Central Bank Weekly- 24th October 2025

Previewing FOMC, BoJ, ECB; Reviewing BoK, PBoC LPR, and CBRT

PREVIEWS

FOMC PREVIEW (WED): The FOMC's October meeting is expected to deliver a 25bps rate cut to 3.75-4.00%, with a further reduction anticipated in December, according to a Reuters poll. Money markets are fully pricing a 25bps cut and are pricing a very high chance of a December reduction. The October decision is likely to be driven by a softening labour market despite elevated inflation pressures, with policymakers divided between prioritising jobs or inflation. Delayed government data obscure the full economic picture. There will also be attention on the balance sheet; some analysts now expect the Fed to end its balance sheet runoff at the October confab, citing recent money market turbulence that could threaten interest rate control. While some foresee a gradual wrap-up, others anticipate a full halt, with mortgage bonds likely to continue running off slowly due to housing market conditions. Ahead, analysts are expecting further rate cuts next year, though there is a degree of uncertainty regarding the magnitude.

BOJ: The BoJ is likely to keep rates unchanged at 0.50%, with money markets heavily pricing the likelihood of the central bank to hold off from hiking rates. Note, a recent report outlined that the BoJ is said to be closer to a hike, but with little need to rush and sees no urgency to hike at this point. As a reminder, the BoJ kept rates unchanged in September, as widely expected, with the decision made by a 7-2 vote in which members Takata and Tamura proposed a 25bps rate hike. Nonetheless, the central bank surprised markets with the announcement to begin selling its ETF and J-REIT 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. The main development since then was the change of leadership in Japan, where Abe protege Takaichi won the LDP leadership before going on to win the PM vote, after the LDP formed a coalition with the Japan Innovation Party. As such, the political uncertainty caused by the change of leadership that began with former PM Ishiba's announcement to step down and which resulted in the collapse of a 26-year LDP-Komeito coalition, was seen to likely delay the BoJ from resuming its rate hiking cycle, this remains the view under a Takaichi government. Nonetheless, the prospects of a hike in the near-term are not off the table with one of Takaichi's closest advisers recently noting that she would likely tolerate another 25bps interest rate hike by January next year if the economy is in firm shape, but caveated that such a move would be on condition the BoJ maintains relatively loose monetary policy with no further rate hikes likely until 2027. The BoJ will also be releasing its latest Outlook Report at next week's meeting, containing board members' median projections for Real GDP and Core CPI, while a recent source report noted the BoJ is likely to maintain the view that the economy is on course for a moderate recovery, despite headwinds from US tariffs, and may slightly revise up economic growth forecast for FY25.

ECB: The ECB is expected to maintain policy conditions in October, with all respondents to Reuters forecasting an unchanged outcome and market pricing implying just a 2% chance of a cut from the current 2.00% Deposit Rate. As a reminder, the September meeting saw policy conditions maintained and the reiteration of a meeting-by-meeting and data-dependent approach, whilst not pre-committing to a particular policy path. The most pertinent part of the release was the 2026 inflation view, this was revised to just 1.7% (prev. 1.6%), shy of the 1.9% consensus; a forecast that sparked a dovish reaction. Thereafter, Lagarde unwound some of that by saying minimal deviations would not necessarily justify a move; furthermore, she upgraded the risk assessment to "more balanced" from "tilted to the downside". Since, nothing has occurred to change the narrative of a hold in October and then the ECB potentially revisiting conditions in December alongside the next set of forecasts. One point of note to look out for will be any view on the direction of the next move; as some officials have outlined the possibility that a hike could occur as easily as a cut. Main policy aside, any commentary around TPI will be keenly sought given the recent downgrade to France following another bout of political turmoil. However, this may not feature until the Q&A as spreads remained orderly throughout that period. Overall, the ECB is seemingly still in a good place on policy and as such there is no need to deviate at this point, though December could bring a cut depending on the evolution of data. On that, the EZ Flash HICP series for October prints the session after the October policy announcement.

REVIEWS

CBRT REVIEW: CBRT cut its one-week repo rate by 100bps to 39.5%, in line with market expectations, citing a slowdown in the disinflation process and an uptick in underlying inflation pressures during September. The Bank also lowered the overnight lending and borrowing rates to 42.5% and 38.0%, respectively. The CBRT noted that while demand conditions remain consistent with disinflation, risks from food prices and inflation expectations have become more pronounced. The move follows a 250bps cut in September and 300bps in July. Policymakers reiterated that future adjustments would depend on the inflation outlook and that policy may be tightened if deviations from interim targets occur. Economists broadly expect a continued but cautious easing bias into year-end.

PBOC LPR REVIEW: Last time, they unsurprisingly announced no changes to China's benchmark Loan Prime Rates, for a 5th consecutive month, with the 1-year LPR kept at 3.00% which is the rate most new loans are based on, and the 5-year LPR kept at 3.50% which is the reference for mortgages. The decision to maintain the LPRs was widely anticipated as the central bank has shown a clear preference for making adjustments through its main policy tool of open market operations to target liquidity, although there are mixed views on whether there will be any adjustments in Q4 as some see a likelihood for a policy rate or RRR cut in Q4, while Citi analysts have dropped such a forecast. Furthermore, the recent data from China was mixed as trade figures showed faster-than-expected growth in Exports and Imports for the world's second-largest economy and recent GDP and activity data either matched or topped forecasts to suggest a lack of urgency to immediately cut benchmark lending rates, although the latest CPI data was softer-than-expected and both consumer and factory gate prices remained in deflation.

BOK REVIEW: BoK kept the base rate unchanged at 2.50%, as expected, with the decision not unanimous as board member Shin Sung-Hwan dissented and said a rate cut is needed to support growth. BoK said it will maintain the rate cut stance to mitigate downside risk to economic growth, and will adjust the timing and pace of any further base rate cuts, while it will closely monitor changes in domestic and external policy conditions, as well as examine the impact on inflation and financial stability. BoK Governor Rhee revealed that four board members said the door for rate cuts should be open for the near future, while two board members said current rates should be maintained. Rhee also said that a rate cut at the meeting could have accelerated the upswing in property prices and that it was too early to tell if the rate-cut stance could continue through next year. Furthermore, he said there is greater focus on financial stability among board members and noted that the chip cycle and US-China trade talks should be watched as the board prepares for the November forecast revision.

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