Central Bank Weekly - 25th July 2025

Previewing Fed, BoC, BoJ, SARB; Reviewing ECB, PBoC LPR, RBA Minutes, CBRT

PREVIEWS

FOMC ANNOUNCEMENT (WED): The consensus looks for the FOMC to hold rates at between 4.25-4.50% on July 30th, an outcome predicted by all 105 economists surveyed by Reuters. Some policymakers, including Governors Waller and Bowman, have advocated for a rate cut (the former cited evidence of labour market weakening, and argued that the Fed should cut now instead of waiting), and that raises the possibility of some dissent at the meeting. Analysts at Morgan Stanley look for both to dissent at the meeting, favouring a 25bps rate reduction. Other policymakers have remained cautious and data-dependent in the face of potential inflation linked to tariffs, as well as political pressure from US President Trump to reduce rates. Ahead, the majority of economists surveyed see possible rate cuts in September, though expectations for cuts this year have slightly diminished. Most expect one or two cuts in 2025. Factors that will influence the Fed's decision-making include trade uncertainty, inflation risks from tariffs and increased fiscal spending; additionally, the central bank may make efforts to assert its independence amid increasing political interference. At the post-meeting press conference, Chair Powell will likely be heavily quizzed on his role; President Trump has already suggested that he will be nominating a new Fed Chair before Powell's term expires in May 2026, though has seemingly backed away from the idea of firing him before it ends. Leading candidates to replace Powell are said to include former Fed Governor Kevin Warsh (who recently heavily criticised the Fed, and argued that rates should be lower), Governor Waller, as well as White House Advisor Hasset and Treasury Secretary Bessent. Powell will also be asked about whether he intends to serve his term as Governor after his term as Chair expires -- traditionally, Fed Chairs have stepped down from the role after the term as Chair expires; however, some suggest that Powell may wish to serve his remaining Governor term in order to assert the central bank's independence. Morgan Stanley expects Powell's message to be in line with a 'wait-and-see' approach, emphasising that monetary policy is 'well positioned' to see how the economy evolves. It says that "it's a long way to September. The Fed needs more time to determine how the economy is evolving versus its goals." The bank itself sees the US economy will be further away from the Fed's price stability mandate than full employment and expects no rate cuts this year, in contrast to the consensus view, where money markets are pricing in a decent chance of two cuts this year.

BOC ANNOUNCEMENT (WED): The BoC is expected to leave rates unchanged at the upcoming meeting, with the BoC likely to leave out forward guidance again given uncertainties to the economy. The Monetary Policy report will be eyed to see how the bank expects Trump's tariffs to impact the Canadian economy based on the current trade environment. The policy rate of 2.75% remains at the midpoint of the BoC's nominal neutral rate estimate (between 2.25-3.25%). This limits room for more rate cuts, unless the economy were to deteriorate in the face of trade tensions. Macklem, in June, had suggested that rate cuts would be needed if the effects of tariffs and uncertainty continued to spread through the economy and cost pressures were contained. However, recent data saw inflation remain towards the top-end of the BoC's target, while the labour market situation improved - dimming the prospects for near-term rate cuts. Money markets are only pricing in 14bps of further easing by year-end, implying a 56% probability of one more rate cut this year, but any deterioration in trade relations may see a rate cut priced with more certainty and vice versa, depending on how the economy unfolds. The recent outlook surveys showed signs of optimism and improvement; however, despite the ongoing uncertainties, with the worst-case scenarios from Q1 less likely to occur, while business expectations on short-term inflation have returned to levels seen at the end of 2024. However, the consumer survey declined as spending intentions weakened further due to the persistent threats of tariffs and related uncertainty. Consumers' short-term inflation expectations have changed little since increasing markedly in Q1 2025.

BOJ ANNOUNCEMENT (THU): The Bank of Japan will hold a two-day policy on July 30th-31st, where the central bank is expected to maintain its short-term interest rate at 0.50%. A recent Reuters poll showed 60 out of 72 economists surveyed forecast the BoJ to refrain from any rate adjustments for the next two meetings through to September, while money market rates are pricing a 99% likelihood the central bank keeps rates unchanged. The BoJ will also release its latest Outlook Report containing board members' median forecasts for Real GDP and Core CPI. The Bank of Japan have refrained from any rate adjustments since it last hiked rates in January, although it announced at the prior meeting in June it is to reduce the amount of monthly JGB purchases by about JPY 200bln each quarter from April 2026 onward. It noted this decision was made to improve the functioning of the JGB markets in a manner that supports stability in the markets. Furthermore, Governor Ueda stated following the meeting that they will continue to hike rates if the economy and prices improve, with the central bank to be guided from the viewpoint of sustainably and stably meeting the price target. He also stated that a further hike is dependent on the likelihood of attaining the BoJ's outlook, and the timing of such a move is dependent on the certainty of the outlook, but added it is not appropriate to comment on near-term hike possibilities, and a rate hike decision would need to be based on lots of data and considerations. Since then, there have been recent major developments concerning Japan, which policymakers would need to consider when deciding on rates: 1) The upper house election, where the ruling coalition suffered a scathing loss and failed to achieve a majority. This raises political uncertainty and pressure for the government to listen to opposition parties' calls for fiscal loosening, although PM Ishiba is seemingly looking to remain in position and denies reports of a possible resignation. 2) Trade developments have provided optimism after the US and Japan reached a trade deal involving a 15% tariff on Japanese exports to the US, which is lower than the previous threat of a 25% tariff rate. Nonetheless, these developments are unlikely to spur any immediate policy reaction from the central bank and a source report via Bloomberg noted the BoJ sees little impact from the election on the rate stance but sees upward price risks if there is large fiscal loosening and was watching for trade talk impact before any hikes. Further sources (via Bloomberg) on Friday suggested that the BoJ reportedly sees a potential "rate hike environment" this year. Sources added that the BoJ expects to have enough data by end-2025 to consider a move, whilst there is no requirement to make a significant change to the outlook. Sources added that the US deal reduces uncertainty, in line with commentary from officials. Looking further ahead, markets do not price in a full 25bps hike this year (at the time of writing), with only 20.6bps of tightening priced by year-end. Analysts at JPM are of the view that the US trade deal paves the way for the BoJ to raise rates and revise up forecasts, as the desk pencils in a rate hike in October.

SARB PREVIEW (THU): South African Central Bank expectations next Thursday are split, with the latest Reuters poll showing 17 out of 27 surveyed seeing a 25bps cut, while the other 10 see rates being left unchanged at 7.25%. This follows the decision to cut by 25bps, as expected, to 7.25% in its prior confab. As a reminder, five members favoured the decision, while one preferred a 50bps reduction. No change was made on the inflation objective, but members touched upon it, considering a 3% inflation target, marking the low end of the target range (4.5% is the baseline). The MPC would like to see inflation expectations move lower, towards the bottom end of their target range. In expectations, 2025 and 2026, GDP, CPI, and Core CPI projections were all slashed. Ahead of SARB, analysts pointed towards a pivotal inflation print on July 23rd, which many said the central bank's decision on July 31st would hinge on. CPI Y/Y for June rose to 3.0% from 2.8%, but was in line with expectations. Desks noted a weaker-than-expected CPI reading could pave the way for another 25bps rate cut, but any figure above 3% - the lower end of the central bank's inflation target - would likely compel the SARB to hold rates. On the trade footing, on 7th July, US President Trump sent a letter to South Africa noting from August 1st US will charge SA a tariff of 30% on all products sent to the US, separate from all Sectoral Tariffs, and as such participants will be cognizant to any reference to this, especially given they are due to take effect the day after the meeting.

REVIEWS

ECB REVIEW: As expected, the ECB stood pat on rates, keeping the deposit rate at 2%. The accompanying policy statement carried little of interest, noting that incoming information is broadly in line with the Governing Council’s previous assessment of the inflation outlook. Additionally, the statement repeated the Bank's meeting-by-meeting and data-dependent approach. At the follow-up press conference, when questioned about the recent EUR appreciation and VP de Guindos' recent remark about the complications that EUR/USD breaching 1.20 would bring, President Lagarde stated that the ECB does not target FX levels but is monitoring the situation. Thereafter, Bunds were sent lower after Lagarde stated that the ECB's baseline scenario from June still holds despite US President Trump threatening the EU with a 30% tariff rate. This statement, allied with Lagarde reiterating that policy remains in a good place, is suggestive that policymakers are not in a rush to adjust policy. This point was also underscored by the President emphasising that the ECB will not be swayed by a temporary undershoot in inflation (current 2026 forecast sees inflation at 1.6%), adding that inflation is still expected to stabilise at the target over the medium term. Note, today's decision was unanimous. Overall, the main message from today was that the ECB sees itself as well-positioned to deal with short-term turbulence from the trade war and geopolitics. That being said, markets continue to price around 17bps of loosening seen by year-end (vs. 21bps pre-announcement). Following the conclusion of the rate decision and the press conference, Bloomberg and Reuters sources hit the wires, but were largely in fitting with one another. BBG noted the ECB official's baseline for September is another hold in rates, and those seeking another rate cut will face a battle. Similarly, Reuters noted ECB policymakers set a high bar for a September rate cut, and such a move would require a deterioration in data and lower projections.

PBOC LPR REVIEW: PBoC maintained its 1-year and 5-year LPRs steady at 3.0% and 3.5% as widely expected. The decision was unsurprising given the recent run of data after GDP topped forecasts, although some activity metrics fell short of expectations. Nonetheless, desks are of the view that with rates already relatively low, further easing may be less effective than fiscal measures. Further, some are of the view that the PBoC may want to keep powder dry in the event of escalations with the US.

RBA MINUTES REVIEW: RBA Minutes from the July meeting stated the Board agreed further rate cuts are warranted over time, while the focus was on the timing and extent of easing. The Minutes stated that the Board considered whether to leave rates at 3.85% or to cut by 25bps, and a majority agreed it was prudent to await confirmation on inflation slowdown before easing, while the majority felt cutting rates three times in four meetings would not be cautious and gradual. The case for no change cited some data as inflation had been slightly firmer than expected, the job market had also not loosened as expected, and there was less risk of a severe global downturn. Furthermore, members agreed that monetary policy was modestly restrictive, though financial conditions had eased, and it was difficult to know how far rates can fall before policy is no longer restrictive, so prudence is needed.

CBRT REVIEW: The CBRT slashed its key weekly repo rate by 300bps, exceeding expectations for a 250bps reduction. This decision marked the first cut of a renewed loosening cycle, after the prior programme stalled in the spring amid political uncertainty and subsequent Lira selling. The magnitude of the reduction seemed dovish, though accompanying commentary remained hawkish, making it unclear as to why the MPC opted for a cut of this size. Some analysts described it as a "disappointing decision" and evidenced a lack of Central Bank independence. The statement stressed the importance of reaching the medium-term 5% inflation target, outlining that policy decisions would be made to create conditions necessary to attain it. In June, inflation came in at 35.05%, slightly down from the 35.41% May print; ahead, the CBRT noted that leading indicators suggest a temporary rise in monthly inflation in July due to month-specific factors (i.e. tourism). Inflation metrics are due August 14th, and the next meeting is in September; July's Minutes are due on the 31st.