

### Previewing RBNZ, FOMC Minutes, BoK; Reviewing PBoC LPR, RBA, ECB Minutes

#### PREVIEWS

**RBNZ ANNOUNCEMENT (WED):** RBNZ is expected to lower rates for the sixth consecutive meeting next week with money markets pricing in a 91% probability that the central bank will cut the OCR by 25bps to 3.25% and with just a 9% chance for rates to be kept unchanged at the current level. As a reminder, the RBNZ lowered the OCR by 25bps to 3.50% at the last meeting in April, as unanimously forecast and which the central bank had pre-signalled, while it noted at that meeting that a further reduction in the OCR is appropriate and as the extent of tariffs becomes clearer, the Committee has scope to lower the OCR further. RBNZ also stated that global trade barriers weakened the outlook for global growth and that having CPI close to the middle of the target band puts the committee in the best position to respond to developments. Furthermore, the minutes from the meeting stated that future policy decisions will be determined by the outlook for inflationary pressure over the medium term. It stated that the monetary policy response to tariffs will focus on the medium-term implications for inflation but added that the implications of increased tariffs for global and domestic inflation are more ambiguous. The rhetoric from officials since then has continued to highlight trade and tariff-related uncertainty as RBNZ Governor Hawkesby noted that the threat of a trade war has decreased recently but there is still considerable uncertainty about how things will play out and that supply-side impacts from tariffs could impact New Zealand significantly. RBNZ Chief Economist Conway also commented that higher tariffs and uncertainty about global trade policy mean economic activity globally and in New Zealand will most likely be weaker than expected and that the balance of risks had shifted to the downside. As such, the central bank is expected to continue with its current rate-cutting cycle to support the economy amid the ongoing global trade uncertainty, while the recent key data releases since the last meeting have been mixed and therefore are unlikely to derail the central bank from its current path.

**FOMC MINUTES (WED):** 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. Note, the minutes of the meeting are an account of information that was available to them at the time of the meeting on 7th May 2025, therefore it will not incorporate the recent de-escalation on trade with China.

**BOK ANNOUNCEMENT (THU):** The Bank of Korea will conduct a policy meeting next week to decide whether to maintain rates at the current level of 2.75% or resume its rate-cutting cycle following the surprise contraction in South Korea’s economy during Q1. As a reminder, the BoK kept its base rate unchanged at the last meeting in April, as expected, with the rate decision not unanimous as board member Shin Sung-Hwan dissented and saw a need to respond to the worsening economic outlook. BoK noted that uncertainties to the growth path were higher and headwinds to economic growth were seen to be bigger than previously expected, while it will determine the timing and pace of any further base rate cuts and stated the monetary easing policy stance is to continue. BoK Governor Rhee revealed that most board members saw lower interest rates in the three months ahead and that they will factor in the interest rate differential with the US for the next rate decision, as well as assess in May whether the policy rate needs to go below 2.25% by year-end. Furthermore, Rhee acknowledged that first-quarter growth is likely to be significantly lower, partly due to the recent domestic political crisis, and they couldn’t rule out the possibility of the economy contracting in Q1 with the uncertainties to the growth path higher and headwinds to economic growth were seen to be bigger than previously expected. As such, the contraction in the economy materialised with Advanced GDP for Q1 QQ at -0.2% vs. Exp. 0.1% (Prev. 0.1%) and YY at -0.1% vs. Exp. 0.1% (Prev. 1.2%), which supports the case for the central bank to resume its easing cycle.

#### REVIEWS

**PBOC LPR REVIEW:** PBoC lowered both the 1yr and 5yr Loan Prime Rates (LPRs) by 10bps apiece to 3.00% and 3.50%, respectively, and as expected. The move came after coordinated cuts to deposit rates by the major state-owned lenders. The timing aligns with recent tariff de-escalation between the US and China, although desks noted the policy response was calibrated rather than aggressive, reflecting ongoing concerns around bank profitability and structural imbalances in credit demand. Analysts also flag the persistent weakness in property and consumption sectors. Focus ahead for China will largely surround any US-China trade talks in the coming months.

**RBA REVIEW:** RBA cut the Cash Rate by 25bps to 3.85%, which was widely expected with money markets pricing in a 99.5% likelihood of ahead of the announcement. RBA stated that inflation continues to moderate, the outlook remains uncertain and that maintaining low and stable inflation is the priority. RBA board judged that the risks to inflation have become more balanced and

noted that uncertainty in the world economy has increased over the past three months and that volatility in financial markets rose sharply for a time. Furthermore, the board assessed that this move on rates will make monetary policy somewhat less restrictive, while it remains cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and supply. RBA also released its Quarterly Statement on Monetary Policy which noted that the escalation of global trade conflict a key downside risk to economy and that the global growth outlook was downgraded, while the central bank trimmed core domestic inflation forecasts and slightly raised its unemployment view. At the post-meeting presser, Governor Bullock revealed that the board discussed cutting by 25bps or 50bps. Oxford Economics noted that it views "rates as still being in slightly restrictive territory after this cut and expects to see two more rate cuts in the second half of 2025".

**ECB MINUTES REVIEW:** The account of the ECB's April meeting, which saw the GC deliver an expected 25bps rate cut provided insight into policymakers' deliberations. From an economic perspective, it was argued that the likely slump in trade and the surge in uncertainty were hitting the euro area at a critical juncture, when the recovery was still weak and fragile. Additionally, even with additional spending on defence and infrastructure, it was likely that, on balance, euro area growth would be worse in 2025 than previously expected. On the inflation front, there was increased confidence that inflation would return to target in line with the March baseline projections. For the policy decision itself, it was judged that recent events meant that cutting interest rates at the current meeting provided some insurance against negative outcomes and avoided contributing to additional uncertainty in times of financial market volatility. In terms of the split of views on the GC, a few members noted that they could have felt comfortable with a 50 basis point rate cut on the basis that downside risks to growth had increased. Conversely, it was argued that cutting interest rates further could no longer be justified by the intention to return to neutral territory since, by various measures, monetary policy was no longer restrictive. Overall, given the fluid nature of the trade war and a June rate cut near-enough being fully priced in, the account passed with little in the way of fanfare.

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