

Previewing BoE, RBI, Banxico; Reviewing FOMC, BoJ, BoC, SARB

PREVIEWS

BOE ANNOUNCEMENT AND MPR (THU): Analysts are virtually unanimous in expecting the BoE to lower the Base Rate by 25bps to 4.0% with markets assigning an 83% probability of such an outcome. The move would follow the MPC's preference for cutting at a quarterly pace and alongside MPR meetings. As a reminder, the prior meeting saw policymakers stand pat on rates with dovish dissent from Dhingra, Taylor and Ramsden, who backed a 25bps reduction. At the time of writing, there is no published consensus for the vote split; however, Morgan Stanley touts the possibility of a 1:7:1 vote with Mann to vote for a hold and Dhingra to back a 50bps reduction. MS sees three camps on the MPC with "gradual and careful" cutters, who see two-sided risks to inflation (Bailey, Lombardelli, Breeden); "cautious" cutters who might warn that further convincing evidence of labour market slack translating to price disinflation is needed before removing restrictiveness further (Pill and, on balance, Greene), and Taylor and Ramsden who will describe inflation risks as skewed to the downside. Data since the prior meeting has underscored the stubborn nature of inflation in the UK, with Y/Y CPI in June advancing to 3.6% from 3.4%, and services holding steady at 4.7%. However, the MPC also needs to balance this against the slowdown in growth and perceived loosening in the labour market. For now, the softening in the UK economy is not enough to see policymakers accelerate its current pace of loosening and as such, the statement is expected to retain guidance that rate cuts will be "gradual and careful". Looking beyond the upcoming meeting, markets see 46bps of loosening by year-end. For the accompanying MPR, MS expects "the peak in near-term inflation to be shifted up to just under 4%, largely on food prices" and for medium-term inflation and growth forecasts to be subject to little change. Note, the MPC may also opt to provide some guidance on what to expect for the September vote on the pace of Gilt sales. Oxford Economics ultimately expects the 2026 remit to be lowered to GBP 75-80bln from the current pace of GBP 100bln per annum.

RBI ANNOUNCEMENT (WED): RBI is expected to maintain rates when it concludes its 3-day policy meeting next week, as a recent Reuters poll showed 44 of 57 economists surveyed forecast the RBI to keep the Repurchase Rate at 5.50% and the remaining 13 anticipate a 25bps cut. As a reminder, the RBI opted for an oversized cut to lower the Repo Rate by 50bps to 5.50% (exp. 25bps cut) at the last meeting in June, which was the third consecutive rate cut this year, but changed its stance to neutral from accommodative. It also cut the Standing Deposit Facility Rate and Marginal Standing Facility Rate by 50bps each to 5.25% and 5.75%, respectively. RBI Governor Malhotra said during the policy address that growth remains lower than aspirations, and it is important to stimulate growth, as well as noted that front-loading rate cuts to support growth were felt necessary. Malhotra also stated that inflation has softened significantly over the last six months and inflation is likely to undershoot the full-year target at the margin, while he noted that monetary policy has limited space left to support growth, and they retained the FY26 Real GDP growth forecast at 6.5%. Furthermore, the RBI Governor announced that the Bank is to lower the Cash Reserve Ratio by 100bps in four equal tranches, which will release INR 2.5tln, as well as noted that they will continue to monitor and take measures as necessary and that the CRR cut is to reduce the cost of funding of banks and help accelerate policy transmission. The shift to a neutral stance at the last meeting would suggest a likely pause by the central and the recent rhetoric from the RBI doesn't suggest much urgency to continue cutting rates with RBI Governor Malhotra noting that they don't let their eyes off inflation and the primary objective is to maintain price stability, while he added they have won the battle against inflation and that the war continues but noted momentum and price of inflation need to be looked at. In addition, the central bank has recently been seen to be likely intervening in the FX market to limit the rupee's depreciation, which is another factor that could potentially influence it to avoid another immediate rate cut. However, sources cited by Indian press NDTV Profit noted the RBI is likely to announce a revised liquidity management framework which aims to anchor short-term liquidity more effectively and provide banks greater predictability on overnight rates, as well as utilise the 7-day variable rate repo as the main liquidity tool and establish a Secured Overnight Reference Rate, following recent discussion with market participants and banks.

BANXICO ANNOUNCEMENT (THU): Following four straight 50bps rate cuts, analysts think that Mexico's central bank will ease the cadence of its rate cuts, reverting to 25bps moves. The latest Reuters poll saw 27/28 analysts expect a 25bps rate cut, with just one expecting rates to be left on hold. Data showed the mid-month CPI rose +0.2% unadjusted in H1 of July (vs H2 of June), in line with the consensus; CPI fell to 3.6% Y/Y in July (vs 4.1% Y/Y in June), also in line with expectations. Pantheon Macroeconomics said the data supports a 25bps rate cut at Banxico's August 7th meeting, taking its rate to 7.75%. "The core component will prevent bolder action, for now," Pantheon writes, and in addition, "ongoing trade tensions could weigh on the MXN again if left unresolved."

REVIEWS

FOMC REVIEW: The Fed held rates steady at 4.25-4.50% as expected, with Governors Waller and Bowman both voting for a 25bps rate cut, in line with their comments ahead of the blackout period. Fed's Kugler did not vote. The statement noted elevated uncertainty around the economic outlook, removing June's line that it "has diminished". On the economy, it said recent indicators suggest activity moderated in H1, a change from June's description of solid growth. Other language was unchanged: unemployment remains low, labour market conditions are solid, and inflation is somewhat elevated. There was no indication of imminent cuts, reaffirming a data-dependent stance. The Fed reiterated it will assess incoming data, the evolving outlook, and the balance of risks when considering future adjustments. At his post-meeting press conference, Fed Chair Powell leaned hawkish and pushed back on expectations for a September rate cut, stressing that significant data is due before the meeting, and no decision has been made. On tariffs, he said it is reasonable to expect a one-off price rise, but emphasised that the Fed would act to prevent "serious inflation". Powell reiterated that policy remains modestly restrictive. On what would prompt a cut, he noted risks on both sides of the mandate,

suggesting a more neutral stance would be appropriate if risks were balanced. He said inflation remains above target, while the labour market is at or near maximum employment. Upside risks remain for inflation, while employment faces downside risks, though inflation is further from target than jobs. He expects June headline PCE at 2.5% and the core rate at 2.7%. Ahead of Friday's jobs report, he said the unemployment rate is the key figure. On the consumer, he noted spending has been very strong in recent years but may now be slowing to a healthy level. On the dissents from Waller and Bowman, he said such differences are unsurprising and described this as one of the Fed's better meetings. Analysts at Barclays noted that, as expected, Powell provided no new guidance on the path of policy, pointing to the large inflow of data ahead of the September FOMC meeting, while reiterating the FOMC's obligation to keep longer-term inflation expectations well anchored to make certain that a one-time increase in the price level does not become an ongoing inflation problem. Writing after the announcement, the bank said it was retaining its baseline expectation that the FOMC will deliver a single 25bp rate cut this year in December, with the economy slowing, the unemployment rate edging up but moving mostly sideways, and the tariff-related inflation bump showing signs of having peaked. Still, Barclays see risks tilted toward delayed rate cuts.

BOC REVIEW: The Bank of Canada held rates steady at 2.75%, in line with all analyst forecasts, keeping rates in line with the midpoint of the BoC's neutral rate estimate. Looking ahead, the BoC said it is proceeding carefully, with particular attention to the risks and uncertainties facing the Canadian economy. If a weakening economy puts further downward pressure on inflation and the upward price pressures from the trade disruptions are contained, there may be a need for a reduction in the policy interest rate. It noted that while some elements of US trade policy have started to become more concrete in recent weeks, trade negotiations are fluid, threats of new sectoral tariffs continue, and US trade actions remain unpredictable. It also noted that since April, the risk of a severe and escalating global trade conflict has diminished, and there is some clarity around what tariffs will look like. The BoC MPR, on its current tariff scenario, saw 2025 and 2026 growth and inflation forecasts trimmed. It sees 2025 GDP of 1.3% (prev. 1.8% in 2025) and 1.1% in 2026 (prev. 1.8%) with CPI lowered to 1.9% from 2.3% in 2025, before returning to 2.0% in 2026, down from the prior 2.1% forecast. Within the MPR, the neutral rate estimate of 2.25-3.25% was left unchanged while the output gap in Q2 is estimated to have widened to between -1.5% and -0.5% (prev. -1% and 0% in Q1). Ultimately, with uncertainty still rife, albeit with perhaps a bit more clarity on trade policy, risk to the outlook remains, and the BoC have left the door open to rate cuts ahead if the economy weakens and price pressures remain contained. On which, ING believes that markets are too conservative with BoC pricing for 15bps of easing by year-end, and expects the BoC to resume rate cuts later this year, potentially even twice.

BOJ REVIEW: BoJ provided no surprises as it kept its short-term rate unchanged at 0.50%, as expected, with the decision made unanimously, while it reiterated it will conduct monetary policy as appropriate from the perspective of sustainably and stably achieving the 2% inflation target and will continue to raise the policy rate if the economy and prices move in line with the forecast, in accordance with improvements in the economy and prices. BoJ stated that underlying inflation is likely to stall due to slowing growth but gradually accelerate thereafter, and underlying consumer inflation is likely to be at a level generally consistent with the 2% target in the second half of the projection period from fiscal 2025 through 2027. Furthermore, the central bank acknowledged that real interest rates are at extremely low levels and that there is high uncertainty surrounding trade policy developments and their impact on the economy, as well as stated that a prolonged period of high uncertainties regarding trade policies could lead firms to focus more on cost cutting and as a result, moves to reflect price rises in wages could also weaken. In terms of the latest Outlook Report, board members' median forecasts for Core CPI were raised through to 2027, while the median forecast for Real GDP was upgraded for FY25 but maintained for the following two years. The initial decision lacked any major fireworks, although the Japanese currency was eventually pressured in the aftermath of the press conference where BoJ Governor Ueda continued to signal a lack of urgency to hike rates as he noted there was no large change to the central outlook that the growth pace will slow down and underlying inflation stalls, while participants will get to scrutinise further commentary from the meeting with the Summary of Opinions due out next Friday.

SARB REVIEW: South Africa's central bank cut its policy rate by 25bp to 7.00%, in line with expectations, and signalled a shift towards targeting the lower end of its 3-6% inflation band, pending Treasury approval. Barclays analysts said that based on its current forecasts, it sees three further 25bps reductions in 2026, with the possibility of earlier cuts.

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