newsquawk

Central Bank Weekly - 4th July 2025

Previewing FOMC Minutes, RBA, RBNZ, and BoK

PREVIEWS

RBA ANNOUNCEMENT (TUE): The RBA is expected to continue lowering rates, with money markets pricing around a 96% probability for the Cash Rate to be lowered by 25bps to 3.60% and around a 4% chance for the central bank to maintain rates at the current 3.85% level. As a reminder, the RBA cut the Cash Rate by 25bps to 3.85% at the last meeting in May, which was widely expected, while it stated that inflation continues to moderate, the outlook remains uncertain and that maintaining low and stable inflation is the priority. The 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 volatility in financial markets rose sharply. The board also assessed that this move on rates will make monetary policy somewhat less restrictive, while it remained 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 during the last meeting, which stated 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. Furthermore, RBA Governor Bullock said during the press conference that the RBA is prepared to take further rate actions if required and that there was a discussion between a 50bps cut or a 25bps cut, as well as a discussion on holding rates or cutting. Bullock also stated that more adjustments are possible, but couldn't say where the cash rate will end up and noted she does not endorse market pricing, although she commented that if inflation continues to come down, that would offer room to lower rates further. As such, the data points to the likelihood of a cut given that Weighted CPI YY in May softened to 2.1% vs. Exp. 2.3% (Prev. 2.4%), while other key releases also support the case for rate cut with Employment Change in May at a surprise contraction of -2.5k vs. Exp. 22.5k (Prev. 89.0k) and after GDP in Q1 disappointed with Real GDP QQ at 0.2% vs. Exp. 0.4% (Prev. 0.6%) and Real GDP YY at 1.3% vs. Exp. 1.5% (Prev. 1.3%).

RBNZ ANNOUNCEMENT (WED): The RBNZ is likely to keep rates unchanged, with money markets pricing around a 75% probability that the Official Cash Rate will be maintained at the current 3.25% level and just about a 25% chance for a 25bps cut. As a reminder, the RBNZ delivered its 6th consecutive cut at the last meeting in May, which was widely expected and noted that inflation is within the target band, core inflation is declining, and that it is well placed to respond to domestic and international developments. The central bank lowered its OCR projections for the entire forecast horizon and cut its June 2026 CPI view at the meeting, while the minutes from the meeting noted 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. Furthermore, it was revealed that the decision was made by a majority of 5 votes to 1 and Governor Hawkesby commented that the decision to hold a vote on rates was a healthy sign and not unusual at turning points, as well as stated that central projections are wide enough not to have a bias regarding what the next step is at the next meeting and 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. This suggests the central bank will like pause in the immediate term, while comments from RBNZ's Assistant Governor Silk also suggest a lack of urgency to continue cutting rates as she noted that interest rates are in the 2.5%-3.5% neutral band with the impact of past cuts yet to flow through and a strong export sector, are arguments for not going below neutral, as well as noted that data will decide when or if they cut further from here. As such, the key data releases since the last meeting would support the case for a pause as New Zealand GDP for Q1 topped forecast with QQ GDP at 0.8% vs. Exp. 0.7% (Prev. 0.7%, Rev. 0.5%) and YY GDP at -0.7% vs. Exp. -0.8% (Prev. -1.1%, Rev. -1.3%).

FOMC MINUTES (WED): At its June meeting, 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 a 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." Since then, speakers have generally toed that line; however, the influential Fed Governors Waller and Bowman both suggested that July may be the time to consider adjusting the policy rate, if inflation pressures remain contained. May's core PCE data rose slightly above expectations, but still indicated muted inflation (the monthly rate printed +0.2% M/M vs an expected +0.1%), and while the real consumer spending fell by 0.3% (steepest decline this year), suggesting weakening demand, analysts said the data supports the view that the Fed can remain patient, with limited pressure to tighten policy further amid subdued price pressures. Additionally, stronger-than-expected jobs data for June saw markets scale back their expectations of Fed rate cuts ahead, reinforcing expectations of a prolonged hold. At the time of writing, money markets have virtually priced out any prospects of a July rate reduction, and through to the end of the year, pared pricing back to a little over two rate cuts, aligning with the Fed's view.

BOK ANNOUNCEMENT (THU): Market participants will be eyeing to see if the central bank pauses and keeps the 7-day Repo Rate at the current 2.50% level, or continues to lower rates following a 25bps cut at the last meeting in May. The prior decision to cut rates was made unanimously, and the BoK said it would maintain its rate cut stance to mitigate downside risks to economic growth, as well as adjust the timing and pace of any further base rate cuts, while it is to closely monitor changes in domestic and external policy environments. The central bank also noted that South Korean exports are seen continuing to slowdown and that a high degree of uncertainty in the trade environment is a risk to growth, while Governor Rhee said following the meeting that they saw bigger room for further cuts given the downside risks to growth and that four board members saw room for further cuts for the next three months. The language clearly points to further rate reductions in the near term, although the central bank may prefer to hold off on an immediate cut next week, given the proximity to its last cut and to assess the impact of past action. Furthermore, the ongoing global trade uncertainty and the recent change of leadership with President Lee Jae-myung marking his first 30 days in office this week, could also influence the central bank to pause, given that Lee had pledged a 'bold' economic policy. Additionally, key data releases also favour the argument for a pause with firmer than expected CPI Y/Y in June at 2.2% (exp. 2.1%), although the central bank had attributed the June CPI acceleration as mainly due to base effects and noted the CPI gain is to ease if the oil and FX trend continues.

REVIEWS

N/A