



## Central Bank Weekly 23rd January 2006

### Previewing FOMC, BoC, Riksbank, BCB; reviewing BoJ, Norges Bank, CBRT.

**Fed Policy Announcement (Wed):** The FOMC is widely expected to leave the policy rate unchanged at 3.50-3.75% at next week's meeting. As has been the case for several meetings now, the decision itself matters less than the guidance, particularly around how patient policymakers intend to be before easing eventually comes into view. A Reuters poll showed unanimous expectations for no change at this meeting, while 58% of economists also see rates staying on hold through the quarter. Recent data continue to underline resilient US growth and sticky inflation, which together argue against any urgency to cut rates. The economy expanded strongly in the H2 2025, while inflation remains above target, reinforcing the Fed's preference for patience. Policymakers are therefore likely to repeat their data-dependent messaging and avoid signalling that easing is imminent. Markets will pay close attention to Chair Powell's press conference for any tonal shift, particularly given growing political pressure on the central bank. Public criticism from President Trump and ongoing legal scrutiny related to the Fed's HQ renovation have raised questions around institutional independence, though officials are expected to steer clear of political commentary. Analysts said that, overall, the balance of risks still points to rates remaining on hold through Q1, with cuts more likely later in the year if inflation shows clearer signs of moderation. Further hikes remain very unlikely, but strong growth and expansionary fiscal policy suggest that any easing cycle, when it comes, is likely to be gradual. Few surprises are expected from the meeting, leaving markets focused on Powell's assessment of inflation persistence, labour market tightness and financial conditions.

**BoC Policy Announcement (Wed):** Canada headline CPI rose to 2.4% Y/Y in December from 2.2%, slightly above expectations, reflecting higher food, alcohol and selected goods prices. The increases were driven in part by unfavourable base effects linked to last year's GST holiday, which more than offset a sharp monthly decline in energy prices. Measures of core inflation were broadly stable: CPI excluding food and energy edged higher, but the BoC's preferred core measures eased, suggesting underlying price pressures remain contained. Oxford Economics argued that the Bank will not be swayed by M/M volatility in headline inflation caused by base effects, instead focusing on the underlying trend, which both it and the BoC see in the mid-2% range. Oxford Economics also highlighted ongoing upside risks from US tariffs and elevated trade policy uncertainty, and continues to expect the BoC to keep rates on hold at 2.25% until early 2027. Meanwhile, the BoC's Business Outlook Survey sends a similar signal. While businesses are more optimistic about sales and point to firmer GDP growth, they still anticipate layoffs and continue to face persistent cost pressures. According to NAB, this combination provides little evidence that inflation risks have fully receded, reinforcing the case for policymakers to remain on hold until there is clearer confirmation that price pressures are durably under control.

**Riksbank Policy Announcement (Thu):** The Riksbank is widely expected to keep rates steady at 1.75%, in line with the rate path set out at the December meeting, a decision that follows cooler-than-expected inflation for that period. CPIF slowed to 2.1% Y/Y from 2.3%, undershooting the Riksbank's own forecast. On the activity side, GDP rebounded more than expected in November, while household consumption also beat expectations in the same period. Elsewhere, the labour market remains subdued. Against this backdrop, analysts at SEB expect the bank to hold rates in January and through the rest of the year, though they see some chance of a cut in spring or summer if the inflation continues to deteriorate. As a reminder, at its last meeting, the Riksbank kept rates unchanged at 1.75% and reiterated that the policy rate is likely to remain at this level for some time. The current monetary policy report shows rates on hold for the next three quarters, with only a small chance of a hike in Q4 2025.

**BCB Policy Announcement (Wed):** Policymakers are expected to maintain a cautious tone following December's decision to hold the Selic rate at 15.00%. At that meeting, the central bank described the current policy stance as "adequate" to deliver inflation convergence over time, while emphasising that future steps may be adjusted as needed. This wording leaves room for renewed tightening should inflation pressures re-emerge, but also preserves flexibility for eventual easing once confidence in the disinflation path improves. Pantheon Macroeconomics viewed the shift in language from "sufficient" to "adequate", alongside a return to "as usual" vigilance, as signalling slightly higher confidence without constituting a clear dovish pivot, and continues to characterise the BCB's stance as hawkish. Pantheon expects the current hold to extend into early 2026 as policymakers seek to re-anchor expectations. Since the December meeting, however, inflation data have surprised to the downside, strengthening the case for eventual easing. Annual inflation for 2025 slowed more than both the central bank and markets had anticipated, ending the year at 4.26% and within the official target range, contrary to earlier guidance that inflation would remain above the 4.5% upper limit until late Q1 2026. Inflation had already returned to target in November, earlier than expected, and cooled further in December, undershooting both market and central bank forecasts. The BCB has attributed the improved near-term outlook to a combination of a more benign inflation trend, better expectations, cheaper fuel, a stronger currency and lower oil prices, all under a restrictive policy stance. Pantheon continues to see a first rate cut as more likely in March rather than January.

**BoJ Review:** The BoJ kept its policy rate unchanged at 0.75%, in line with expectations, though the decision was not unanimous as Hajime Takata dissented in favour of a consecutive hike. The central bank reiterated it would continue to raise rates if its outlook materialises. It maintained median inflation forecasts for 2025 and 2027 at 2.7% and 2.0%, respectively, while lifting the 2026 projection to 1.9% from 1.8%. On growth, the BoJ raised its 2025 and 2026 forecasts to 0.9% and 1.0% from 0.7%, citing the impact of government economic measures. Speaking after the meeting, Governor Ueda said the full effects of tightening would take time to filter through the economy and that financial conditions remain accommodative after the December move. He warned a weak JPY could push up import costs and feed into prices, while long-term rates are rising somewhat rapidly. The BoJ will conduct nimble market operations to address irregular moves, encourage stable yield formation and work closely with the government on long-term rates. Ueda said inflation is not expected to significantly overshoot forecasts and that headline inflation is likely to undershoot 2% in

the near term. Policymakers will place greater emphasis on underlying inflation, which is approaching but still some distance from the 2% target. The likelihood of achieving 2% has increased since October, he said, though it is little changed from December. He noted growing evidence that wage growth is feeding into prices. April price developments will be an important consideration for any hike, and the BoJ is not necessarily waiting to assess the impact of the December move. Ueda stressed the need to monitor even small FX moves, remain mindful of unstable demand for super-long JGBs due to fiscal year-end factors, and ensure fiscal credibility to maintain market confidence.

**Norges Bank Review:** The Norges Bank held its policy rate at 4%, as expected. The accompanying statement was largely a reiteration, including the line that "if the economy evolves broadly as currently envisaged, the policy rate will be reduced further in the course of the year." One point of note within the statement was the explicit reference to geopolitical risks. However, the assessment remains that the interest outlook has not materially changed vs December. As a reminder, the December forecasts were consistent with one or two cuts in 2026.

**CBRT Review:** A smaller-than-expected cut by the CBRT took the Repo Rate to 37% (prev. 38%), disappointing expectations for a larger 150bps reduction. Within the statement, the CBRT highlighted that inflation expectations and pricing behaviour remain a risk to disinflation, though the situation is improving. Ahead, analysts at Oxford Economics say their outlook is for steady disinflation, and that suggests the CBRT will have room to continue gradual rate cuts of between 100-150bps per meeting, bringing the policy rate to 26.5% by end of this year.

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