

Previewing FOMC, BoJ, BoE, BoC, BCB, Norges; Reviewing CBRT and ECB

PREVIEWS

FOMC ANNOUNCEMENT (WED): The Fed is expected to cut rates by 25bps to 4.00-4.25% at next week's confab, according to 105 of the 107 economists polled by Reuters. The decision will likely be underpinned by softening labour market conditions, including stalling job growth in August and downward revisions to prior 12-month employment data, which are now seen as outweighing inflation risks. There is a possibility that we could see dissents at the meeting, since not all Committee members are fully aligned on a September rate cut; Fed's Goolsbee (2025 voter) and Fed's Schmid (2025 voter) could dissent to keep rates unchanged; and additionally, if his nomination is confirmed ahead of the meeting, there some speculate that Stephen Miran could even vote for a larger 50bps reduction, while Governors Bowman and Waller (who both have dovishly dissented previously) could also favour of a larger move, though this is seen as less likely. Wells Fargo writes that "since the FOMC last met in July, a more precarious picture of the labour market has emerged, while the inflation outlook has been little changed, and as a result, we expect the FOMC will resume lowering the fed funds rate at its September meeting with a 25bps cut." Money markets are fully discounting a 25bps reduction, and through the end of this year, are almost fully pricing in two further rate reductions in 2025 (70bps of cuts is being priced at the time of writing). Analysts will also be watching the updated economic projections; currently, the SEPs pencil in rates falling to 3.75-4.00% by the end of this year, and then down to 3.50-3.75% in 2026, being reduced further to 3.25-3.50% in 2027, before settling around the neutral rate of 3.00% in the long-term – 150bps below current levels (implying six 25bps reductions to the terminal rate). Wells Fargo says "the updated Summary of Economic Projections is likely to signal that additional easing will follow September's cut, with the fed funds rate likely to end 2025 and 2026 lower than previously projected." Wells thinks the updated dot plot is expected to signal increased easing, with the 2025 median projecting 75bps of cuts, up from 50bps in June, and the 2026 median falling 50bps to 3.125%, implying an additional 25bps cut. Longer-run projections are expected to remain unchanged, reflecting stable inflation and rising full-employment risks. Into the meeting, there are some uncertainties around voting members; Lawyers for President Trump asked the DC Court of Appeals to allow him to fire Fed Governor Lisa Cook before next week's FOMC meeting after a lower court blocked her removal while her lawsuit proceeds; meanwhile, the US Senate plans a full vote on Fed Board nominee Stephen Miran's nomination Monday, leaving a narrow window for him to be sworn in before the meeting – Miran is likely to be a dovish member, if confirmed.

BOC ANNOUNCEMENT (WED): The BoC is expected to resume rate cuts, taking interest rates to below the current midpoint of the BoC's neutral estimate. The majority of analysts surveyed by Reuters expect a 25bps rate cut, while also expecting another cut by year-end. Recent soft economic growth and labour market data has bolstered rate cut expectations as tariffs continue to weigh on the economy. The prior statement noted "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". Growth data disappointed while the labour market continues to deteriorate, with the unemployment rate rising to 7.1% from 6.9%. Money markets are now pricing in 23bps of easing at next week's meeting with 42bps of easing priced by year-end, which fully prices one rate cut, with a 68% probability of another by the end of 2025. ING is expecting a 25bps rate cut and another in Q4, and notes that CAD should remain weak in the crosses. Note, the upcoming meeting will be accompanied by the usual Governor Macklem press conference, but there will not be updated economic forecasts.

BCB POLICY ANNOUNCEMENT (WED): The weekly BCB economist poll has been suggesting that the Selic rate is expected to remain at the current 15.00% through the end of this year, with economists seeing a reduction to 12.5% next year. Oxford Economics says the BCB will take time before restarting a normalisation cycle. "Despite a sequence of positive inflation releases, we still expect the central bank to keep the benchmark Selic rate on hold at 15% until the beginning of 2026," OxEco says, noting that "long-term inflation expectations have reverted down to 3.5% in the past few weeks but remain above the target's midpoint, warranting caution from the BCB's board." In recent weeks, BCB Chief Galipolo said that interest rates are at a level they safely consider restrictive, inflation convergence to the target is happening slowly, and this is what has demanded a more restrictive monetary policy. Galipolo added that even with a restrictive interest rate, they continue to show resilience in the job market, which is still quite strong. Away from the central bank, but of course relevant for decision making, tariffs remain in heavy focus, and this week Brazil President Lula says he does not fear new sanctions from the US in a pre-recorded interview to Band TV.

BOE ANNOUNCEMENT (THU): Expectations are unanimous that the BoE will hold the Bank Rate at 4% with markets assigning a 99% chance of such an outcome. The decision to stand pat on rates is expected to come via a 7-2 vote split with dovish dissent from Taylor and Dhingra. As a reminder, the prior meeting saw policymakers cut the Bank Rate by 25bps with a 5-4 vote split (vs. exp. 7-2), which followed 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 to avoid an unchanged rate. 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". The hawkish vote split saw a scaling back of dovish BoE bets with data prints since the meeting, adding to the dwindling expectations of further loosening. To recap, June GDP metrics came in firmer-than-expected, the labour market has continued to cool but at a reduced rate, services inflation ticked higher to an elevated rate of 5% and the August PMI composite PMI moved further into expansionary territory. Commentary from MPC members (ex-Taylor) at the TSC hearing earlier this month continued to convey caution over the persistence of underlying inflation. As such, there is little motivation for the MPC to ease policy at this meeting. Until now, the MPC has opted to cut rates on a quarterly basis, alongside MPR meetings.

The next of these MPR meetings is on 6th November. However, given the hawkish vote split last month and expectations that the September CPI report (due on October 22nd) could see inflation hit 4%, markets only price a circa 16% chance of a cut with the next 25bps reduction not fully priced until April 2026. Aside from the rate decision and vote split, attention will be on the MPC's announcement on QT. On which, Pantheon Macroeconomics expects policymakers to slow QT to GBP 70bln per annum from October (vs. prev. GBP 100bln). Pantheon adds that GBP 70bln "would double the low pace of active sales relative to the past year, so risks skew to a bigger reduction in QT. But the MPC will likely reduce the risks to yields by skewing sales to shorter durations".

NORGES BANK ANNOUNCEMENT (THU): Norges Bank is expected to deliver a 25bps cut at September's meeting to 4.00%, but this is likely to be a very close decision; markets currently assign a 60% chance of such a move. At the last meeting, the Bank kept rates steady at 4.25%, suggesting that restrictive monetary policy is needed "but that it will likely be appropriate to continue with a cautious normalisation of the policy rate ahead". Back to September, there are several factors which policymakers will keep an eye on. Starting with inflation, both headline and core metrics printed in line with expectations; notably, the CPI-ATE Y/Y figure was in line with Norges Bank's own forecast. So whilst still at an elevated (but expected) headline level, the inner components showed that rent inflation has stabilised whilst food prices declined more than expected, which has and continues to be a source of upward price pressure on inflation. However, analysts at SEB believe that the inner components are still "worrisome" for policymakers. Overall, ING describes Norwegian inflation as "sticky". On the economy, the latest GDP metrics were stronger than expected, rising 0.60% (exp. 0.3%, Norges Bank forecast 0.3%). As for the Bank's latest Regional Network Report, it highlighted stable growth prospects; "contacts expect output growth to remain elevated through 2025 H2". On jobs, "slightly more contacts are facing recruitment difficulties" and annual wage growth projections were unchanged. Given the mixed/hawkish data, contrasting with the guidance from June for a cut, analysts differ on what Norges Bank will opt to do; SEB sees the Bank delivering a 25bps cut, although it now sees upside risks to its terminal rate forecast. ING also favours a cut, suggesting that recent upbeat growth expectations are "probably incorporating lower rates this quarter", and recent NOK strength plays in favour of a cut – but also reiterates that this is a close decision. On the flip side, Nordea stresses uncertainty around the decision, but believes rates will be maintained.

BOJ ANNOUNCEMENT (FRI): The Bank of Japan is widely expected to keep its short-term interest rate unchanged at 0.50%. A Reuters poll showed 96% of economists expect the BoJ to remain on hold, while money markets price around a 95% likelihood for no changes in rates and just a 5% chance of 25bps hike. As a reminder, the BoJ provided no surprises during the last meeting at end-July where it kept its short-term rate unchanged via a unanimous decision and reiterated it will conduct monetary policy as appropriate from the perspective of sustainably and stably achieving the 2% inflation target. It reiterated that it 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 also 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, while BoJ Governor Ueda continued to signal a lack of urgency to hike rates during the post-meeting presser and noted there was no large change to the central outlook that the growth pace will slow down and underlying inflation stalls. The major development in Japan since then was the recent resignation by Japanese PM Ishiba, which has raised political uncertainty in Japan, with the next PM to be determined in the LDP leadership election on October 4th, and is likely to face increased pressure from smaller parties for more fiscal support. The resignation was seen as a potential factor that could delay the timing of the BoJ resuming its policy normalisation. A recent Reuters source report noted that although political uncertainty in Japan will not derail the BoJ's normalisation plan, it could impact the timing of the next hike, while the sources added that the "BoJ does not need to hike in the midst of turbulence" and there is "no rush...as long as it gets another rate hike done possibly by early next year". Conversely, sources recently cited by Bloomberg were much more hawkish, noting the BoJ is likely to keep rates unchanged on September 19th but is said to see some chance of hiking this year, despite the political situation. The sources also stated that the BoJ sees steady progress towards the price target and views the US trade deal as removing some risks to growth, while some officials are even of the view that a hike could be appropriate as early as October.

REVIEWS

ECB REVIEW: As expected, the ECB opted to stand pat on policy by holding the Deposit rate at 2%. Also in-fitting with consensus, the statement reiterated that policymakers will maintain their meeting-by-meeting and data-dependent approach, whilst not pre-committing to a particular policy path. As such, attention turned to the accompanying macro projections, which saw the 2026 inflation forecast only revised up to 1.7% from 1.6%; consensus looked for a more notable upgrade to 1.9%. This elicited a dovish reaction in markets, with the forecast suggesting that the ECB may need to loosen policy further in order to avoid a policy undershoot. However, at the follow-up press conference, Lagarde caused an unwind of some of this initial price action after noting that minimal deviations from the target will not necessarily justify movement. Other hawkish elements of the press conference came via the upgrade to the ECB's risk assessment, with risks now seen as more balanced vs. the previous guidance of "tilted to the downside". Furthermore, Lagarde stated that the disinflationary process was over and policy is in a "good place". Overall, the main message from the announcement was that the Governing Council sees inflation as consistent with its target over the medium term. As such, markets have scaled back easing expectations and price around a 50% chance of a cut by June next year (vs. 50% by March). Nordea Bank notes that it does not expect any rate moves for a long time and expects the next ECB move to be a hike in 2027. Following the meeting, ECB sources from Reuters suggested that the rate cut debate is not over, but October is seen as too soon, with the next real discussion being more likely in December. However, Bloomberg reported that policymakers are convinced that no further cuts are needed to deliver 2% inflation and borrowing costs are set to stay where they are for some time. However, it echoed the Reuters report that December will be an opportunity to reassess, as fresh quarterly forecasts will include 2028.

CBRT REVIEW: CBRT cut its rate by 250bps, taking its Weekly Repo Rate to 40.5% vs expectations for a smaller 200bps cut. The Bank also reduced its Central Bank overnight lending rate from 46% to 43.5% and the overnight borrowing rate from 41.5% to 39%. On the economy, it said that, "the underlying trend of inflation slowed down in August. While GDP growth was above projections in the second quarter". In terms of future policy, little guidance was provided; the bank reiterated that it will enact a meeting-by-meeting approach to get inflation back down to target. In an immediate reaction, USD/TRY fell from 41.2884 to 41.2764 ahead of the decision before reversing immediately back on the actual release. Ahead, analysts at CapEco expect the Bank to deliver 250bps cuts for the rest of the year.

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