Central Bank Weekly - 19th December 2025

Previewing PBoC LPR, RBA Minutes, BoC Minutes, FOMC Minutes (30th Dec); Reviewing BoJ, BoE, ECB, Norges Bank, Riksbank, Banxico

PREVIEWS

PBOC LPR (MON): Expected to be a non-event, with the 1-year and 5-year Loan Prime Rates (LPRs) both expected to be maintained. In terms of the prior release, the PBoC unsurprisingly announced no changes to China's benchmark LPRs, which were maintained at their current levels for a 6th consecutive month, with the 1-year LPR kept at 3.00%, which is the rate most new loans are based on, and with the 5-year LPR kept at 3.50%, which is the reference for mortgages.

RBA MINUTES (TUE): Traders will likely be eyeing the minutes for more meat on the bones surrounding talks at the prior meeting, alongside potential conditions needed for a rate hike. To recap, the RBA kept the Cash Rate at 3.60%, as expected, with the decision unanimous. The language from the RBA suggested the central bank remains data-dependent, while it didn't contain anything explicitly hawkish that would align with the market consensus for no more rate cuts by the RBA. However, the hawkish kicker came from the post-meeting press conference, where RBA Governor Bullock commented that it looks like more rate cuts are not needed and revealed they did not consider a rate cut and did not explicitly consider the case for a rate hike at this meeting, but discussed the circumstances in which tightening might be required. Bullock also said if inflation looks persistent, it will raise questions for policy, while she would not put timing on any future move and will proceed meeting by meeting. Furthermore, she doesn't see rate cuts in the foreseeable future and noted that the outlook is for an extended pause or hikes.

BOC MINUTES (WED): The BoC held rates at 2.25% as expected in the December meeting, keeping rates at the low end of its neutral rate estimate. The central bank reiterated that the current rate is about the right level to keep inflation close to 2% as long as the economy and inflation evolve in line with projections. Despite three consecutive job report readings above forecasts, the BoC said job markets in trade-sensitive sectors remain weak and economy-wide hiring intentions continue to be subdued. The BoC gave a similar tone on the Q3 GDP growth beat, arguing the increase largely reflected volatility in trade. Ahead, the BoC expects final domestic demand to grow in Q4, but with an anticipated decline in net exports, GDP will likely be weak. Growth is forecast to pick up in 2026, although uncertainty remains high and large swings in trade may continue to cause quarterly volatility, the statement added. We've seen notable hawkish repricing of the expected BoC policy path in recent weeks following better-than-expected data, and as such, the BoC Minutes will be scrutinised for any requirements members need to entertain a discussion about shifting the neutral policy outlook.

FOMC MINUTES (30th Dec): The Minutes will be released on Tuesday, 30th December at 19:00BST/14:00EDT. The December meeting saw the Fed cut by 25bps, in line with expectations, but the decision was not unanimous, with the FOMC facing a wide range of views. The vote split itself was 9-3, perhaps more dovish than expected, given commentary from officials like Collins and Musalem before the blackout period, which indicated they would be voting for a hold. Goolsbee and Schmid voted to keep rates on hold, but Miran opted for a 50bps rate cut once again. Although the vote itself only saw two choose to keep rates unchanged, the dot plot shows that there were four other non-voting members who would have wanted to keep rates where they were. The Minutes will likely echo the sentiment that there was a wide range of views, but Powell did note there was "fairly broad" support behind the policy decisions. Since the blackout period, Fed's Collins noted that the tweak to guidance was an important element in her decision to agree to cut rates as it signals a slower easing path ahead. The guidance was adjusted from "in considering additional adjustments" to "in considering the extent and timing of additional adjustments" - it will be interesting to see if the Minutes suggest this guidance helped others in favour of a rate cut. Fed Chair Powell appeared more concerned about missing on the Fed's employment mandate than inflation, noting most expect inflation will be a one-time price increase, but there is a risk that it is not. He also noted that all agreed the labour market has softened and that there are further risks, but the difference in views is how participants weigh those risks. Powell warned it is difficult to estimate job growth in real time, warning of a monthly 60k overshoot in NFP numbers – the November jobs report saw 64k jobs added in November. One of the reasons Goolsbee voted to hold was because of lack of clarity on the economy amid missing data, while Powell noted the Fed will be careful in assessing incoming data and will need to look at the data with a somewhat sceptical eye. The need for scepticism was proved with the November CPI report, which saw a notable drop to 2.6% from 3.0% in the core print, and to 2.7% from 3.0% for the headline, which was largely explained by sampling issues and estimates the BLS used for the missing October data.

REVIEWS

BOJ REVIEW: The BoJ hiked rates by 25bps, as widely anticipated, lifting its key rate to the highest level in 30 years, while reiterating that real interest rates are expected to remain significantly low. The Bank repeated that it will continue to raise the policy rate if the economy and prices move in line with its forecasts, in line with improvements in economic activity and prices, and reaffirmed its commitment to conducting policy as appropriate to sustainably and stably achieve the 2% inflation target. The BoJ noted that wages and inflation are likely to continue rising moderately in tandem and that the economy has recovered moderately, albeit with some areas of weakness. It also stated that consumer inflation is likely to fall below 2% towards the first half of the next fiscal year before rising thereafter, adding that it is highly likely the mechanism of moderate wage and price increases will be maintained. At the post-meeting press conference, Governor Ueda offered no explicit guidance on the future policy path, repeatedly stressing a data-dependent approach, though he noted that the BoJ would conduct market operations swiftly under exceptional market conditions. Notably, Ueda said several Board members flagged that recent JPY weakness could feed through into prices, warranting close attention, which prompted modest JPY strength. He also downplayed the recent continuing rise in yields, in which he said there is no special meaning to the 30-year high level in short term rates. Once the dust had settled, the reaction was a dovish one due to the lack of future rate guidance.

BOE REVIEW: As expected, the BoE cut the Bank Rate by 25bps to 3.75% in a 5-4 vote split with Governor Bailey casting the tie-breaking vote. While the split was in-line with consensus, the consensus was formed before the November CPI report, a report that placed a dovish skew on the pre-BoE narrative. This, along with the references to the neutral rate and the view from members that the judgements around further easing would become a closer call as the neutral is approached and/or due to uncertainty around the level itself, sparked a hawkish move. GBP and UK yields both were bid after the announcement. Overall, while the guidance points to further easing the vote split and neutral language are indicative of a slower pace and/or less easing than previously thought. Given this, desks are varied on how much further easing to expect with Pantheon looking for one 2026 cut while Goldman Sachs reiterated their call for three, but delayed the delivery dates by a meeting. As such, inflation updates remain key in determining the trajectory for policy over the next 12-months and by extension where the terminal is likely to be, while the February meeting will provide a fuller assessment of the Autumn Budget.

ECB REVIEW: Maintained the Deposit Rate at 2.00%, as expected, in a unanimous decision. Overall, as expected from the ECB, though the new projections factor in favour of those in markets and at the ECB (i.e. Schnabel) who believe the next move is more likely to be a hike than a cut. Forecast adjustments that drove a hawkish reaction in both EUR and bonds. On that, in the Q&A, President Lagarde reiterated that the ECB is in a “good place” and once again made it very clear that this point is not static and the ECB retains optionality to adjust as needed, a view that was shared unanimously by the ECB. Much of Lagarde’s presser was focused on wages having been an upward-surprise for the ECB since September. Ahead, Lagarde expects wages to follow a slightly declining trend. Overall, the takeaway remains that the ECB is likely at a 2.00% terminal for the Deposit Rate, while today’s forecasts mean the narrative that a hike is more likely than a cut as the next move has increased, but any move likely remains some way away.

NORGES REVIEW: Norges Bank kept the policy rate unchanged at 4.00%, as expected, and reiterated that it will continue to reduce the policy rate if the economy evolves broadly in line with its projections. The Bank highlighted risks to the inflation target should rates be lowered too early, while noting that economic activity is running “a little lower than expected,” consistent with recent GDP data. Focus was firmly on the updated MPR rate path; despite some pre-meeting risk that the Bank could signal earlier easing than outlined in September, this did not materialise. The projected average policy rate for 2026 was left unchanged at 3.9%, while the 2027 projection was trimmed by 0.1pp. At the post-meeting press conference, Governor Bache noted that the NOK is weaker than previously assumed, which slightly lifts the inflation outlook. SEB characterised the decision as mildly hawkish, noting that the rate path was only marginally lowered and that recent NOK weakness raises inflation concerns, limiting Norges Bank’s room to ease. SEB adds that the path implies a full 25bps cut by September and around a 40% chance of an additional move before year-end, while maintaining its call for a first cut in June, with wage growth seen as the key determinant.

RIKSBANK REVIEW: The Riksbank kept the policy rate unchanged at 1.75%, as expected, and reiterated that the policy rate is projected to remain at this level for some time to come. Ahead of the meeting, some analysts had flagged downside risks to the inflation outlook into the new year, which materialised in the updated projections, with Q2 2026 inflation revised down to 0.6% from 0.9%. While this downgrade could be interpreted as dovish, EUR/SEK was little changed, likely reflecting that such a revision was widely anticipated. Elsewhere, the updated MPR offered few additional signals on the future policy path; the rate track continues to imply an unchanged rate until Q3 2026, with only a slight upward revision to the Q4 2027 average. SEB noted that the modest lift at the back end reflects increased confidence in an economic recovery rather than signalling any near-term rate hike, adding that the overall economic outlook appears slightly improved while the inflation assessment remains broadly unchanged.

BANXICO REVIEW: Banxico cut rates 25bps to 7.0%, as expected, with Heath dissenting in favour of a hold for the fifth consecutive meeting. Within the statement, they altered forward guidance, noting that “Looking ahead, the Board will evaluate the timing for additional reference rate adjustments”, while in the prior readout, they said “Board will evaluate reducing the reference rate”. Banxico repeated that the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. On inflation projections, both headline and core were revised higher for Q4 ’25, Q1 and Q2 for ’26, but over the longer-term horizons they were maintained with convergence to the 3% target expected by Q3 2026, for both headline and core. Looking ahead, Rabo Bank maintains its forecast prior to the confab, and they see at least two more 25bps cuts in 2026, beginning with the next decision in February.