

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



Consumers' concerns over job security and squeezed spending power are likely to limit GDP growth to average 1.5% for coming quarters

Federal Reserve

The balance of risks surrounding the Fed's dual mandate of price stability and maximum employment is swinging towards one whereby the jobs market is the bigger concern. This gives us greater conviction in our call of 25bp rate cuts at the September, October and December FOMC meetings with a further 50bp of policy easing in early 2026.

Consumers are worried about job security and squeezed spending power due to tariff-induced price hikes and this is likely to limit GDP growth to average 1.5% for coming quarters. Goods prices are set to rise, but we are in a very different situation to 2021/22 when the Covid-related supply side shock was amplified by a tripling of oil prices, surging housing costs and a red-hot jobs market. These three factors are set to dampen inflation this time around, giving a more dovish-leaning Federal Reserve the room to offer meaningful support to the economy.

European Central Bank

With a still relatively resilient eurozone economy and inflation not yet showing any signs of undershooting, the ECB looks set to keep interest rates on hold this autumn. At a deposit rate of 2%, the ECB seems to feel comfortable in what President Christine Lagarde has frequently called a 'good place'. However, there are still convincing arguments for a more dovish ECB, such as the stronger euro exchange rate, potentially more aggressive rate cuts in the US, the delayed impact of US tariffs on the eurozone economy and the political crisis in France. Just to mention a few.

The extensive list of potential downside risks to both inflation and growth reinforces our view that discussions within the ECB are likely more contentious than markets are currently pricing in. If just any of these downside risks materialise, the ECB could still decide to cut interest rates one more time, even though this does not seem to be the current majority view in Frankfurt.

Bank of England

We still expect a rate cut in November, though a hawkish August BoE decision has weakened our conviction. Not only did four out of the nine-strong committee vote against a cut at that meeting, but officials hinted we're getting closer to the end of the easing cycle. Inflation is a key concern, particularly food. But we see scope for services inflation to undershoot the Bank's forecasts. The jobs market – which received surprisingly little attention at the August meeting – is also a downside risk.

The data will decide whether the next cut comes in November or next year, but either way, we think rates will get much closer to 3% by the middle of next year.

Bank of Japan

The recent resignation announcement by Prime Minister Shigeru Ishiba has increased political uncertainty, which may complicate the BoJ's upcoming rate decision. The OIS currently indicates a 47% probability of a rate hike by year-end, down from 70% last week. The result of the LDP leadership contest, expected in early October, could have implications for macroeconomic policy; if a far-right candidate wins, it may raise fiscal sustainability concerns, weaken the yen and Japanese government bonds, and lead to looser monetary policy. But macro-economic conditions still support the BoJ's policy normalisation.

In the first half of 2025, the Japanese economy grew more than expected despite US tariff challenges. Private spending was supported by firm wage growth and underlying inflation continued to build. Looking ahead, lower energy and food prices could increase consumer purchasing power, while fiscal stimulus may further boost consumption. While political uncertainty introduces a major risk, our view for an October rate hike remains unchanged for now.

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