

Our latest views on the major central banks

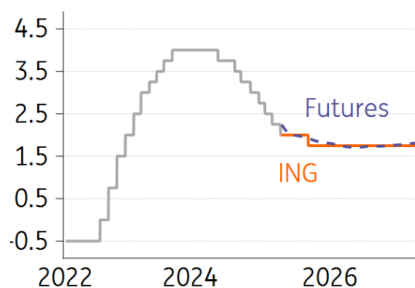
Our take on what could be next for the Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan over the coming months



Fed Chair, Jay Powell, at a conference in Washington earlier this month

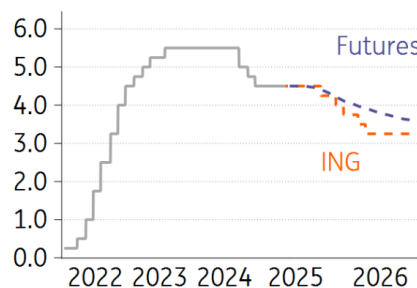
Our Fed and ECB view

ECB Deposit Rate (%)



Source: Macrobond, ING

Fed Funds Rate (upper, %)



Federal Reserve: 50bp cut in December with a further 75bp of cuts in 2026

The market angst over what the “Liberation Day” tariffs may mean for the global economy triggered swift policy backtracking. The subsequent de-escalation of tensions suggests that downside GDP growth risks have diminished and upside CPI fears have faded a touch relative to our previous expectations.

Nonetheless, damage has resulted in steep falls in consumer confidence, suggesting downside risk to consumer spending growth. A lack of clarity on the trading environment means there is also the potential for corporates to delay decisions on hiring and investment. Tariffs do risk higher goods prices, but the squeeze on spending power could lead to cuts to discretionary spending that impact the service sector and cool inflation faster there. There is also evidence of softer housing-related inflation on the way, and we look for inflation to return to 2% in 2026.

The Federal Reserve continues to suggest that it expects the Fed funds rate to settle at 3% versus the current 4.5% level. The key question is how long the central bank is prepared to wait until it is comfortable enough to cut. We don't disagree with the market pricing of 50bp of cuts this year, but rather than September and December, we are favouring a 50bp move in December, followed by three 25bp cuts in 2026. This would be a similar playbook to the Fed's actions in 2024, where it waited until it was comfortable to commit to a lower interest rate environment.

European Central Bank: The normalising monetary policy cycle is almost over

Within a year, the European Central Bank's inflation assessment has dramatically changed. From ‘stubbornly high’ and difficult ‘last miles’, the ECB has shifted towards risks of inflation undershooting. For the first time, the central bank brought forward the moment when inflation would drop below 2%. Even if there seems to be a majority of members viewing the acceleration of disinflationary pressure mainly as transitory due to energy prices and the stronger euro, every additional inflation undershooting will provide new arguments for the doves.

For now, and unless trade tensions return with a vengeance – be it at the end of the current 90-day pause or at another time – we suspect that the ECB will stick to a wait-and-see approach over the summer. It will take a bit longer to understand whether the current disinflationary risks are merely one-offs or whether they signal a broader trend. Eventually, we see a clear risk of some aftershocks from recent developments on growth and inflation, which should provide enough room for at least one more rate cut after the summer.

Bank of England: Rate cuts to continue in August and November

Markets were left disappointed by the Bank of England's May meeting, where policymakers failed to endorse a faster pace of easing. BoE hawks are visibly concerned about headline inflation, which has risen above 3% and is set to stay north of that throughout 2024.

It seems officials are scarred by the experience of 2022, where higher food and energy prices seeped into service-sector inflation. We suspect those fears are overblown this time around, and with the jobs market cooling and wage growth/services inflation set to come lower too, there is plenty of scope to cut rates further. At 4.25%, Bank Rate is well above its neutral level, which is

most likely around 3%. Recent BoE commentary has set the bar relatively high for accelerating the current once-per-quarter pace of cuts. That's why we expect cuts in August and November, as well as another two in 2026. That would take Bank Rate to 3.25%, which is lower than markets are currently pricing.

Bank of Japan: Why the BoJ could be in a tricky position

The Bank of Japan will meet on 17 June. As no rate changes are widely expected, increasing attention is being paid to the interim assessment and plan of the bond purchase programme. We expect the pace of tapering, which is currently being reduced by ¥400 billion per quarter, to be maintained from April 2026 onwards despite the recent volatility in JGB markets.

BoJ Governor Kazuo Ueda clearly stated that the balance sheet reduction should be considered separately from the policy rate decision. The one-year real yield is a key tool used to assess the accommodativeness of the BoJ's monetary policy, which is heavily dependent on the policy rate. As this remains well below the zero rate, we continue to see more policy normalisation to come. The fragile state of the economy and the uncertainty surrounding trade negotiations may put the Bank of Japan in a difficult position. However, given the build-up of underlying inflationary pressures, we anticipate a slightly higher chance of a 25bp hike in July.

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