Central Bank Weekly- 8th August 2025

Previewing RBA, Norges; Reviewing BoE, Fed Governor pick, RBI, Banxico

PREVIEWS

RBA ANNOUNCEMENT (TUE): The RBA is likely to cut rates at its meeting next week as a recent Reuters poll showed all 40 economists surveyed unanimously expect the RBA to cut the Cash Rate by 25bps to 3.60%, while money markets are pricing in a 98% likelihood of a 25bps cut and a 2% probability of a larger 50bps reduction. As a reminder, the RBA surprised markets at the last meeting by pausing on rates amid wide expectations for a 25bps cut, while its decision was made by a majority of 6-3 votes and stated that the Board will be attentive to the data and evolving assessment of risks to guide its decisions. RBA also noted that inflation has continued to moderate and the outlook remains uncertain, although the Board continues to judge that the risks to inflation have become more balanced and the labour market remains strong. Furthermore, the Board remained cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and supply, and it judged that it could wait for a little more information to confirm that inflation remains on track to reach 2.5% on a sustainable basis. RBA Governor Bullock noted during the post-meeting presser that there will be more data and news by the next meeting, and it was appropriate to have a cautious stance on easing, but noted she is confident they are on a path to ease further, although timing is the question and they can expect rates to decline if inflation slows as expected. Since then, the language from the central bank hasn't provided much to shift the dial, although the data releases would support the case for a cut after disappointing jobs data which showed the Unemployment Rate unexpectedly rose in June to its highest in three and a half years of 4.3% (Prev. 4.1%), while inflation continued to soften in Q2 with headline Australian CPI YY slowing to 2.1% vs. Exp. 2.2% (Prev. 2.4%).

NORGES BANK ANNOUNCEMENT: Norges Bank is expected to keep rates steady at 4.25%, after the Bank unexpectedly cut rates by 25bps at the last meeting. Policymakers explained their decision by suggesting core inflation declined somewhat faster than expected, and as such, their inflation outlook is lower than previously expected. On future policy, the Bank said it "will be reduced further in the course of 2025", should the economy evolve as projected. Into this meeting, the Bank will have two inflation reports to digest; June's Core CPI-ATE printed a touch above the consensus (but in line with Norges Bank's own forecast). July's metrics are yet to come out, SEB predicts CPI-ATE (Y/Y) will print at 3.0% (vs. Norges Bank forecast of 3.1%). Given both SEB and Danske Bank call for a cut in September and December, a softer inflation outturn for July could have policy implications in the immediacy – particularly in the context of a gradually cooling labour market.

REVIEWS

BOE REVIEW: As expected, the BoE opted to cut the Base Rate by 25bps to 4.0%, sticking to its quarterly cadence of loosening policy. The greatest source of surprise came via the vote split with a 5-4 outcome after a second round of voting. The first round had seen four votes for unchanged, four for a 25bps reduction and Taylor back a deeper 50bps reduction. Taylor opted to switch to a shallower 25bps vote in order to avoid an unchanged rate. This was the first time in the BoE's history that a vote had gone to a second round of voting and has emphasised how split policymakers are in their views. Those wanting to leave policy unchanged are placing greater emphasis on the risk of policy not meeting its target on a sustainable basis, whilst those backing a 25bps move recognise progress on disinflation. Taylor's larger 50bps initial vote was due to the downside risks to inflation and the risk of recession. Within the statement, the Bank opted to maintain guidance of a "gradual and careful" approach to rate cuts but remove language that monetary policy needs to "remain restrictive". For the accompanying MPR, 1-3yr inflation forecasts were raised, whilst 2025 was upgraded and 2026/27 projections were left unchanged. It is worth noting that the subsequent repricing in BoE rate expectations may have made these forecasts redundant, given they are predicated on the market curve. Following the decision, odds of a November cut have fallen to less than 50% vs. circa 64% pre-announcement. On the balance sheet, the next decision on the Bank's Gilt remit is not due until September. However, ahead of this, the MPR noted that movements in long-end yields are primarily due to global factors. This could suggest that any reduction in long-end Gilt sales next month may be modest. The subsequent press conference with Governor Bailey delivered little in the way of takeaways aside from Bailey reaffirming that the path for rates remains downwards and domestic price and wage pressures have continued to abate. Overall, the fears over inflation on the MPC are clearly greater than what the market had positioned for. As such, absent a material deterioration in the labour market or underlying inflation, the November decision will likely be a close call.

FED GOVERNOR ANNOUNCEMENT: US President Trump named CEA Chair Miran as the replacement for Fed Governor Kugler. Miran will only be at the Fed until the term of the position expires at the end of January 2026, reducing the influence of a shadow Fed Chair role, as Trump confirmed he will be continuing to search for a more permanent replacement. The current favourites to be Fed Chair are current Fed Governor Waller, NEC Director Hassett, and former Fed Governor Warsh. Bloomberg reported that the Trump team is favouring Waller as Fed Chair, given his dissent in July and his decision-making based on forecasting, not past data. The next Fed meeting is September 16-17th, and Miran will still need to be confirmed onto the board of governors by the Senate, which reconvenes in September. Providing he is approved by then, it is likely he will be able to vote at the September FOMC. Money markets are largely pricing in a 25bps cut in September in the wake of the July employment report, which saw huge downward revisions to the two months prior to July, shifting participants' view on the strength of the labour market.

RBI REVIEW: The RBI kept the Repurchase Rate unchanged at 5.50%, as expected, and maintained a neutral stance with the MPC vote on the repo rate and policy stance made unanimously. RBI Governor Malhotra stated geopolitical uncertainties have somewhat abated, and growth is robust but below aspirations and tariff uncertainties are still evolving. Malhotra also stated that monetary policy transmission is still continuing and that current macroeconomic conditions and the outlook call for a continuation of the policy rate at current levels. Furthermore, he stated the Indian economy is navigating a steady growth path and monetary policy has appropriately used available space to support growth, while he also revealed that the FY26 real GDP growth view was retained at 6.5% and the FY26 CPI inflation view was cut to 3.1% from 3.7% previously. The central bank's decision to pause on rates was unsurprising given that it had just delivered a jumbo 50bps cut at the previous meeting in June, alongside a 100bp reduction in the Cash Reserve Ratio, as well as shifted its stance to neutral from accommodative after a string of three consecutive rate cuts since February.

BANXICO REVIEW: Banxico cut rates by 25bps to 7.75%, as expected, in a 4-1 decision. The outlying vote, hawk Heath, voted to leave rates unchanged, but that was anticipated prior to the meeting, given his recent commentary, "Given that core inflation is still high and shows no signs of coming down, it's preferable to pause." The Governing Board deemed it appropriate to continue the rate-cutting cycle, and said this decision was consistent with the assessment of the current inflationary outlook. Ahead, it maintained the language that the board will assess further adjustments to the reference rate. Regarding inflation forecasts, the headline numbers remained practically unchanged, while the core figures were revised slightly upwards for the short term. Headline inflation is still expected to converge to the target in Q3 2026. Looking forward, Rabo Bank forecasts one more 25bps cut this year at the September meeting and expects it to be the final cut, seeing the terminal rate at 7.50%.