Central Bank Weekly 13th June 2025: Previewing BoE, BoJ, FOMC, PBoC LPR, SNB, Riksbank, Norges Bank

PREVIEWS

BOJ POLICY ANNOUNCEMENT (TUE): The BoJ is likely to maintain its short-term interest rate at the current 0.50% level. A recent Reuters poll showed all 60 economists surveyed were unanimous in their forecasts for no rate increase and money markets also heavily price no change in rates. As a reminder, the BoJ left its short-term interest rate unchanged at 0.50% in the last meeting with the decision made unanimously and it reiterated the rhetoric that it will continue to raise the policy rate if the economy and prices move in line with its forecast. Despite the central bank maintaining 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. The BoJ also acknowledged that uncertainty surrounding Japan's economy and prices remains high with risks to the economic outlook and 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. Furthermore, the Outlook Report projections were lowered with the Real GDP median forecast for Fiscal 2025 cut to 0.5% from 1.1% and for Fiscal 2026 was cut to 0.7% from 1.0%, while the Core CPI median forecast for Fiscal 2025 was cut to 2.2% from 2.4% and for Fiscal 2026 was cut to 1.7% from 2.0%. Since then, the language from the central bank has continued to reinforce the rate hike signal as Governor Ueda recently affirmed that the BoJ will raise interest rates if it has enough confidence that underlying inflation nears or moves around 2%, although provided a slightly dovish twist as he noted if the economy and prices come under strong downward pressure, the BoJ has limited room to underpin growth with rate cuts with the short-term rate still at 0.5%, as well as stated that underlying inflation is still below 2% and the BoJ is keeping the real interest rate negative, so underlying inflation achieves 2% and keeps inflation sustainably and stably at 2%. Aside from the decision on rates, participants will be eyeing any clues on its tapering plans at the upcoming meeting given that there was a recent Bloomberg source report that the BoJ is said to consider smaller reductions to its bond-buying with the debate centering on quarterly cuts of JPY 200bln-400bln, while the new bond-buying plan would last to March 2027. Reuters sources also noted the BoJ is mulling slowing the pace of bond tapering next year with the central bank likely to roughly maintain its bond taper plan through to March but the new programme beyond April 2026 may see a slowdown. However, it was also stated that there was no consensus yet, with the final decision to be made at the upcoming policy meeting.

FOMC POLICY ANNOUNCEMENT (WED): The FOMC is widely expected to keep rates unchanged at its June 17-18th meeting, with the Fed likely to adopt a wait-and-see stance amid continued uncertainty over the economic impact of Trump's tariff policies. In the latest Fed poll, conducted by Reuters before the May CPI release, 59 of 105 economists forecast the Fed would resume rate cuts next quarter, likely in September. Additionally, 60% anticipate two cuts this year, consistent with the March median dot plot. In wake of the soft CPI data for May, money markets are fully pricing in two 25bps cuts by year-end. Meanwhile, the Fed will also release updated economic projections, with close attention on the 2025 dot plot. Recent data showed strong job growth and easing inflation, although risks from tariffs remain a concern. The Fed's latest Beige Book indicated that businesses expecting to pass on higher costs to consumers plan to do so within three months. Upcoming data will be key to shaping policy; following the May jobs report, JPM's Feroli remarked it was almost designed to support the Fed's inclination to remain on hold and let future labour and inflation data guide policy decisions.

RIKSBANK POLICY ANNOUNCEMENT (WED): At the June MPR meeting, the Riksbank is expected to cut rates by 25bps, taking the policy rate to 2.00%. Following a cooler-than-expected inflation dataset in May and increasing growth woes. In more detail, both headline and core figures came in below expectations and more pertinently the Y/Y core figure (2.5%) printed below the Bank's forecast (2.7%). On the growth front, April's GDP figure fell from the prior month; further, the latest Riksbank Business Survey highlighted that the economic situation weakened during the spring, with companies also concerned about slowing economic activity in the period ahead. Analysts have mixed views on what the Riksbank will opt to do; SEB suggests that given the inflation/growth developments, the Bank will deliver a 25bps reduction. However, Danske Bank favours such a move to be delivered in August and the accompanying June MPR will "open the door" for such a move – nonetheless, analysts say "a June cut cannot be ruled out". As a reminder, at the last meeting the Riksbank opted to keep rates steady at 2.25%. Policymakers highlighted that "it is somewhat more probable that inflation will be lower, than that it will be higher than in the March forecast. This could suggest a slight easing of monetary policy going forward".

BOE ANNOUNCEMENT (THU): Analysts surveyed by Reuters are unanimous in expecting the BoE to keep the Base Rate unchanged at 4.25% with markets assigning just a 10% chance of a 25bps rate cut. Markets have been primed for a hold in June since the May meeting, which saw the MPC deliver a 25bps rate cut and stick to its preferred quarterly cadence of loosening policy whilst emphasising its gradual and careful approach. As a reminder, there were also two hawkish dissents at the prior meeting from Chief Economist Pill and external member Mann who preferred to leave policy unchanged. Data since the prior meeting has seen Y/Y CPI jump to 3.5% from 2.6% (MPC forecast 3.4%), core Y/Y CPI advance to 3.8% from 3.4% and the carefully-watched services component rise to 5.4% from 4.7%. This will likely be used by the MPC as a basis to keep policy steady. However, concerns over the BoE potentially falling behind the curve are mounting given data this week, which has seen a soft outturn for the most recent labour market report (increase in unemployment/declining payrolls growth) and a sharper-than-expected in M/M GDP for April. The recent soft data is unlikely to shift the consensus on the MPC in favour of a 25bps reduction. However, the vote may end up being a fragmented one; recall, Dhingra and Taylor voted for a 50bps reduction last month. An alternative way for the MPC to express a potentially faster pace of rate cuts going forward would be to tweak existing guidance of a "gradual and careful" approach to policymaking; Pantheon Macro is doubtful that one month's worth of data would be sufficient for such a tweak. Looking beyond the upcoming meeting, markets price a 68% chance of a cut in August with the next 25bps reduction not fully priced until September, whilst 51bps of loosening is seen by year-end. Note, this is not an MPR meeting.

NORGES BANK POLICY ANNOUNCEMENT (THU): At the June MPR, Norges Bank is expected to keep rates steady at 4.50%. Recent data has shown a continued moderation in core inflation, with both the M/M and Y/Y metrics cooling more than expected. More specifically, CPI-ATE printed at 2.8% (prev. 3.00%) and below the Bank's forecast of 3.1% Y/Y. Following the inflation report, SEB suggested that it will not spark a cut in June and rather underpins the current rate path of a 25bps reduction in September and December (SEB has extrapolated this from the MPR). It is worth noting that whilst these metrics play in favour of a cut in June, other economic indicators suggest that Norway's economy is holding up well, with the labour market remaining resilient and stronger-than-expected Mainland GDP growth in Q1. As a reminder, the last Norges Bank meeting was a damp squib; the Bank kept rates steady at 4.50% and reiterated cautious language that "restrictive monetary policy is still needed" and "if the policy rate is lowered prematurely, prices may continue to rise rapidly".

SNB POLICY ANNOUNCEMENT (THU): The SNB is expected to cut rates from the current 0.25% level. While a cut is all but certain, the magnitude of the move is less clear. Markets currently imply 31bps of easing, i.e. a 25bps move is priced with around a 24% chance of a 50bps cut occurring. Easing is justified by inflation continuing to print below the SNB's forecasts, in May the Y/Y rate came in at -0.1% with inflation for Q2 thus far averaging -0.05% vs the 0.2% Q2 forecast unveiled by the SNB in March. A negative print which factors in favour of the SNB announcing a larger 50bps move and delivering a return to NIRP. However, officials have stressed for several months that a negative inflation reading is a possibility; after the May data, Tschudin described it as "just one data point" and emphasised that they look at inflation over the medium-term, not just for one month. Language used by Chairman Schlegel in the days before the print. On negative rates, Schlegel has frequently made clear that they are an option, but "no one likes them". In terms of the outlook for inflation ahead, the breakdown of the series points to inflation being driven lower by energy and the strong CHF, while the core measure printed at 0.5% and remains within the SNB's 0-2% target band. While the SNB can't do much about energy prices, it can target the CHF and as such irrespective of whether a 25bps or 50bps cut is unveiled the statement and/or press conference will likely have heightened focus on intervention to combat the Franc's strength; however, the SNB will be conscious of being labelled a FX manipulator by the US and the impact of any accompanying sanctions as a result of that.

CBRT POLICY ANNOUNCEMENT (THU): The CBRT is expected to keep interest rates on hold at 46% in its June 19th meeting, despite this, it's worth noting that 241bps of easing is priced for this meeting. A Reuters poll showed that the bank is expected to restart its easing cycle this summer, and will continue to "at least mid-2026". Commentary at the prior meeting noted that the committee would make its decisions in a predictable and data-driven manner. In terms of recent data, May CPI data undershot estimates with a 1.5% M/M gain, helped by moderate FX-passthrough and moderating food prices. Looking ahead, UBS expects the bank will begin cutting rates as early as July, and JPMorgan expects the bank to remain on hold in July, and begin lowering rates by 250bps at each meeting from July, to 36% by year-end.

PBOC LPR (FRI): PBoC will announce China's benchmark Loan Prime Rates next week with Chinese banks expected to maintain the 1-year LPR at 3.00% which most new loans are based on and with the 5-year LPR likely to be kept at 3.50% which is the reference rate for mortgages. Expectations for the benchmark rates to be maintained are not much of a surprise given the cuts last month including the 10bps cut to the LPRs and at least 15bps cuts to deposit rates by the major Chinese banks. Furthermore, PBoC Governor Pan had announced sweeping measures earlier that month to ease policy 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 across all tenors. As such, the PBoC and major banks are unlikely to act so soon, while recent mixed data releases from China also support the argument to refrain from any immediate adjustments.