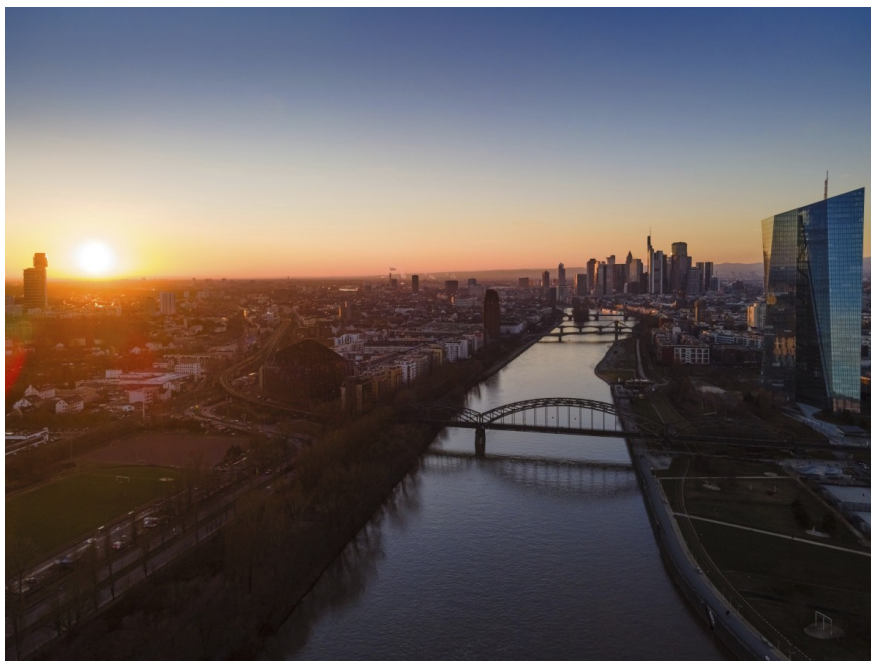


# Our latest views on the major central banks

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



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## Federal Reserve

In the immediate aftermath of the election, it was sensed that pro-growth tax cuts and deregulation combined with potentially inflation-boosting tariffs and immigration controls would mean the Federal Reserve would have less scope to cut rates. In the wake of recent disappointing data, there has been more focus on the potential downsides of President Donald Trump's policy thrust. There are concerns that aggressive government austerity will be bad news for overall economic activity and that steep tariff increases would eat into the spending power of middle and lower income households. This has reinvigorated the belief that the Fed may need to offer more support.

Despite worries about government-related job losses, unemployment is low and inflation is still tracking too hot, so we see little prospect of a rate cut before late summer. Nonetheless, we see a

good chance of rate cuts in September and December, with a third coming in March next year – particularly with housing-related inflation measures looking better behaved, which would act as an offset to some of the tariff-related inflation fears. This would leave the policy rate in the 3.5-3.75% range – still well above the 3% level the Fed has as its long-term forecast.

## European Central Bank

Another cut and then what? In the run up to the European Central Bank's March meeting, official statements have pointed to an increasingly heated debate about where to stop the current rate cut cycle. While the well-known doves continue calling for a policy rate at 2% by the summer, the hawks have started to emerge again, questioning the need to cut rates below 2.5%.

Despite this debate, a 25bp rate cut at the March meeting still looks like a done deal. The policy rate would then be at the upper end of the range for the neutral interest rate. With inflation notoriously being too high but the economy remaining weak, the ECB will have to find a fragile balance between losing control again and supporting the economy. As we think that the central bank's own growth forecasts are still too optimistic, we see the ECB cutting to at least 2% by the summer once the eurozone economy indeed turns out to be weaker than it had expected.

## Bank of England

Having cut rates in February, the path of least resistance is for the Bank of England to keep lowering rates once per quarter for the remainder of the year. While Catherine Mann – once the arch-hawk of the committee – has begun voting for more front-loaded cuts, it's not a view shared by many others. Indeed, we detect some caution at the Bank about the recent rise in energy prices and the fact that headline inflation is set to rise above 3% this year. Still, the jobs market is under more visible pressure and we expect service sector inflation to fall back in the spring, undershooting the most recent BoE forecasts. That should make the Bank more comfortable with cutting rates much closer to 3% than markets are currently pricing.

## Bank of Japan

After a rate hike in January, the Bank of Japan is likely to remain on hold at its March meeting, monitoring the impact of previous rate hikes and other developments such as inflation, wage growth and US tariff policy. Given the recent sharp moves in the FX and JGB markets, the BoJ's communication should be cautious about sending any signals on the timing of future rate hikes.

We expect the BoJ to deliver a 25bp hike as early as May while maintaining its flexibility in the JGB purchase operation in order to manage any sudden moves in the JGB markets. In our view, the spring wage negotiations are key for gauging the timing of the BoJ's next rate hike, while the main risk factor remains Trump's tariff policy and how it could affect the Japanese economy.

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