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Our latest views on the major central banks

Our take on what could be next for the Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan over the coming months

Clockwise from top left: Bank of England Governor Andrew Bailey; US Federal Reserve Chair Jerome Powell; Bank of Japan Governor Kazuo Ueda and Christine Lagarde, President of the European Central Bank

Federal Reserve

US President Donald Trump continues to push the Federal Reserve to cut interest rates, and Chris Waller and Michelle Bowman – both Trump FOMC appointees from his first presidential term – suggested they were open to voting for a cut as soon as this month. However, the recent stronger-than-expected jobs report and uncertainty over how much and for how long tariffs will lift inflation mean that it is now a remote possibility. Fed Chair Jerome Powell, appearing before Congress at the end of June, suggested that officials “are well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance".

Markets are currently favouring two 25bp cuts this year, most likely at the September and December FOMC meetings. However, we think it will require some very soft jobs numbers for the Fed to be willing to cut in September, given that July, August and September are when the pass-through from tariffs will be at their maximum.

The Fed was stung by the criticism it received when it said inflation would be "transitory" post-pandemic, only for it to hit 9% in 2022. Officials probably won't have the information to say confidently that tariffs are not going to lead to more permanent inflation until the October and

November inflation prints. This is why we tend to think it may wait until December before cutting, but move by 50bp in one go in response to cooler jobs numbers.

Lower inflation in 2026, thanks to weak wage growth, tariff effects dropping out of the annual price comparison and more modest housing costs, should allow the Fed to cut rates to around 3.25% by summer 2026.

ECB

With the June decision to cut the main policy interest rate to 2%, the European Central Bank ought to be in a 'good place', hoping for some typical wait-and-see monetary policy over the coming months. However, this 'good place' has become somewhat less comfortable recently due to the continued strengthening of the euro. Not only does the stronger euro act as an additional tariff on top of the current trade tensions, but it also bears the risk of more inflation undershooting. Consequently, the chances are high that the ECB will have to leave the 'good place' soon and continue cutting rates.

Driven by the stronger currency, the question for the ECB is not whether to continue cutting interest rates, but rather when and by how much. In fact, in the case of a re-escalation of trade tensions and the subsequent weakening of the eurozone growth outlook, further rate cuts would come faster and at a larger magnitude. Should the trade story move on without a strong escalation and further turmoil, and inflation continues its recent disinflationary trend, but fiscal stimulus brings back growth and inflation (in 2026 at the latest), we would see the ECB cutting only once more in September. For the time being, this remains our base case scenario.

Bank of England

The Bank of England is still reluctant to pick up the pace of easing, though that could start to change. The most recent jobs data, albeit prone to revision, was particularly worrisome. Wage growth is showing signs of cooling too, and services inflation – a key barometer for the Bank – should be closer to 4% than 5% as the year progresses. For now, we're sceptical that this will prompt a faster string of rate cuts, though it does help cement the current pace of quarterly 25bp moves through the rest of this year and into 2026.

We expect the next rate cut in August, followed by November, and continue to predict a terminal rate of 3.25% by mid-2026. Should the fall in payrolled employee numbers pick up pace, however, we could see a scenario where we get there by the end of this year.

Bank of Japan

The Bank of Japan is expected to exercise caution when it comes to near-term rate hikes. The BoJ's primary concern should be the difficulty of determining the full impact of US tariffs on the Japanese economy, given the high level of uncertainty. With trade negotiations extended until August and reciprocal tariffs increased slightly to 25% (barring any significant changes in circumstances), the BoJ is likely to keep its policy rate unchanged at the July meeting.

The domestic political situation is also adding to the uncertainty surrounding trade negotiations and monetary policy. While the Upper House elections are scheduled for 20 July, recent polls suggest that the ruling coalition may not secure a majority. The government has been reluctant to offer too many concessions, given that US trade policy touches on sensitive issues such as the

import of agricultural products, including rice, which are important to the ruling party's main supporters. If the ruling coalition loses, the coalition will require restructuring. The main opposition party advocates consumption tax cuts and a more cautious stance on fiscal policy. It will also complicate the BoJ's future policy decisions.

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