

Central Bank Weekly 20th June 2025: Previewing Banxico; reviewing FOMC, SNB, BoE, BoJ, PBoC, BCB, CBRT, Norges Bank, Riksbank

PREVIEWS:

BANXICO POLICY ANNOUNCEMENT (THU): At its previous meeting, the Mexican central bank lowered rates by 50bps to 8.50% in a unanimous decision. It expects to continue rate cuts of similar size while keeping policy restrictive, citing an inflation path still seen converging to target by Q3 2026. It also said that uncertainty has risen due to new US policy changes, and although inflation risks remain tilted upwards, they have eased as global shocks subside. In the central bank's private sector analyst poll for June, analysts see benchmark rates falling to 7.50% at the end of this year (they were estimating 7.75% in the May poll); analysts also slightly raised their inflation views for the year, seeing headline inflation at 3.9% at the end of this year (prev. saw 3.8%). According to former Banxico board member Manuel Sanchez, the central bank is taking a risk by maintaining rate cut guidance despite rising inflation. He criticised the bank's apparent reliance on a fixed policy model and warned it may downplay inflation deviations from target. He expects a 50bps rate reduction at the June meeting.

REVIEWS:

REVIEW - FOMC POLICY ANNOUNCEMENT: The FOMC kept rates at 4.25-4.50%, as expected, with its 2025 median rate projection left unchanged at 3.9%, signalling 50bps of cuts this year. The 2026 and 2027 dots rose to 3.6% and 3.4% (from 3.4% and 3.1%). Seven members now expect no cuts this year (up from four), two see 25bps of cuts (down from four), eight foresee 50bps (down from nine), and two expect 75bps (unchanged). GDP forecasts were lowered to 1.4% for 2025 (prev. 1.7%) and 1.6% for 2026 (prev. 1.8%), while unemployment forecasts rose, except for the long run. Headline and core PCE inflation forecasts increased, with 2025-end headline inflation at 3.0% (prev. 2.7%) and 2.4% for 2026 (prev. 2.2%). The Committee said uncertainty has "diminished further but remains elevated," removing prior warnings about stagflation risks, though higher inflation and lower growth keep those risks present. At his post-meeting press conference, Fed Chair Powell largely repeated familiar remarks, saying a patient, wait-and-see approach remains appropriate. He emphasised that projections are uncertain and not a fixed plan, recommending focus on near-term forecasts. Powell said the time will come for more confidence but cannot specify when. Given the current labour market and falling inflation, holding rates was the right course, he said, and he expects to learn more over the summer and make better decisions after a "couple of months." Powell noted favourable inflation over the past three months but warned of upcoming tariff impacts and higher consumer costs, underscoring the need for patience. He said rates must stay high to bring inflation down fully and described policy as "modestly restrictive," similar to his May comments that policy is "modestly or moderately restrictive." In wake of the announcement, Goldman Sachs said it continues expects only one FOMC rate cut this year, in December, followed by two cuts in 2026 to a terminal rate of 3.50-3.75%; its analysts said that despite raised inflation forecasts and lower GDP growth due to tariffs, the Fed remains cautious, adding that peak tariff effects on inflation are expected this summer, delaying further cuts. Meanwhile, US President Trump said "Too Late" Fed Chair Powell "is the WORST," adding that he is a "real dummy, who's costing America \$Billions!"

SNB REVIEW: Cut by 25bps to 0.00%, in-line with the consensus view heading into the announcement but disappointing some calls and the c. 20% implied probability assigned to a 50bps reduction. The cut was, once again, done to combat the decline in inflationary pressures seen Q/Q; on this, the SNB cut its inflation forecasts once again, to a 0.2% average for 2025 (prev. 0.4%). The cut was also, in part, explained by the Bank's view that the "global economy will weaken over the coming quarters". The 25bps move spurred immediate upside in the CHF, with EUR/CHF falling to 0.9387, as the calls/pricing for a 50bps move and a return to NIRP were unwound. Interestingly, the statement made no reference to negative rates, though Chairman Schlegel spoke on it thereafter, the most pertinent remake being "the hurdle to cut rates is much higher when we are at zero". Rates aside, on FX, the statement's language that they "remain willing to be active" was reiterated. A point expanded upon by Schlegel; note, while he acknowledged the CHF's recent strength, he didn't directly say they would be intervening to weaken the Franc. Finally, the SNB outlined a return to the tiered system of remunerating sight deposits.

BOE REVIEW: As expected, the MPC opted to hold the Base Rate at 4.25%. The decision was made via a 6-3 vote split (vs. expectations of 7-2) with Deputy Governor Ramsden joining Dhingra and Taylor in voting for a rate cut. The dissenters' decision to vote for a reduction was based on the view that there had been a "material further loosening in the labour market", subdued consumer demand and pay deals near sustainable rates. Those in the consensus on the MPC opted to hold policy steady on the basis that, although the disinflation process had continued, "inflation seemed likely to stay around 3.5% over the second half of 2025 before falling back towards the target from next year". Note, the MPC maintained its view from the May MPR that CPI will peak at 3.7% in September. On the growth front, policymakers upgraded their Q2 growth outlook to 0.25% from 0.1%. However, the statement acknowledged that underlying UK GDP growth appears to have remained weak and trade policy uncertainty will continue to hurt the UK economy. Elsewhere, the MPC refrained from watering down its guidance of a "gradual and careful" approach to withdrawing stimulus. The statement also retained the line that policy will need to continue to remain restrictive for sufficiently long. Overall, despite the minor surprise of a more dovish-than-anticipated vote split, the announcement very much filled the role of a placeholder meeting. Accordingly, market pricing for the BoE was little changed with odds of an August reduction around 60%, the next 25bps cut is fully priced by September and around 50bps of loosening is seen by year-end.

BOJ REVIEW: The BoJ kept its short-term policy rate steady at 0.50% as expected, and as telegraphed, announced it will slow the pace of tapering its JGB purchases. The central bank said monthly bond purchases will continue to be reduced by JPY 400bln

every three months until March 2026, but from April 2026 the pace will ease to JPY 200bln reductions per quarter. This would bring purchases down from JPY 4.1tn to JPY 2.1tn per month by March 2027. The decision on the taper plan was made by an 8-1 vote, with board member Tamura dissenting. Tamura argued that the BoJ should stick to the faster pace of tapering (JPY 400bln reductions per quarter through to March 2027), saying the bank should allow long-term interest rates to be determined more by market forces. The move flagged via sources beforehand, follows recent turmoil in the JGB market, where weak auction demand and global debt volatility drove long-end yields to highs. The BoJ also reiterated global risks remain "extremely uncertain". BoJ Governor Ueda noted that while it is desirable to allow yields to move more freely, cutting purchases too quickly "could have an unexpected impact on market stability". Markets see the decision as a signal that rate hikes may be delayed, with no tightening now expected until 2026, as per market pricing.

PBOC LPR REVIEW: The PBoC maintained its 1-year and 5-year LPRs at 3.0% and 3.5%, respectively as expected. Last month, the central bank cut these rates by 10bps apiece, the first cut in seven months as part of efforts to support growth. The rate last month came amid easing trade tensions and a stronger yuan, which has helped ease downside pressures. Analysts suggest the PBoC is likely to deliver further easing, with Capital Economics forecasting an additional 40bps in LPR reductions by year-end.

BCB REVIEW: The Copom surprisingly hiked the Selic rate by 25bps to 15.0%, against expectations for a hold, although it was not completely out of the blue as 17 out of 47 economists surveyed by Reuters saw the Bank hiking by 25bps. The Copom signalled a pause after this meeting, outlining that "if the expected scenario materializes, the Committee foresees an interruption of the rate hiking cycle". However, it did add that the Committee emphasizes it will remain vigilant, that future monetary policy steps can be adjusted and they will not hesitate to proceed with the rate hiking cycle if appropriate. Ahead, Pantheon Macroeconomics notes "its base case is that rates will remain on hold through the second half of the year, with room for a modest cut emerging in Q1, as growth falters, inflation conditions improve, and the BRL stays stable, allowing expectations to continue drifting lower".

CBRT REVIEW: The CBRT kept its One-Week Repo Rate at 46%, as expected. However, the bank also held the Overnight Lending Rate at 49%, against the market consensus of a 250bps cut to 47.50%. The Overnight Borrowing Rate remained at 44.50%, in line with consensus. The accompanying commentary reiterated a tight monetary stance is strengthening the disinflation process through moderation in domestic demand, real TRY appreciation, and improved inflation expectations. It also said that the potential effects of geopolitical developments and the rising protectionism in global trade on the disinflation process "are being closely monitored", also cautioning that inflation expectations and pricing behavior "continue to pose risks to the disinflation process." In reaction to the unexpected hold on the top band of its rate corridor, USD/TRY moved 25bps from 39.5582 to 39.4621, before paring within a few minutes. Looking to the next decision, the bank noted a tight monetary stance will be maintained until price stability is achieved via a sustained decline in inflation, reiterating a meeting-by-meeting approach.

RIKSBANK REVIEW: The Riksbank cut rates by 25bps to 2.00%, as expected; the accompanying rate path entailed some probability of another rate cut in 2025. In more detail, the Q3'25 forecast is seen at 1.99% (virtually no chance of a cut), whilst the Q4'25 view is 1.92% - on this, Governor Thedeen said it is not a promise of further cuts but rather a "best estimate". As for the accompanying commentary, the Bank was fairly downbeat on the economy, saying, "the economic recovery that began last year has lost momentum"; they continue to see the disinflation process to unfold, but highlighted that there is considerable uncertainty given the geopolitical developments and ongoing trade situation. Following the decision, the SEB said a rate cut in "September seems to be the most likely scenario". EUR/SEK saw some fleeting upside on the cut and dovish message; thereafter the SEK continued to weaken throughout the day, to make a session high of 11.04. Now attention turns to the Minutes next week, where traders will look for any hints on what the Bank would like to see, to give them enough confidence to deliver the next rate reduction.

NORGES BANK REVIEW: Norges Bank cut rates by 25bps, taking its Key Policy Rate to 4.25%; only 3/26 surveyed by Reuters expected such an outcome. The Bank explained their decision by suggesting core inflation declined somewhat faster than expected and as such their outlook for inflation is lower than previously expected. The verbal guidance was also overtly dovish, in which it said "the economic outlook is uncertain, but if the economy evolves broadly as currently projected, the policy rate will be reduced further in the course of 2025"; focus here on the use of "will". On this, the Q4-2025 MPR forecast is 3.98% (prev. 4.21%); this leaves the door open to two more cuts in 2025, though is heavily skewed to just one - it is worth noting that the terminal rate was lifted to 3.10% (prev. 3.00%). Nonetheless, the Bank highlighted that it will remain cautious on the economy given the ongoing trade and geopolitical developments. In the post-policy presser, Governor Bache reiterated that the Bank plans one or two more cuts this year but does not expect a "significant drop in rates going forward". Following this meeting SEB and Danske Bank both expect Norges Bank to deliver a rate cut in the September and December meetings, (unchanged from their prior forecast) but of course both of these banks were blindsided by June's decision.

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