newsquawk

Central Bank Weekly: 15th September 2025

Previewing SNB, PBoC LPR/MLF, Riksbank, Banxico; Reviewing FOMC, BoE, BoJ, BoC, Norges, BCB

PREVIEWS

PBOC LPR/MLF (MON/THU): The PBoC is expected to leave its Loan Prime Rates unchanged for the fourth consecutive month, with the 1yr and 5yr rates seen steady at 3.00% and 3.50%, respectively, according to a Reuters survey of 20 respondents. The decision follows the PBoC keeping the seven-day reverse repo rate steady after the Fed's recent 25bps cut, with officials previously signalling that any adjustment to LPRs would only follow changes in the policy rate. Desks note that recent activity data showed broad weakness, raising calls for additional stimulus, albeit market watches cited by Reuters suggest resilient exports and a stock market rally have eased immediate pressure for stimulus. That being said, some desks suggest a non-zero chance of no action. Macquarie suggests incremental measures remain likely to secure the government's "around 5%" growth target, with a 10bp rate cut possible by year-end. Barclays, meanwhile, remains cautious on the size of fiscal support should the US-China trade truce hold.

SNB ANNOUNCEMENT (THU): Expected to maintain the policy rate at 0.0%, after cutting to the ZLB in June. August's inflation data was in line with market expectations for the Y/Y at 0.2% (prev. 0.2%) vs the 0.1% average the SNB looks for over Q3. Thus far, the trend of inflation is slightly hotter than the SNB forecast, and while the August M/M came in at -0.1%, this has happened before in recent months, with the SNB not significantly concerned on those occasions. Most pertinently, Chairman Schlegel has said the bar is high to go into negative territory, but they would do so if it were really necessary. During that interview, he also said the real appreciation of the CHF is not as significant as it appears, given the global price backdrop. Overall, the base case is for rates to be maintained at 0.00% with markets implying just a 5% chance of a cut into negative territory, with the focus more on December to see how the pricing picture has developed by then; but a number of desks are now of the view that the SNB is at the terminal point.

RIKSBANK ANNOUNCEMENT (TUE): There is currently no newswire consensus ahead of the Riksbank decision, so taking a look at SEB, analysts expect the Bank to reduce its policy rate by 25bps to 1.75% (prev. 2.00%). Though it is worth highlighting that a SEB survey showed that the majority of respondents (64%) expect the Riksbank to keep rates steady in September, favouring a November cut instead. As a reminder, the Riksbank kept rates steady at the last meeting, as expected, and outlined that there was still some probability of a further interest rate cut this year, in line with the June forecast. Back to this meeting, inflation cooled a touch in August, with the core CPIF Y/Y metrics falling to 2.9% from 3.2%, and by more than the expected 3.1%. SEB highlights that while the metrics remain elevated, there are hints that the Riksbank was correct to suggest the summer upticks were driven by temporary factors. Inflation aside, economic activity data continues to remain weak, but there are some signs of recovery; the latest unemployment rate cooled slightly from the prior to 8.7%, GDP was weak, and consumer confidence is beginning to show signs of recovery. Overall, SEB favours a 25bps cut, suggesting that the cooling inflation plays in favour of a cut, though Nordea focuses on elevated inflation and recovering economic activity data, as justification for a hold. Further out, focus will be on the Bank's updated rate path. Currently, the MPR for Q4'25 points to some chance of a further rate cut. If delivered in September, more focus will be on the path pencilled in for Q1/Q2'2026 (currently 1.88%).

BANXICO PREVIEW: Banxico is expected to cut rates by 25bps to 7.50%, according to all 24 analysts surveyed by Reuters. At the prior meeting, Banxico cut rates by 25bps to 7.75%, with Heath a hawkish dissenter, and the Committee noted the board will assess further adjustments to the reference rate. Since then, Mexico's August CPI points to inflation that is softer at the headline level but still underpinned by stubborn core pressure, and as such, Pantheon Macroeconomics expect gradual disinflation to resume, with core ending 2025 near 3.9%, vs. Banxico's projection of 3.7% in the prior meeting, anchored by tight financial conditions, weak demand and a firm MXN. Despite saying that, core inflation, particularly services, is proving resistant to faster disinflation, and PM adds that rising wages are feeding into services costs, limiting Banxico's scope to accelerate easing. As such, Pantheon thinks rate cuts will continue at a 25bps pace in the coming meetings, with sticky core prices preventing a more aggressive stance. As always, attention will be on any commentary surrounding tariffs, given Mexico's vulnerability to US measures. In the last week or so, the Mexican Economy Minister stated that a new tariff will be put on light vehicles and auto parts; raises tariff on cars from Asia, particularly from China, from 20% to 50%.

REVIEWS

FOMC REVIEW: The Fed cut rates by 25bps to 4.00-4.25%, citing a shift in risk balance. Bowman and Waller joined consensus, calling for a 25bps reduction; new Governor Miran dissented, preferring a 50bps cut. Nine of 19 officials see two additional cuts in 2025, two see one cut, six see no more reductions. Adjusts guidance to state that "In considering additional adjustments to the target range for the federal funds rate..." from "In considering the extent and timing of additional adjustments to the target range for the federal funds rate...". In its statement, it also tweaked its labour market view, downgrading language (no longer 'solid', unemployment has edged up but 'remains low' and adds that 'job gains have slowed'). This year's unemployment rate forecast, PCE and core PCE were unchanged; for next year, unemployment was revised lower, PCE and core PCE were raised (the statement notes that inflation has moved up, and remains 'elevated'). At his post-meeting press conference, Chair Powell characterised the rate cut as a risk management decision, responding to meaningful downside risks to the labour market, but stressing he does not feel the need to move quickly on rates. The labour market is cooling, and now policymakers are turning their attention to this side of the mandate. Powell said that moving rates down slightly supports a more neutral policy stance and balances risks to employment and inflation. He said support for the reduction was broad but not unanimous, and almost everyone supported today's cut, showing a high degree of unity on acting cautiously. Powell emphasised a meeting-by-meeting approach, guided by incoming data. He noted that markets are pricing in a path of cuts, but the Fed is focused on the data rather than market expectations. Future cuts depend on labour market developments and inflation trajectory. Powell reaffirmed a strong commitment to Fed independence and stressed decisions are data-driven, not political. He welcomed new Committee member Miran and noted that decisions require persuasion based on evidence, not individual preferences. Powell said labour demand is softening faster than supply, partly influenced by immigration and possibly tariffs. Payrolls are weakening, unemployment is low, but could rise if layoffs increase. He cited breakeven rates of 0-50k payrolls (previous estimates from Fed's Musalem had suggested 30-80k), highlighting significant downside risk. On inflation, Powell said rises are primarily due to goods prices and tariffs, contributing 0.3-0.4ppts to PCE. Powell sees these increases as largely one-time, with persistent inflation risks lower than in April. Long-term inflation expectations remain stable, and policy aims to maintain 2% inflation. Finally, on the balance sheet, Powell said the Fed remains in abundant reserves and sees no significant effect of the balance sheet on the economy at present. Moderate long-term interest rates are expected from stable inflation and maximum employment, separate from dual mandate considerations.

BOE REVIEW: As expected, the MPC opted to hold the Bank Rate at 4.0%. The decision to do so came via a 7-2 vote with dovish dissent from Dhingra and Taylor, who preferred a 25bps reduction on account of the judgement that the disinflation process was continuing and the need to take action to insure against the risk of recession and below-target inflation. For the consensus on the board, policymakers stated that an unchanged rate was appropriate due to the lack of news since the prior announcement and the question over whether upside risks to inflation could be outweighed by downside risks stemming from the potential for a more substantial weakening in demand. Within the policy statement, the MPC continues to expect CPI to peak at 4% in September and as such, "a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate". Market pricing expects the BoE to remain cautious in the face of upside inflation risks and only price 9bps of loosening by year-end with the next 25bps reduction not fully priced in until April 2026. On the Bank's QT programme, the MPC voted 7-2 to slow QT pace to GBP 70bln (exp. 70bln; prev. GBP 100bln). As such, active sales will climb to GBP 21bln from GBP 13bln. Of relief to those in the Treasury, the MPC opted to shift the maturity profile of its bond-selling with 2025/26 gilt sales to be split 40:40:20 between short-, medium- and long-maturity buckets in initial proceeds terms (2024/25 had an equal split). Overall, the meeting was largely a placeholder event with the MPC in wait-and-see mode over whether September marks the peak for inflation and the disinflation process resumes.

BOJ REVIEW: BoJ kept rates unchanged at 0.50%, as widely expected, with the decision made by a 7-2 vote in which Board members Takata and Tamura dissented as they proposed a 25bps rate hike. Nonetheless, the central bank surprised markets with the announcement to begin selling its ETF and JREIT Holdings at a pace of JPY 330bln per year and JPY 5bln per year, respectively, with the decision on ETF and J-REIT sales made by unanimous vote, while it stated the pace of sales may be modified at future monetary policy meetings after the start of ETF and J-REIT disposals, based on fundamental principles and experience from sales conducted. BoJ also stated that Japan's economy is recovering moderately, although some weakness has been seen, and noted that private consumption has been resilient and inflation expectations have risen moderately, but exports and output remain more or less flat as a trend. Furthermore, it stated that Japan's economic growth is likely to slow due to the impact of trade policies on global growth, but re-accelerate, and Japan's underlying inflation to stagnate due to a slowdown in economic growth but gradually accelerate thereafter. At the post-meeting press conference, BoJ Governor said Japan's economy is recovering moderately, though some weakness remains. Ueda said that downside risks persist, but said policy rates will be raised further if the economy and prices evolve in line with forecasts. He added that the decision on the timing of the next rate hike would depend on the risk of the US tariff impact materialising and the course of food inflation. However, Ueda also suggested that it is not necessarily the case that the BoJ needs to wait to see the full impact of US tariffs on inflation to make a decision on data. In terms of a market reaction, USD/JPY initially weakened as Ueda began speaking, then recovered before sliding again on his comments that Japan is withstanding tariff impacts. The pair briefly tested near 148.00 mid-presser before easing. JPY thereafter saw strength after Ueda said the BoJ does not need to wait for the full impact of US tariffs. Post-presser OIS pricing was little changed: Oct +11.07bps (prev. +11.49bps), Dec +17.35bps (prev. +17.58bps), Jan +22.86bps (prev. +22.58bps), and Mar +28.34bps (prev. +28.52bps).

BOC REVIEW: The Bank of Canada cut interest rates by 25bps to 2.50%, in line with expectations. This takes rates 25bps below the midpoint of the BoC's neutral rate estimate from the July MPR. Governor Macklem said there was a clear consensus to cut rates, while the statement noted that the reduction was appropriate given the weaker economy and fewer upside risks to inflation (like the removal of most retaliatory tariffs on imported goods from the US). It also felt a cut was appropriate to better balance the risks. On the labour market, the statement noted that job losses have largely been concentrated in trade-sensitive sectors while employment growth in the rest of the economy has slowed, reflecting weak hiring intentions. On inflation, it noted on a monthly basis that the upward momentum seen earlier this year has dissipated, while a broader range of indicators continue to suggest underlying inflation is running around 2.5%. It removed its language from July that, in the event of a weakening economy, and if inflation pressures are contained, "there may be a need for a reduction in the policy interest rate". Instead, acknowledging how the "Governing Council is proceeding carefully, with particular attention to the risks and uncertainties.". Furthermore, noting that the disruptive effects of shifts in trade will continue to add costs even as they weigh on economic activity. Governor Macklem largely echoed the statement but warned that tariffs from China and the US will impact the economy further. He also exclaimed that the bank will be looking over a shorter horizon than usual. He stated the BOC is ready to take further action if risks accelerate, but decisions will be made meeting by meeting. Meanwhile, Senior Deputy Governor Rogers said that they are not contemplating any change in the deposit rate now. Looking ahead, ING suggests today's cut shouldn't be the last one, noting how, despite no forward guidance, the central bank is keeping options open, and the assessment on inflation, growth, and the labour market points to another Q4 cut. ING expects a cut in December but can't exclude October and even further easing beyond that, noting that the CAD should remain unattractive.

NORGES BANK REVIEW: Norges Bank cut its policy rate by 25bps (in line with newswire consensus), but in contrast to some calls for a cut. The accompanying commentary held a hawkish tone, with the Bank suggesting that a "somewhat higher policy rate will likely be needed ahead compared with the outlook in June"; Governor Bache echoed this by saying "we do not envisage a large decrease in the policy rate ahead". The accompanying MPR reiterated the hawkish turn, indicating no chance of a further cut for the remainder of the year, and now sees some chance of a cut in Q2'26; the Q4'26 path policy is seen at 3.74%. A dovish reaction was seen on the announcement itself, as some of the calls for a hold began to unwind; though, as traders digested the hawkish commentary/MPR, EUR/NOK reversed and fell from 11.6294 to a low of 11.6071 (from 11.6207 pre-release). Governor Bache's presser thereafter largely reiterated commentary from the announcement itself, but did hint that whilst the decision was unanimous - there was some initial disagreement. Overall, a hawkish cut by the Bank; following this, ING has pushed back its call for a 25bps cut to January (from December), but caveats that "it's too early to entirely rule out a cut by the end of this year".

BCB REVIEW: Brazilian Central Bank maintained the Selic Rate at 15.00%, as expected, in a unanimous decision. Within the statement, the Copom noted risks to the inflation scenarios, both to the upside and to the downside, continue to be higher than usual. On the trade front, and as expected, the Committee continues to monitor US tariffs on Brazil and how the developments on domestic fiscal policy impact monetary policy and financial assets, reinforcing its cautious stance due to heightened uncertainty. Writing on inflation, BCB noted ensuring the convergence of inflation to the target requires a significant contractionary monetary policy for a very prolonged period. The Committee noted it will remain vigilant, evaluating whether maintaining the interest rate at its current level for a very prolonged period will be enough to ensure the convergence of inflation to the target. The Committee emphasizes that future monetary policy steps can be adjusted and that it will not hesitate to resume the rate hiking cycle if appropriate. Looking ahead, Pantheon Macroeconomics notes that the Copom signalled that the Selic is likely to remain at this restrictive level through 2025, with modest easing possible from early 2026, conditional on continued disinflation and softer activity. Pantheon still expects the Board to adopt a less cautious tone at its next meeting, opening the door to cuts in December or early 2026.