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GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Central Banks Preview – Fed, BoE, BoJ, BoC

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Herbert Wong
Herberthtwong@ocbc.com

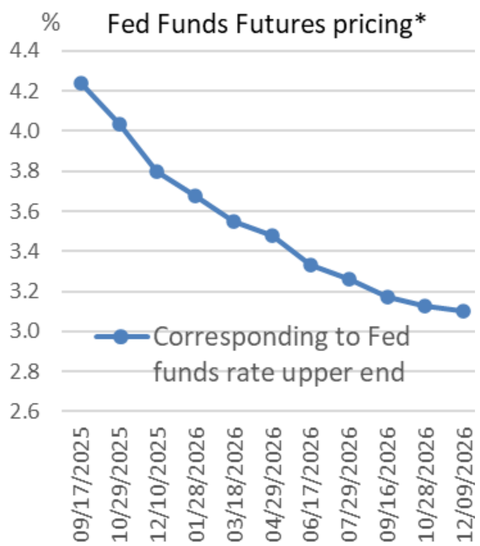
Global Markets Research and Strategy

- **USD rates**. UST yields edged higher on Friday in a steepening manner as investors turned cautious ahead of this week's FOMC meeting. With a 25bp cut fully in the price, which is also our long-held call, there are a few things to focus on.

  First, the dot-plot will be updated. In the scenario where a 25bp rate cut materialises, a 2025 median dot pointing to one additional rate cut for the rest of this year will probably see yields correct higher, but it is unlikely to dent market expectation for some chance of a third cut this year. If a 25bp cut materialises, and the 2025 median dot points to two additional cuts, that will reinforce current market expectations but may not lead to further, material rally in USTs given that the market is dovish pricing in a terminal rate of around 3%. In this regard, the median dot for the "longer-run" rate will also be watched. If 2026 median dot shifts lower while 2025 median dot points to one additional cut after the expected September cut, then this combination may also serve to reinforce current market expectations.

  Second, the split of vote, if any. As a base-case, we are looking for split between a hold and a 25bp cut, but will there be a three-way split? A three-way split including a 50bp cut, or a revelation that a 50bp cut is discussed, will be interpreted as dovish.

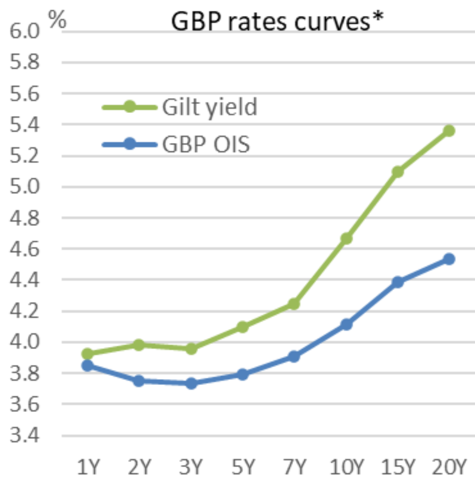
  Third, the balance of risks. Inflation and GDP forecasts will also be updated; investors watch if the growth forecast will reflect the softer than expected labour market. Powell's speech is an opportunity for him to balance, or not to balance, any dovish bias with emphasis on the upside risk to inflation.



Source: Bloomberg, OCBC Research

*15 September

- **GBP rates**. Bank of England is widely expected to keep its Bank Rate unchanged at 4.00% this week, which is also our call, after the 25bp cut at the August meeting. Focus will be on the forward guidance, as to whether the statement will keep the "gradual and careful approach" wordings which are generally seen as meaning one 25bp cut per quarter, or whether there will be a shift in the guidance to suggest the next cut will only come some time in 2026. GBP OIS has pared back rate cut expectation, only seeing one-third of a chance for an additional rate cut this year. The decision on QT pace for the next 12-month period starting October is to be made at this upcoming meeting. The latest review of the process of quantitative tightening underlines market and our expectation for a slower QT pace. The report commented that shifts in the gilt market "could pose a risk that QT has a greater impact on market functioning than previously" and "in an environment with lower demand for long-term assets, for example, QT could have a larger impact on market liquidity". We expect BoE to slow QT pace, potentially to GBP60-80bn. First, APF holdings have come a long way down from the peak of GBP875bn in February 2022 to an expected GBP558bn by end-September. Second, gilt maturity under the APF during the Oct 2025 – Sep 2026 period is at GBP49bn compared to GBP87bn during the Oct 2024 - Sep 2025 period. This means if QT pace were to be kept unchanged at GBP100bn, bigger active gilt sales would be required, which may not be very well received given the current bond market environment. A bigger reduction in QT pace to below GBP60bn will likely be seen as a positive surprise for medium to long-end gilts, which may render 10Y bond/swap spread stabilising around the levels of -55bps/-50bps.



Source: Bloomberg, OCBC Research

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- **JPY rates**. Bank of Japan is widely expected to keep BoJ Target Rate unchanged at 0.50%, which is also our base-case. The central bank is likely to maintain the stance that if their baseline economic scenario is realised, then it would be appropriate to raise the policy rate. We still have one 25bp hike this year in our profile and at this juncture, we see the October meeting as a live one – where JPY OIS price only a 34% chance of a 25bp hike by that meeting. August CPI is also released on Friday morning, where consensus is looking for some easing in inflation pressure across headline CPI, core (exclude fresh food) CPI, and core core (exclude fresh food and energy) CPI – but remaining well above 2%. Separately, the decision on the composition of JGB purchases during Q4 is to be made by 30 September. According to an earlier BoJ study during the review of monetary policy, "bid-ask spreads begin non-linear widening when the share of the Bank's outstanding holdings of an individual JGB issue exceeds 50 percent. Moreover, once the share exceeds 70 percent, an increase in the Bank's purchases can even reduce overall market trading volumes". As such, any further reduction in the purchase amounts of super long end JGBs, despite subdued market demand, will not be surprising.

- **CAD**. The CAD closed last week with a marginal decline against the dollar and sideways price action is expected in the lead-up to Wednesday's central bank decisions in Canada and the United States. The Bank of Canada is expected to cut its policy rate further by 25bps to 2.50%, in consideration of a weakening labour market, potential impact of tariffs, and contained inflation. A 25bp cut is 86% priced by CAD OIS, as the economic backdrop has continued to deteriorate with Canada's Q2 GDP growth (-1.6% QoQ annualised) having surprised to the downside while the unemployment rate rose further to 7.1% in August. Turning to this week's data, key releases include July Manufacturing sales on Monday, August CPI on Tuesday, and July retail sales on Friday. Although consensus is looking for an uptick in headline CPI, core CPI, both median and trim, are expected to stay steady. Beyond data, PM Carney also plans to visit Mexico on 18 Sep to boost trade and strengthen relations with the country amid US tariffs. We see potential for modest CAD positivity if these talks generate optimism around Canada's trade relationships, though gains may be limited without concrete progress. Meanwhile, any upside for the CAD will also be capped by the uncertainty over how US tariffs weigh on export sales and business confidence. A decisive break below the support zone around 1.3730–1.3740 would clear a path to the next key support level at 1.3600. On resistance, immediate resistance is now at 1.3860, with a secondary resistance level following at 1.3940.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W