Central Bank Weekly-18th July 2025

Previewing PBoC LPR, ECB and CBRT

PREVIEWS

PBOC LPR (MON): The PBoC is likely to keep rates at their current levels, with the 1-year LPR at 3.00% (the rate most new loans are based on) and with the 5-year LPR at 3.50% which is the reference for mortgages. As a reminder, Chinese banks refrained from any adjustments to the LPRs last month, which was as expected and followed the sweeping cuts across rates in May, including reductions to the PBoC funding rates, the LPRs and deposit rates by banks. The easing of trade tensions between the US and China in early June, following talks in London, also suggested there was less urgency for immediate policy support. This remains the case for this month, given the recent key data releases for China, including stronger-than-expected GDP data for Q2 and as Industrial Production also topped estimates for June, although Retail Sales disappointed.

ECB POLICY ANNOUNCEMENT (THU): Expectations are for the ECB to stand pat on policy with markets assigning a 94% chance of such an outcome. The likely decision to not adjust policy settings follows on from the June meeting, whereby the GC delivered another 25bps reduction in the Deposit Rate and Lagarde subsequently noted that policy was "well-positioned" to navigate the current uncertainties, suggesting that ECB could be at or near the end of its cutting cycle. The current greatest source of uncertainty stems from the ongoing trade frictions between the EU and US. At the time of writing, both sides are attempting to broker a deal ahead of the August 1st deadline, which would see the US impose a 30% tariff on EU goods and the EU likely respond with its own countermeasures. Such fears are weighing on the growth outlook and, allied with the appreciation in the EUR this year, have stoked concerns that the ECB could undershoot its 2% inflation target. As a reminder, the ECB currently forecasts 2026 inflation at 1.6%. On the EUR, policymakers are unlikely to explicitly talk down the currency. Reporting ahead of the meeting has suggested that the GC is to discuss a more negative scenario next week than previously envisaged in June after Trump's latest tariff threat. However, this remains highly contingent on the actual outcome of the trade war. As it stands, markets are not rushing to adjust their expectations of ECB easing this year with just 24bps of loosening seen by year-end. Accordingly, the upcoming meeting will be seen as a placeholder event.

CBRT POLICY ANNOUNCEMENT (THU): The CBRT is expected to cut the policy rate, following a hold in the June meeting after an unexpected hike to 46% in April. A move that occurred after a surprise hike to the overnight lending rate in March, in order to counter the pronounced TRY volatility that was being seen at the time amid significant political instability spurred by the arrest of Istanbul's Mayor. All 17 economists in Reuters' July CBRT poll expect the bank to cut its one-week Repo Rate, with the median forecast for a 250bps cut to 43.50%, predictions ranging from 42.50% to 44.50%. 13/17 economists expect 250 bps. Justification for this move comes after June inflation metrics printed cooler than expected, with the Y/Y print at 35.05%. M/M inflation was 1.37%, the composition displaying food and beverage costs slowing, reinforcing the bank's view that the disinflation process continues. In the prior meeting, the bank noted it was monitoring trade and geopolitical events, the latter has dissipated a little now. However, worries have not disappeared. Last week, TRY and domestic Bonds sold off after the detention of a number of opposition mayors. Prosecutors claim the arrests come amid anti-corruption measures, but many see this action as politically motivated moves against President Erdogan's opposition, CHP. Looking ahead, Morgan Stanley expects three additional 250bp cuts following this meeting, to bring the policy rate to 36% by end-2025, reinforcing the median call in the Reuters poll.

REVIEWS

N/A