Central Bank Weekly - 6th June 2025

Reviewing ECB, BoC, RBI and RBA Minutes

PREVIEWS

N/A

REVIEWS

ECB REVIEW: As expected, the ECB cut rates by 25bps and made little in the way of changes to its opening statement, which reiterated that the ECB will not pre-commit to a particular policy path. Furthermore, policy will be made via a data-dependent and meeting-by-meeting approach. Of greater interest were the accompanying macro projections, which saw the 2025 inflation forecast lowered to 2.0% from 2.3% and 2026 reduced notably below the ECB's 2% target to 1.6% from 1.9%. From a growth perspective, forecasts were little changed with a mild downgrade to 2026 GDP. At the follow-up press conference, President Lagarde's opening remarks carried little of interest. However, during the follow-up Q&A, Lagarde confirmed there was one dissenter to today's decision (this will likely have been Holzmann given his opposition to a June or July cut in the run-up to the announcement). The bulk of the price action was seen after Lagarde noted that the current level of rates means the ECB is "well-positioned" to navigate the current uncertainties, suggesting that ECB could be at the end of its cutting cycle. Lagarde followed this up by noting the ECB getting towards the end of its current cycle but was not confirming a pause. Another perceived hawkish takeaway came after Lagarde appeared to downplay the 2026 inflation forecast cut, pinning it on energy effects and the recent appreciation of the EUR. Overall, the decision to cut was as expected, however, Lagarde appeared to be a bit more explicit than anticipated in guiding markets towards a potential pause. Market pricing has moved in a slightly hawkish direction with the next 25bps cut not fully priced until December (vs. October pre-release) and 26bps of loosening seen by year-end (vs. 31bps pre-release). In wake of the meeting, Bloomberg sources reported that ECB officials expect rate cuts to be paused at the July meeting, and Reuters reported a visible majority expressed preference for holding in July, but some argued for a longer pause.

BOC REVIEW: The Bank of Canada left rates on hold at 2.75%, the midpoint of the BoC's estimate of the neutral rate range (2.25-3.25%), disappointing those expecting a 25bps rate cut, although the majority had expected rates to be left unchanged. The BoC said it held the policy rate as it wanted to gain more information on US trade policy and its impacts. It noted that it was proceeding carefully and Governor Macklem highlighted that there was a clear consensus to hold as they await more information. The statement noted that the economy is expected to be considerably weaker in Q2 vs Q1 while noting that inflation has moved up and that recent surveys indicate households continue to expect that tariffs will raise prices, and many businesses say they intend to pass on the costs of higher tariffs. Looking ahead, the BoC continues to provide no guidance, noting it "will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs" – seemingly indicating that it is focused more on inflation. Looking ahead, money markets are currently split on whether the BoC will reduce rates in July, as markets await more information to assess how the BoC will react. Governor Macklem noted specifically that it will be looking at the next two CPI reports, adding that policymakers do not want to focus too closely on one month's data. Through the end of this year, 37bps of easing is priced by money markets, which fully discounts one rate cut, with a c. 50/50 probability of another. Analysts at Rabo bank "believe the Bank is one 25bp cut away from a terminal policy rate of 2.50% and we see this cut at the next meeting on July 30."

RBA MINUTES REVIEW: RBA Minutes from the May meeting stated the Board considered keeping rates unchanged and cutting by 25bps or 50bps but decided the case for a 25bps cut was the stronger one and it preferred policy to be cautious and predictable. RBA said inflation is still not at the mid-point of the target band and the labour market is still tight, while the Board agreed developments in the domestic economy alone warranted a rate cut and progress on inflation meant policy did not need to be as restrictive. Furthermore, it was stated that a larger move might offer more insurance against adverse global scenarios although the Board was not persuaded that 50bps was needed and US tariffs had not yet affected the Australian economy. Furthermore, it would be challenging for businesses and households if aggressive easing had to be reversed and the Board judged it was not yet time to move monetary policy to an expansionary setting. The minutes releases failed to spur any major fireworks as they provided very little fresh insight given that RBA Governor Bullock had already unveiled during the post-meeting press conference that there was a discussion between a 50bps cut or a 25bps cut and a discussion on holding rates or cutting, while she also stated that the RBA is prepared to take further rate actions if required.

RBI REVIEW: RBI cut the Repurchase Rate by 50bps to 5.50% (exp. 25bps cut) and changed its stance to neutral from accommodative, while it cut the Standing Deposit Facility Rate and Marginal Standing Facility Rate by 50bps each to 5.25% and 5.75%, respectively. RBI Governor Malhotra said growth remains lower than aspirations and it is important to stimulate growth, as well as noted that front-loading rate cuts to support growth was felt necessary. Malhotra also stated that inflation has softened significantly over the last six months and inflation is likely to undershoot the full-year target at the margin, while he noted that monetary policy has limited space left to support growth and they retained the FY26 Real GDP growth forecast at 6.5%. Furthermore, the RBI Governor announced to cut the Cash Reserve Ratio by 100bps in four equal tranches, which will release INR 2.5tln, as well as noted that they will continue to monitor and take measures as necessary and that the CRR cut is to reduce the cost of funding of banks and help accelerate policy transmission.