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Central Bank Weekly - 22nd August 2025

Previewing Minutes from ECB, RBA and Riksbank, the PBoC MLF; Reviewing Fed Chair Powell Jackson Hole Speech and RBNZ

PREVIEWS

PBOC MLF (MON): PBoC left the Loan Prime Rates unchanged for the third straight month—1-year at 3.00% and 5-year at 3.50%, matching full market consensus. Data continues to point to sluggish activity—factory output, retail sales, and new loan volumes remain weak. Policymakers are leaning on targeted structural tools, not broad-rate cuts, even as deflationary and credit-growth risks persist. Markets expect a hold on the MLF rate, in line with the unchanged LPR. It was also reported that the PBoC to inject CNY 600bln via one-year MLF loans on August 25th. ING notes, "The People's Bank of China hasn't made any adjustments to the 7-day reverse repo this month. Rather than direct rate cuts, policymakers recently moved to support credit activity in more targeted ways, with subsidies for consumer loans set to come into effect in September."

RBA MINUTES (TUE): RBA will release the Minutes from its August 11th-12th meeting, where it provided no surprises and delivered a unanimously expected 25bps rate cut to lower the Cash Rate to 3.60% with the central bank's decision unanimous. RBA reiterated its language that inflation has continued to moderate and the outlook remains uncertain, as well as noted that maintaining price stability and full employment is the priority. RBA stated that underlying inflation will continue to moderate to around the midpoint of the 2–3% range, with the cash rate assumed to follow a gradual easing path, and it noted that monetary policy is well placed to respond decisively to international developments if they have material implications for activity and inflation in Australia. Furthermore, it stated the cut was due to underlying inflation continuing to decline back towards the midpoint of the 2–3% range and labour market conditions easing slightly. The central bank also simultaneously released its Quarterly Statement on Monetary Policy which showed a downgrade to the estimate of Australia's long-run productivity growth to 0.7% from 1.0% and with trend GDP growth now seen around 2.0%, down from 2.25%, while its forecasts were based on a technical assumption of the cash rate at 3.4% by end-2025, 2.9% by end-2026, and 3.1% by end-2027. Furthermore, RBA Governor Bullock continued to signal future cuts during the post-meeting press conference, where she stated there were no discussions of a larger rate cut, but noted that forecasts imply the Cash Rate might need to be lower for price stability, while she added the Board will take things meeting by meeting and did not rule out back-to-back rate cuts.

RIKSBANK MINUTES (TUE): Riksbank maintained its rates at 2.00%, in line with expectations. In terms of future rate policy, the Bank highlighted that there is "still some probability of a further interest rate cut this year" – this verbal guidance is in line with the current rate path laid out in June. As for recent data developments, the Bank highlighted that inflation has deviated "somewhat" from the forecast in June – rising more than expected, though it suggested the upturn is due to temporary factors. It also remained cautious on economic activity, highlighting that growth remained low and the labour market is not yet "showing any clear sign of improving". In terms of analyst commentary, Danske Bank opines that should inflation develop in line with the Riksbank's forecast, it could "open the door" for a cut in September. Analysts at SEB also put added focus on inflation dynamics, in particular August's figure. Should that tick lower, SEB sees a cut in September, with another later in the year. Now we look ahead to the Riksbank Minutes next week, to see how "temporary" policymakers view inflation, and how they balance inflation/activity dynamics.

ECB MINUTES (THU): 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 target over the medium term. Note, the decision was unanimous. Overall, given the lack of fireworks at the meeting and the data-watching approach of the ECB, the account of the meeting will likely pass with little in the way of fanfare.

REVIEWS

For PBoC LPR and Riksbank reviews, see the PBoC MLF and Riksbank Minutes previews above.

FED CHAIR POWELL JACKSON HOLE REVIEW: Overall, Powell was very dovish at Jackson Hole. He has implied the shifting balance of risks may warrant adjusting the policy stance - a hat tip towards a September rate cut, even with more economic data due before the next meeting. Powell warned that both goals are in tension with downside risks to the labour market rising. He also suggested that effects on consumer prices are now clearly visible and expects the effects will accumulate in the coming months. He added that it is a reasonable base case that the inflation effect of tariffs will be short-lived, something the dovish dissenters argued in July. He also noted that it is possible tariff-driven upward pressure could spur a lasting inflation dynamic, but believes this is unlikely due to downside risks in the labour market. He also stated that as labour supply has softened in line with demand, the breakeven job growth rate is down sharply and the labour market is in a "curious" kind of balance. However, he did acknowledge that stability in the unemployment rate allows the Fed to proceed carefully as it considers changes to the policy stance, but pre-emptive action likely would be warranted should a tight labour market pose a risk to price stability. In the wake of the speech, a clear dovish reaction was observed, with markets now pricing in 55bps of easing by year-end, vs 48bps prior to the speech. A September cut is still not fully priced, but the probability has risen to 84% from 72%.

RBNZ REVIEW: RBNZ cut the OCR by 25bps to 3.00%, as expected, while it lowered OCR projections and stated that if medium-term inflation pressures continue to ease as expected, there is scope to lower the OCR further. RBNZ stated that with spare capacity in the economy and declining domestic inflation pressure, headline inflation is expected to return to around the 2% target midpoint by mid-2026, and further data on the speed of New Zealand's economic recovery will influence the future path of the OCR. RBNZ lowered the Official Cash Rate projection for December 2025 to 2.71% (prev. 2.92%) and to 2.59% in September 2026 (prev. 2.90%). The RBNZ Minutes revealed that the rate decision was made by a majority of 4 votes to 2 and the committee discussed three policy options: 1) keeping the OCR on hold at 3.25%, 2) cutting the OCR by 25bps to 3% or 3) cutting by 50bps to 2.75%, but voted on the options of either reducing the OCR by 25bps or reducing the OCR by 50bps. The case for lowering the OCR by 25bps was based on the upside and downside risks around the central projection being broadly balanced. Furthermore, RBNZ Governor Hawkesby said during the Q&A that the next two meetings are live but no decisions have been made, as well as stated that the OCR projection troughs at 2.5% and is consistent with further cuts, while whether they go faster or slower on cuts is up to the data. The policy decision spurred some dovish rate cut calls with the likes of ASB and Westpac forecasting the OCR to be lower by another 50bps to 2.50% by year-end.

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