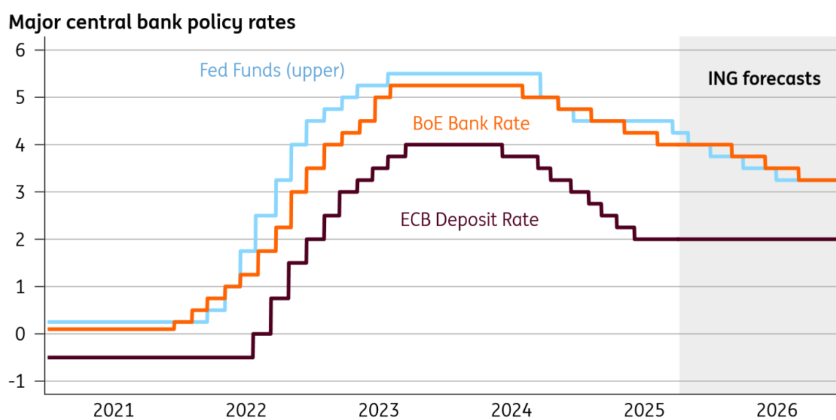
Our view on the major central banks

The European Central Bank may be done with rate cuts, but we expect another 100bp of easing from the Federal Reserve across the final months of 2025 and into 2026

Our central bank forecasts



Federal Reserve

The Federal Reserve resumed cutting interest rates at the September FOMC meeting after a nine-month hiatus and signalled that it thought just three more rate cuts would be enough to support

growth while containing inflation. The market is sceptical, believing that a rapidly cooling jobs market will require more aggressive action, with around 115bp of potential cuts priced into Fed funds futures contracts by the end of 2026.

We are concerned that the so-called 'low hire, low fire' description being applied to the jobs market risks becoming a 'no hire, let's fire' situation. Workers are worried too, and this is feeding through into soft consumer confidence prints, with consumer spending growth running at a 1.5% annualised rate.

At the same time, tariffs are having less of an immediate impact on inflation than feared. July and August customs revenue and goods import numbers imply a realised tariff rate of around 10%, well below the 18% rate estimate based on announced country and sector tariffs. We look for falling energy prices, slowing housing rents and weakening wage growth to exert a disinflationary influence that increasingly offsets the tariff impulse. This should offer the Fed scope to cut rates by 25bp at the October and December meetings, with a further 50bp of cuts in early 2026.

European Central Bank

After two consecutive meetings of keeping interest rates on hold, the bar for yet another rate cut from the European Central Bank remains high. In fact, the ECB currently feels very comfortable in what it calls a ‘good place’. With the ECB’s own growth forecasts seeing the eurozone economy growing by slightly more than 1% each year and inflation nicely settling down at 2% over the next few years, there is indeed very little reason to change its monetary policy stance.

At the same time, however, there are still some valid dovish arguments that could still force the central bank to cut further over the coming months. Just think of the delayed adverse impact of US tariffs, the stronger euro exchange rate, French politics or a delay in Germany’s fiscal stimulus. If any of these downside risks still materialise, we can see the ECB engaging in one or two more rate cuts. If not, and this is our base case scenario, interest rates will remain on hold for the next two years.

Bank of England

Financial markets are pricing barely one more rate cut from the Bank of England. Certainly, the timing is looking more uncertain, and we have removed a November cut from our forecasts. But we think markets are still underpricing the likelihood of further easing. By December – and more so February – the inflation data should look a little better, while private sector wage growth should be more under control.

What’s more, tax hikes in the Autumn Budget, coupled with lower spending growth in 2026, offer scope for greater monetary easing. A December cut is possible, though we’re more inclined to think the Bank will wait until the new year, where we expect three cuts in total.

People’s Bank of China

We see a solid case for further easing from the People's Bank of China (PBoC) before the end of the year.

Softening economic activity in July and August suggests that additional policy support, while perhaps not absolutely necessary, would be beneficial in helping to comfortably secure the 2025

growth target of around 5%. Deflationary pressure remains widespread, with CPI, PPI, and the GDP deflator all signalling deflation this year.

The strengthening of the CNY, combined with the Fed kicking off its rate cut cycle, means that China's currency stability objective likely won't be an impediment to further easing. Finally, despite year-to-date aggregate financing growth of 21.2% YoY, which looks robust at first glance, new RMB loans have contracted by 3.6% YoY, indicating sluggish borrowing demand at current rates.

We continue to expect a 10bp rate cut and 50bp RRR cut before year-end, and re-lending programmes to help direct loans to preferred sectors could be expanded or extended. Potential further support measures for the property sector may also be on the table after a few months of sluggish price activity.

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