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Our latest views on the major central banks

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

These are difficult times for global central banks

Federal Reserve

The Fed currently views the oil price surge as a supply shock that it can't do much about. So far, market and consumer inflation expectations are within tolerable ranges, and there is a sense that inflation is more likely to be transitory this time around than in 2022.

While inflation is likely to test 4%, the Fed's dual mandate is also an important consideration. Having failed to create jobs in meaningful numbers over the past 18 months, when growth was strong, the risk is that we see weaker US jobs figures on the back of geopolitical, financial-market and economic angst.

Higher energy costs are likely to be demand destructive, given that household spending power is already under pressure and confidence is at such low levels. Weaker consumer spending growth will help keep a lid on core inflation pressures, and if we do see Middle East tensions ease and oil prices drop back in the second half of 2026, sub-2% inflation is achievable in 2027. This will give the Fed scope for rate cuts late this year.

European Central Bank

The ECB's 'good place' is no more. Instead, the ECB is back in crisis mode, shifting its focus away from longer-term projections to actual developments, back to a "driving at sight" approach. Key variables to watch are actual inflation data, survey based longer term inflation expectations, and wage developments, all of which will be weighed against the risk of slowing economic activity and financial stability concerns.

We think the ECB – like us – is expecting an initial inflation wave, starting with gasoline prices, followed by knock-on effects on transportation costs, food prices and other industrial products. As long as this remains a single, time limited wave, there is no need for ECB rate hikes.

That said, three potential pain points remain for the ECB: a psychological one, i.e., headline inflation above 4%, reviving uncomfortable memories of 2022; an analytical one, with core inflation above 3%, signalling broader price pressures; and a credibility one – a surge in survey based inflation expectations, which would make inaction increasingly difficult to justify. The longer the blockade of the Strait of Hormuz lasts, the higher the likelihood that some of these pain points will be hit. This is why we now see the ECB announcing at least one insurance rate hike. Some would go as far as calling it a policy mistake.

Bank of England

In contrast to the ECB, we're sticking with our call for no Bank of England rate hikes this year. While we don't rule anything out – particularly if natural gas prices were to spike materially – there are good reasons to think that the UK won't experience a long-lasting episode of inflation, akin to what it saw post-2022. The jobs market is weak, fiscal policy is tight, and unlike the ECB, interest rates are still in restrictive territory. Bank of England Governor Andrew Bailey has also taken the rare step of pushing back against market rate hike pricing. That hints at a pause in April, though despite a unanimous on-hold decision in March, we think the committee remains heavily divided. We expect at least one vote for a hike at this month's meeting.

Bank of Japan

Recent Middle East developments pose downside risks to growth due to Japan's significant reliance on commodities from the region – yet recent data shows economic resilience. Companies are planning wage rises and expanded investment following strong profits, while real cash earnings gained in early 2026. Meanwhile, inflation expectations appeared to rise on the back of higher energy prices.

The Bank of Japan's March meeting minutes reveal a greater focus on inflation risk than on slower growth. The BoJ's new CPI metric, excluding institutional effects, remains above 2% (vs headline CPI well below 2% in February), reinforcing its view that underlying inflation remains firm. Additionally, revised potential GDP estimates showed that the economy exited its negative GDP gap a while ago, signalling growing demand-side pressure.

Considering these factors, our BoJ rate hike forecast now expects the first move in April rather than June, and a subsequent hike in October instead of January 2027. Governor Kazuo Ueda's recent dovish remarks dampened expectations for an April rate hike, but we believe he aimed to emphasise uncertainty rather than rule out the possibility of a hike. We expect firmer inflation and fiscal expansion to drive 10Y JGB yields to 3% by 2027.

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