish while there is also significant pressure from US President Trump for the Fed to lower rates, as he continues to stress the Fed is moving too slowly. Powell has been calling for more patience, given the expected impact of tariffs (growth slowdown, inflation increase) puts the Fed in a difficult position, and they want to wait and see how the new administration's policies impact the hard data. However, Waller has suggested this risks the Fed acting too late. As expected, a lot of the focus currently resides around the impact of Trump's tariffs, and how much of the impact has filtered through yet into the economy, if any. The soft and hard data are currently showing differences, although Q1 US GDP slipped into contractionary territory, but labour data has been solid with no marked weakness, yet. On the other side of the mandate, inflation remains "somewhat elevated". However, the last CPI/PCE prints were consistent with Morgan Stanley's expectation of disinflation through April. In the statement, Morgan Stanley expects the Fed to downgrade their assessment of economic activity—indicating it has "moderated from" rather than having "continued to expand at" a solid pace. MS also expect the statement to highlight the "elevated" risks to the Fed's dual mandate.

BOE ANNOUNCEMENT (THU): Consensus unanimously expects the BoE to cut the Base Rate by 25bps from 4.5% to 4.25% with markets fully pricing in such an outcome. The decision to cut rates is expected to be 9-0, however, some desks expect external member Dhingra to back a larger 50bps reduction. Morgan Stanley suggests that either Mann or Taylor could also join Dhingra, making a 7-2 split on the magnitude. Note, a reduction at the upcoming meeting would be in-fitting with the MPC's preferred cadence of cutting at every other (and MPR) meeting. Of greater interest will be how the MPC positions itself for rate cuts going forward. Analysts at ING expect the Bank to reiterate that future cuts are likely to be "gradual and careful". Morgan Stanley expects this phrase to be removed but for the term "restrictive" to remain in place. MS makes the argument that dropping the language around "gradual and careful" will provide the MPC "space to accelerate cuts if needed". However, ING pushes back on this view by noting that markets are incorrect to price three cuts at the next four meetings, making the argument that such pricing is largely linked to the Fed and not a domestic story. ING adds that for such a pace of cuts to take place, a few things would need to happen, such as clearer evidence that the UK economic outlook is materially deteriorating, a US recession that impacts UK services (UK goods are unlikely to see much direct effect from tariffs) or a more pronounced cooling in the UK labour market. Furthermore, services inflation in the UK remains particularly stubborn despite expectations that it is expected to decline. For the accompanying MPR, ING expects a reduction in the 2025 inflation forecast and an upgrade to the 2025 growth forecast due to the better run of data seen in Q1. The desk sees no major changes to the medium-term outlook.

RIKSBANK ANNOUNCEMENT (THU): Expected to leave rates at 2.25% though markets imply around a 25% chance of a 25bps cut; note, as outlined above, April's CPIF is due the session before the policy announcement. In March, the Riksbank left rates unchanged and guided the policy rate to remain at current levels ahead with the repo path looking for it to be unchanged as fair out as Q1-2028. Since that meeting, inflation ticked up before coming back down in March. On the uptick, officials made clear that there are reasons to believe the uptick is temporary and they have the scope to look through them, pushing back on some calls for tighter policy. More recently, the narrative has switched to a cut driven by the global economic pressure that is beginning to be felt from Trump's tariffs and associated reciprocal measures, however the board has made clear that inflation is the priority and while we may see an uptick in the series through the summer, the general view is that the pricing bias is currently to the downside. Overall, the Riksbank is likely to remain on hold as guided while it waits for further clarity on the pricing situation and impact of tariffs; the board could acknowledge the uncertainty by stating it is prepared to act if required, but SEB believes it will judge the risks to the policy rate as being broadly balanced.

NORGES BANK ANNOUNCEMENT (THU): Markets price in around a 15% chance of a cut with the next 25bps move not fully priced until August and just under three 25bps hikes implied by end-2025. The March forecast meeting saw rates maintained at 4.50% as expected and the forecast path and assessment implying that a cut will likely occur in 2025, though the forecasts themselves were subject to a hawkish adjustments and while two cuts are potentially implied. It is heavily skewed to just one in 2025. Since, the most important domestic development has been the cooler March inflation print, which factors on the dovish side, however the broader economy is holding up and offsets calls for a cut in May. Overall, a cut cannot be ruled out (as was the case in March) but given the relative economic resilience and hawkish adjustment to the repo path in March, a hold is the base case for May.

REVIEWS

BOJ ANNOUNCEMENT AND OUTLOOK REPORT REVIEW: BoJ maintained its short-term interest rate at 0.50% with the decision made unanimously and reiterated that it will continue to raise the policy rate if the economy and prices move in line with its forecast. Despite the central bank maintaining its rate hike signal, the language from the central bank was dovish-leaning as it noted that

Japan's economic growth is likely to moderate and that underlying consumer inflation is likely to be at a level generally consistent with the 2% target in the second half of the projection period from fiscal 2025 through 2027. This effectively delays the timing as the prior projection horizon was through 2026, as well as acknowledged that uncertainty surrounding Japan's economy and prices remains high with risks to the economic outlook and to inflation skewed to the downside. The BoJ also stated that a prolonged period of high uncertainties regarding trade and other policies could lead firms to focus more on cost-cutting, and as a result, moves to reflect price rises in wages could also weaken. In terms of the Outlook Report, projections were lowered with the Real GDP median forecast cut to 0.5% from 1.1% for Fiscal 2025 and was cut to 0.7% from 1.0% for Fiscal 2026, while the Core CPI median forecast was cut to 2.2% from 2.4% for Fiscal 2025 and was cut to 1.7% from 2.0% for Fiscal 2026, despite the recent acceleration in prices as seen by the latest Tokyo inflation numbers. Furthermore, BoJ Governor Ueda said during the press conference that uncertainty from trade policy has heightened sharply and noted the timing to attain the underlying 2% inflation target will be delayed, while he added it is difficult to judge when they will likely hit the inflation goal with policy to be flexible and noted that the outlook is not as certain as it once was.

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