Central Bank Weekly - 30th May 2025

Previewing RBA Minutes, BoC, ECB, RBI; Reviewing FOMC Minutes, RBNZ, BoK

PREVIEWS

RBA MINUTES (TUE): Minutes of the latest RBA confab will likely be dissected for more details, particularly after RBA Governor Bullock, at the post-meeting presser, revealed that the board discussed cutting by 25bps or 50bps. In terms of the decision itself, RBA cut the Cash Rate by 25bps to 3.85%, which was widely expected with money markets pricing in a 99.5% likelihood 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 is a key downside risk to the economy and that the global growth outlook was downgraded, while the central bank trimmed core domestic inflation forecasts and slightly raised its unemployment view. 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".

BOC ANNOUNCEMENT (WED): The upcoming meeting is a statement-only affair with a follow-up press conference with Governor Macklem, there will be no update to the MPR. In between the prior BoC meeting and the upcoming meeting, money market expectations have fluctuated in response to recent data. As it stands, money markets are only pricing in 5bps of easing. Before the recent hot inflation data, a 25bps cut was priced with a 60% probability, but since the hotter-than-expected inflation report, this is no longer the case and a hold is priced as the more likely scenario (80% probability of a hold), which was also bolstered after strong Q1 GDP in Canada. At the prior meeting, the BoC left rates on hold and continued to provide no guidance due to the uncertainties ahead. However, Governor Macklem did note they are prepared to act decisively if incoming information points clearly in one direction. It is also worth noting that the Minutes of the meeting found that the council was split on whether to cut or hold. Those who favoured a cut cited near-term inflation risks and signs that the economy was weakening. Looking ahead, money markets are pricing in 35bps of easing throughout the year - this fully prices one more rate cut from the BoC, with a 52% probability of a second.

ECB POLICY ANNOUNCEMENT (THU): Consensus looks for the ECB to cut rates by 25bps with markets assigning a 95% chance of such an outcome. As a reminder, the prior meeting saw policymakers pull the trigger on another 25bps rate cut, taking the Deposit Rate to 2.25%; a level which saw the central bank omit the reference to rates being viewed as restrictive. Within the statement, one of the main takeaways was that the Eurozone growth outlook deteriorated owing to rising trade tensions. Since then, whilst there has been an easing of tensions between the US and China, which led to an improvement in the global trade outlook, a deal between the EU and the US remains elusive. The lack of progress prompted US President Trump to recommend a 50% tariff on the EU as of June 1st. This threat has since been pushed back to July 9th and the EU is increasing efforts to get an agreement. However, large gaps between the two sides remain. From a data perspective, flash CPI metrics for the Eurozone will not be released until Tuesday. However, in recent remarks, Chief Economist Lane is confident that the Bank's task to bring inflation back to 2% is "mostly completed". On the growth front, PMI data for May showed an improvement in the manufacturing sector and a deterioration in services with both metrics still in contractionary territory. The accompanying release noted "the eurozone economy just cannot seem to find its footing". Assuming the ECB cuts by 25bps next week, the focus will be on any clues as to what comes thereafter given the apparent split of views on the GC. The accounts of the ECB meeting (albeit when trade tensions were higher) showed that some members would have been comfortable with a 50bps reduction, whilst those at the hawkish end of the spectrum, such as Austria's Holzmann, think the Bank should pause until April. Currently, markets see a total of 54bps of loosening by year-end (including the expected June cut). For the accompanying macro projections, Rabobank expects growth to be revised down a touch for both 2025 and 2026 while the inflation view is likely to be trimmed for 2025 to 2.0% (Mar. 2.3%) but increased for 2026 to 2.3% (Mar. 2.0%).

RBI ANNOUNCEMENT (FRI): The RBI will hold its 3-day policy meeting next week where there are expectations for the central bank to lower rates again by 25bps to reduce the Repurchase Rate to 5.75% from the current 6.00% level. As a reminder, the RBI cut its main rates by 25bps as widely expected at the last meeting in April with the decision made unanimously and it also shifted its policy stance to accommodative from neutral. Meanwhile, Governor Malhotra said during the policy address that the accommodative stance signals the intended direction of policy rates going forward and that going forward, absent any shocks, the Monetary Policy Committee will only consider the status-quo, and a rate cut. Furthermore, he stated that tariff measures have exacerbated uncertainties with some trade frictions coming through and unsettling the global community, as well as noted that higher tariffs will have an impact on net exports and the dent on global growth due to trade frictions will impede domestic growth. As such, the MPC's accommodative stance and ongoing trade uncertainty support the case for the RBI to continue cutting rates, while the recent softening of inflation data also provides further scope for the RBI to continue loosening its policy as CPI in April printed 3.16% vs. Exp. 3.27% (Prev. 3.34%) to remain below the central bank's 4% target but within the 2-6% flexible band.

REVIEWS

FOMC MINUTES REVIEW: Minutes from the FOMC's May 7th policy meeting stated that participants agreed that they were well positioned to wait for greater clarity on the economic outlook, adopting a cautious stance on monetary policy amid the risks and challenges facing the economy. Staff pointed to tariff policies as posing a larger drag on economic activity than previously assumed. Officials noted that uncertainty around their outlooks had increased and that uncertainties were unusually elevated. Most participants highlighted a risk that inflation could prove more persistent than expected and agreed that the risks of both higher inflation and higher unemployment had risen. They acknowledged the possibility of facing difficult trade-offs should persistent inflation coincide with weakening growth and employment prospects. It is worth noting that the minutes of the meeting are an account of information that was available to them at the time of the May 7th meeting, and therefore it will not incorporate the recent de-escalation on trade frictions with China. Still, on asset prices, some participants observed changes in typical correlations across asset prices during the first half of April, while others noted that a durable shift in such correlations or a weakening of the perceived safe-haven status of US assets could have lasting implications for the economy. Elsewhere, for those looking for any clues on how the Fed's five-year review of its policy framework, due later this year, officials said that maintaining the 2% price target supports transparency, accountability, and monetary policy effectiveness.

RBNZ REVIEW: RBNZ delivered its 6th consecutive cut as widely expected, whereby it lowered the OCR by 25bps to 3.25% and noted that inflation is within the target band, core inflation is declining, and it is well placed to respond to domestic and international developments. In terms of the latest forecasts, the central bank lowered its OCR projections for the entire forecast horizon and cut its June 2026 CPI view. Furthermore, the minutes stated that the Committee discussed the options of keeping the OCR on hold at 3.50% or reducing it to 3.25 and noted that the full economic effects of cuts in the OCR since August 2024 are yet to be fully realised, while it also revealed that the decision was made by a majority of 5 votes to 1. Whilst the bank lowered its OCR forecasts, ING notes that they do not fully signal that rates will be trimmed to 2.75%. Additionally, Chief Economist Conway stated that rates are now close to neutral. RBNZ Governor Hawkesby said the key message is that they have come a long way and are well placed to respond to developments but are not pre-programmed on moves now.

BOK REVIEW: The BoK cut its 7-day Repo Rate by 25bps to 2.50%, as expected. BoK projects 2025 GDP growth at 0.8%, with a modest improvement to 1.6% in 2026. Inflation is expected to remain subdued, with forecasts for 2025 at 1.9% and 1.8% in 2026. The BoK emphasised that it will maintain its accommodative rate stance to support growth but will adjust the timing and pace of any future rate cuts, depending on evolving domestic and external conditions. The central bank highlighted the significant downside risks to economic growth, particularly due to the continued slowdown in exports, compounded by high uncertainty in the global trade environment. South Korea’s export sector remains under pressure, with BoK noting that external risks, including trade tensions, could further dampen growth prospects. The bank will also closely monitor the impact of these factors on inflation and financial stability. The BoK expressed caution regarding the potential acceleration of household debt growth and volatility in foreign exchange markets, both of which could pose additional risks to the economic outlook. As such, the central bank emphasised the need for ongoing vigilance and flexibility in policy adjustments.

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