Central Bank Weekly-16th May 2025

Previewing PBoC LPR, RBA, ECB Minutes; Reviewing BoJ SOO and Banxico

PREVIEWS

PBOC LPR (TUE): PBoC will announce China's Loan Prime Rates next week which are expected to be reduced by 10bps with the 1-year LPR (the rate most new loans are based on) currently at 3.10% and the 5-year LPR (reference for mortgages) currently at 3.60%. Expectations for reductions are not much of a surprise given that PBoC Governor Pan had announced sweeping measures to ease policy earlier this month including a 50bps RRR cut and 10bps cut to the policy interest rate with the 7-day Reverse Repo lowered by 10bps to 1.40% and the Standing Lending Facility reduced by 10bps for all tenors. Pan also announced they will lower re-lending rates, interest rates on structural policy tools, and the personal housing provision fund rate all by 25bps, as well as guide commercial banks to lower deposit rates. Pan also stated that China will use multiple policy tools to make dynamic adjustments and is to set up CNY 500bln in re-lending loans for elderly care and service consumption, while the total quota of two monetary policy tools to support capital markets was optimised to CNY 800bln and there were additional CNY 300bln of funds each for tech financing and Rural/SME lending. As such, the RRR cut was estimated to have released CNY 1tln in long-term liquidity, while Pan also stated that the 10bps cut in the policy interest rate is expected to drive down the Loan Prime Rates.

RBA ANNOUNCEMENT (TUE): The RBA is expected to cut rates at its policy meeting next week with money markets pricing in a 98% likelihood for the Cash Rate to be lowered by 25bps to 3.85% and just a 2% chance for rates to be maintained at the current level of 4.10%. As a reminder, the RBA decided to maintain the Cash Rate at the last meeting in April which was unanimously expected given that the central bank had just delivered a cut at the prior meeting in February and voiced cautiousness regarding future cuts. The language from the central bank provided very little clues regarding future policy adjustments as it noted that the outlook remains uncertain and underlying inflation is moderating, while sustainably returning inflation to target is the priority and the board's assessment is that monetary policy remains restrictive. RBA also said that monetary policy is well-placed to respond to international developments if they were to have material implications for Australian activity and inflation. It also noted the continued decline in underlying inflation is welcome but there are risks on both sides with the board cautious about the outlook and it acknowledged inflation could move in either direction. Furthermore, the minutes from that meeting revealed the RBA thought it was not yet possible to determine the timing of the next move in rates nor was it appropriate at that stage for policy to react to potential risks. However, it stated that the May meeting would be an opportune time to reconsider with the decision not predetermined. Governor Bullock commented during the post-meeting press conference that the Board had not made up its mind on a May move, was not endorsing the market path on future rate cuts and did not open the door to a May rate cut. Nonetheless, the market is heavily anticipating a cut next week to support the economy and ease the burden on borrowers, with big 4 bank NAB even calling for a jumbo 50bps move, while recent data releases including contractions in household spending and building approvals, as well as inflation residing in the RBA's 2-3% target, supports the case for the RBA to resume it rate reductions.

ECB MINUTES (THU): April's meeting saw a 25bps cut as expected and the old language around restrictiveness was removed. This took the ECB to the top end of its 1.75-2.25% neutral rate estimate. Accompanying forward guidance was unsurprisingly non-committal, though the statement did highlight increased uncertainty and an associated confidence impact that is "likely to have a tightening impact on financing conditions"; on this, participants were attentive to any hints around an offsetting policy response (i.e. dovish action). Just after the meeting, sources reported the decision to cut was unanimous. Lagarde didn't add too much, aside from stressing no argument was made for 50bps or other stimulus, though she made the point that they are viewing tariffs as a demand shock. From the Minutes, we are attentive to whether 50bps was discussed at all (Lagarde said there was no argument for it), whether there were any relatively firm views on a June cut expressed as sources have suggested, and if any opposition to the decision to remove language around restrictive was expressed. As usual, the Minutes will be regarded as stale and likely even more so than normal given recent significant tariff developments.

REVIEWS

BOJ SUMMARY OF OPINIONS REVIEW: The release of the BoJ Summary of Opinions from the April 30th-May 1st meeting was uneventful and lacked any major surprises as a member reiterated the central bank is likely to continue raising interest rates in line with improvements in the economy and prices, while a member said the BoJ must make policy decisions without preconception as uncertainty over the outlook is very high. There was also the opinion of no change to the BoJ's rate-hike stance as real interest rates are deeply negative, but it was noted that risks must be scrutinised and the BoJ has little choice but to take a wait-and-see stance until developments surrounding US trade policy stabilise to some extent. Furthermore, a member said that uncertainty surrounding the economy and price outlook is high and the likelihood of achieving price goal is not as high as in the past, while it was stated that the BoJ will enter a temporary pause in rate hikes but shouldn't slide into excessive pessimism and must guide policy nimbly and flexibly.

BANXICO: Banxico cut rates by 50bps, as expected, in a unanimous decision to 8.50%, maintaining guidance that it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes. On inflation, Banxico maintained its language that it anticipates that the environment will allow it to continue the rate-cutting cycle, albeit maintaining a restrictive stance. Regarding the inflation outlook, Banxico revised its outlook higher for Q2 and Q3 of 2025 but still sees it returning to the 3.00%

target in 2026. Looking ahead, based on the guidance, it would imply that Banxico is willing to cut rates by another 50bps, providing inflation continues to let them do so.