Newsquawk Central Bank Weekly - 9th May 2025

Newsquawk Central Bank Weekly - 9th May 2025

Previewing BoJ Summary of Opinions, Banxico; Reviewing FOMC, BoE, BCB, Riksbank, Norges Bank

PREVIEWS:

BOJ SUMMARY OF OPINIONS (TUE): The BoJ will release the Summary of Opinions from its April 30th-May 1st meeting next week where it unsurprisingly maintained its short-term interest rate at 0.50%. The decision was unanimous and the statement reiterated that it will continue to raise the policy rate if the economy and prices move in line with its forecast. Furthermore, the central bank to conduct monetary policy appropriately from the perspective of sustainably and stably achieving the 2% inflation target. Despite the central bank retaining 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 (effectively delaying the timing as the prior projection horizon was through 2026). It also 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.

BANXICO POLICY ANNOUNCEMENT (THU): The March meeting saw the Central Bank cut rates by 50bps as expected to 9.00% in an unanimous decision. It also maintained guidance that "The Board estimates that looking ahead it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes". It also maintained that the Banxico anticipates that the inflationary environment will allow it to continue the rate cutting cycle, albeit maintaining a restrictive stance. With a lot of focus on the impact of US President Trump's trade policies on the Mexican economy, the minutes noted a scenario of high and permanent tariffs on all US imports from Mexico is unlikely to materialize. Looking ahead, the Banxico private sector analysts poll (released 1st April) sees the benchmark interest rate closing at 8.00% in 2025, and at 75% in 2026. Recent commentary saw Governor Rodriguez expect additional rate cuts if inflation stays stable, while Deputy Governor Heath said it is highly probable the central bank will continue to lower its key interest rates, but warned the inflation risk balance is still biased to the upside.

REVIEWS:

FOMC REVIEW: The FOMC left rates unchanged at 4.25–4.50%, as expected, with a unanimous vote. The statement noted that uncertainty around the economic outlook has increased further and added that "risks of higher unemployment and higher inflation have risen". The Fed repeated its March language that economic activity continues to expand at a solid pace, though net export swings have affected the data. It maintained its view that inflation remains somewhat elevated and labour market conditions are solid, with the unemployment rate stabilising at a low level. The key changes centred on increased uncertainty and the risks on both sides of the dual mandate. In his press conference, Chair Powell reiterated that the Fed is well-positioned to respond as needed and remains in a "wait-and-see" stance. On tariffs, he noted they have been larger than anticipated but have yet to show major effects in the data, though concerns remain. Powell said the Fed will adjust policy as the economy evolves, balancing dual mandate goals by assessing how far and how fast each side may drift from target. He declined to specify which side is at greater risk and stressed the Fed is in no rush but can act quickly if necessary.

BOE REVIEW: As expected, the MPC cut the Base Rate by 25bps to 4.25%. However, the decision was subject to more division than anticipated. The decision to cut the Base Rate was 7-2, with Mann and Pill voting to keep rates unchanged; in their view, holding the rate would ensure policy remained sufficiently restrictive to "weigh against stubborn inflationary pressures". Of the seven who voted to cut, two voted for a 50bps reduction; Dhingra and Taylor. Their justification was there are factors pointing to "potential downward risks to global growth and world export prices" and the risk that over the medium term, a stance that is too restrictive could open up an "unduly large output gap". The majority of the five who voted for a 25bps cut were mostly of the view that recent developments on trade were enough to push them to a cut. Certain members of the group of five saw a cut as being fairly clear, irrespective of recent updates. The statement reiterated that a "gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate"; some desks had speculated that this language could be removed. Furthermore, policy "will need to continue to remain restrictive for sufficiently long". In the accompanying MPR, near-term inflation forecasts were lowered, the 2025 growth view was upgraded while 2026 was downgraded. However, these forecasts pre-dated the upcoming UK-US trade deal announcement. The follow-up press conference provided little in the way of additional insight. In short, a 25bps cut as expected but with much more division on the MPC than expected. The unchanged votes from Pill and Mann provided a hawkish takeaway with pricing for a June cut slipping from around 50% to 20% and a total of 60bps of cuts seen by year-end vs. 72bps pre-release.

RIKSBANK REVIEW: The Riksbank kept rates steady at 2.25%, as expected – but did seemingly open the door for a rate cut in the forecast horizon, in contrast with the March MPR. The accompanying statement noted that "it is somewhat more probable that inflation will be lower than that it will be higher than in the March forecast", adding that this "could suggest a slight easing of monetary policy going forward". To delve into the Bank's view on inflation, it once again reiterated its view it remains elevated but the latest information suggests it will be temporary. Nonetheless, the dovish-leaning statement was ultimately capped by very cautious commentary regarding the uncertainty of the economic outlook – the Bank said "it is wise to await further information to obtain a clearer picture of the outlook". In his post-policy announcement, Governor Theeden echoed the cautious aspects from the statement, saying, the "outlook for rates is deliberately vague as it does not have enough information". In reaction to the announcement, EUR/SEK saw some very modest upside given the slightly dovish aspects, but this ultimately reversed after Theeden's cautious comments. In terms of some bank views SEB sees a rate reduction in June (barring any surprise), whilst analysts at Oxford Economics prefer a 25bps cut either in August or September. The latter argues that the stronger SEK, loss of "economic momentum" and a weak labour market suggest a rate cut is likely this year. Next week we get the meeting's minutes; within that, we look for any insight into what specific inflation/trade development(s) would give them enough confidence to deliver a rate cut later in the year and if any members are eyeing a particular meeting for such a move.

NORGES BANK REVIEW: Norges Bank kept rates steady at 4.50%, as expected and reiterated its guidance from its last meeting; "the policy rate will most likely be reduced in the course of 2025" – as it stands, the MPR currently signals two cuts in 2025 but is heavily skewed to just one. The Bank highlighted that inflation has fallen but remains cautious, adding that if the policy rate is lowered prematurely, prices may continue to rise rapidly. On the domestic economy, it notes that developments have been broadly as expected but underscored the uncertainty surrounding trade barriers; "This may pull the interest rate outlook in different directions". Overall, the meeting lacked any real surprises and this was reflected in price action, with EUR/NOK little move. As it stands, money markets do not fully price in a 25bps rate cut until September.

BCB REVIEW: The Brazilian Central Bank hiked its Selic rate by 50bps to 14.75%, as expected, in a unanimous decision but stated that additional caution is needed for the next meeting. Within the statement, the Copom noted that the global environment is adverse and particularly uncertain due to the economic policy and economic outlook in the US. Regarding the domestic scenario, Copom noted the set of indicators on economic activity and labour market is still exhibiting strength, even though they observe an incipient moderation in growth. On recent data, headline inflation and measures of underlying inflation remained above target. For the next meeting, the central bank decided that due to the scenario of heightened uncertainty, combined with the advanced stage of the current monetary policy cycle and its cumulative impacts yet to be observed, that it requires additional caution in monetary policy action and flexibility to incorporate data that impact the inflation outlook. The BCB noted the committee will remain vigilant and that the calibration of appropriate tightening of policy will continue to be guided by goals of bringin inflation back to target. Overall, Oxford Economics do not expect any further rate hikes going forward. The desk says that as labour market resilience and de-anchored long run expectations persist, it will prevent the BCB from rushing into rate cuts, and rather wait at least until the end of the year to see whether inflation is converging to target more clearly.