Central Bank Weekly - September 22nd:

Previewing RBA and RBI policy announcements; Reviewing PBoC, SNB, Riksbank, Banxico

PREVIEWS

RBA POLICY ANNOUNCEMENT (TUE): The RBA is widely expected to keep the Cash Rate unchanged at 3.60% at its September 30th meeting, with markets pricing a 93% chance of such an outcome (and a 7% chance of a cut), with the next 25bps cut not fully priced in until March 2026. The meeting will not include updated forecasts. Analysts have suggested that the upside surprise in August's monthly CPI (3.0% Y/Y vs. 2.8% prior) has tempered the case for near-term easing, although the trimmed mean eased to 2.6% from 2.7%. Westpac continues to expect a 25bps rate cut in November, though acknowledges that the timing is now less certain, noting that the RBA is unlikely to overreact to one month of stronger data given the broader inflation outlook remains consistent with the target. The desk suggests that with inflation at target and the labour market gradually loosening, policy need not remain restrictive for an extended period. Meanwhile, Standard Chartered expects policymakers to adopt a wait-and-see approach ahead of the Q3 CPI release on October 29th, which Governor Bullock has previously emphasised as a key input to future decisions.

RBI POLICY ANNOUNCEMENT (WED): The RBI is expected to keep its Repo Rate unchanged at 5.50% at its October 1st announcement, with a Reuters poll showing 45 of 61 economists forecasting a hold, while 16 look for a 25bps cut. Economists note that the MPC is likely to remain cautious as it assesses the transmission of earlier rate cuts, with heavy government spending driving Q2 GDP growth to 7.8% Y/Y, while private investment remains subdued. The INR recently fell to record lows amid trade tensions with the US and tighter H-1B visa rules (India being the largest beneficiary of these visa types), which analysts suggest weighed on portfolio inflows. Inflation has stayed within the RBI's 2-6% target band since November, though the INR's depreciation against the USD has added upside risks. Looking further out into the year, a slim majority of economists (26 of 50) expect the Repo Rate to remain unchanged through at least the end of 2025.

REVIEWS

PBOC LPR/MLF: The PBoC left its Loan Prime Rates (LPR) unchanged for a fourth consecutive month, keeping the 1-year LPR at 3.00% and the 5-year at 3.50%, in line with expectations. The decision followed the central bank's earlier move to keep its seven-day Reverse Repo Rate steady, signalling no adjustment to the LPR. The hold comes despite weak domestic data, with August retail sales and industrial output both slowing to their weakest growth rates since 2024, but against a backdrop of resilient exports and easing US-China trade tensions, which have lessened near-term pressure for stimulus. On liquidity operations, the PBoC injected CNY 600bln via the one-year Medium-Term Lending Facility (MLF) on September 25th, with CNY 300bln maturing, resulting in a net CNY 300bln injection — the seventh consecutive month of net MLF additions, ahead of National Day and Mid-Autumn holidays, and conducted under the central bank's new multi-price bidding approach (previously flagged), which has removed the announcement of a fixed MLF rate. Looking ahead, desks remain divided on the policy outlook. Barclays expects a 10bps policy rate and LPR cut, alongside a 50bps RRR reduction in Q4, while SocGen similarly anticipates both rate and RRR easing later this year, flagging the upcoming Fourth Plenum in October as a potential catalyst for broader policy direction. Note, Chinese markets will be closed between October 1st and October 8th for National Day & Mid-Autumn Festivals.

SNB: Overall, the announcements were as expected from the SNB. The policy rate was maintained at zero, FX guidance was reiterated, and the tiering system for sight deposits was maintained; some had speculated that we could see a potential tweak to prompt banks to hold fewer deposits at the SNB, and thus soften the CHF. While the statement did not give much away on forward guidance, the inflation forecasts were maintained for 2025, 2026 and 2027. Furthermore, the 2026 quarterly breakdown had incremental lifts for Q1 and Q3 in addition to an increase for Q4 2025 (likely acknowledging the slight increase seen in inflation since June), forecasts which increase the likelihood of the SNB being at its terminal rate; a view that is also reflected in market pricing, implies around 5bps of easing by end-2026 (vs 10bps pre-announcement). One caveat to that view, however, is the deteriorating economic outlook for Switzerland itself due to "significantly higher US tariffs," a point that may keep some prospect of easing on the table in the quarters ahead. The subsequent press conference with Chairman Schlegel and accompanying texts expanded on the above points, but otherwise didn't add much to the narrative.

RIKSBANK: Riksbank cut its rates by 25bps to 1.75%, in a move which came against a virtually equal split between calls for a hold and a 25bps cut. While the decision itself was fairly dovish, the accompanying release and MPR gave a more hawkish skew. The decision to cut was subject to dissent via Seim, who instead favoured a hold – she argued that the planned expansionary fiscal policy in 2026 implies some chance that inflation could surprise on the upside. Nonetheless, the Bank decided to opt for a cut and instead suggested that "if the outlook for inflation and economic activity holds, the policy rate is expected to remain at this level for some time to come." A point that was also reflected in the MPR; 1.75% is seen as the terminal for the easing cycle, until Q3 2027, at which point the Bank then envisages a hike. In the post-meeting press conference, Governor Thedeen painted an optimistic picture on economic activity, and highlighted that the Bank will look through inflation deviations. Finally, the Riksbank announced that its holdings of Swedish government bonds will be allowed to fluctuate between SEK 18-22bln (prev. 20bln) "...to facilitate efficient trading." SEB believes that this will be the last cut of this cycle, but acknowledges that there are some downside risks to its call, suggesting that it is important that the economy recovers. The Minutes of this meeting will be published next week, and will be looked to for any details on what economic developments may lead the Bank to deviate from the terminal path; Seim's dissent will also be in focus.

BANXICO: Banxico cut rates by 25bps, as expected, to 7.50%, with policymaker Heath dissenting, favouring maintaining rates at 7.75%, as he did in the prior meeting. The Governing Board deemed it appropriate to continue the rate-cutting cycle, and the decision was consistent with the assessment of the current inflationary outlook. Headline inflation forecasts were adjusted slightly, while core inflation forecasts were revised marginally upwards, but headline inflation is still expected to converge to the target in Q3 2026. In addition, the Board highlighted slowing global growth, particularly in the US, alongside easing financial volatility and a softer USD. The Fed's recent 25bps cut, alongside guidance for further easing, influenced Banxico's stance and supported the MXN. Ahead, the board will assess further adjustments to the reference rate. Pantheon Macroeconomics expects Banxico to maintain its cautious path, delivering 25bps cuts in November and December, provided inflation remains consistent with target and the MXN stays stable. By year-end, Pantheon sees the rate at 7.0%, with cuts continuing into 2026 toward 6.0%. Still, stickier core inflation, fiscal fragilities, and renewed US trade tensions could slow the pace or prompt a temporary pause.