

Interest Rates Focus

8 October 2025

Central bank outlook – Fed, BoJ, ECB, BoE, RBA, RBNZ

- **Fed.** We continue to expect one 25bp Fed funds rate cut each at the October and at the December meeting this year, followed by one 25bp cut in Q1-2026, which will then bring the target range for the Fed funds rate to 3.25-3.50%. Further cuts from 3.25-3.50% level will probably require inflation to move nearer the 2% target. On the Fed's latest dot-plot, 2025 and 2026 median dots point to additional 50bps of cuts for the rest of this year, and one 25bp cut in 2026, in line with our long-held call. Still, in the absence of key US data, risk to our forecast profile is that rate cuts may be more paced out.
- **BoJ.** Our base-case remains for a 25bp hike before year end, with the October meeting presenting a window of opportunity for the BoJ to deliver this expected hike. Thereafter, we expect another 25bp hike in Q1-2026 which will bring BoJ Target rate to 1.00%. In the Summary of Opinions for the September Monetary Policy Meeting, BoJ said "judging solely from the perspective of Japan's economic conditions, it may be time to consider raising the policy interest rate again". Real interest rates are low compared to major economies, while BoJ opined the impact of previous hikes "on Japan's economy as a whole has been extremely limited". Continued policy normalisation remains on the agenda. September PPI and CPI are released before October meeting. Prospect remains for sustained wage growth to pass through onto prices.
- **ECB.** The ECB is likely nearing the end of the easing cycle. We still have one final 25bp cut in our forecast profile, but we are pushing it to Q1-2026. There is no urgency to cut with rates at current levels while September CPI inflation ticked up to 2.2%YoY. At the September meeting, Lagarde remained non-committal, and commented "we continue to be in a good place, but we are not on a predetermined path and we will take stock, meeting-by-meeting, to look at all the data – the outlook, the projections – that we receive in order to make sure that we stay in a good place." At the margin, we interpret it as Lagarde not ruling out another rate cut, but it does not look like to be the central bank's base-case for the near term.
- **BoE.** We maintain our expectation for one 25bp cut per quarter, with a terminal rate of 3.50%; these include an expected 25bp cut this quarter, and a final 25bp cut in Q1-2026. Bank of England voted by a majority of 7-2 to maintain Bank Rate at 4.00% at September meeting. Two members voted for a 25bp cut – for these two dissenters, "the inflation hump was expected to normalise, with the

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most significant contributions coming from one-off changes in administered prices and global food inflation in a limited set of items, neither related to demand pressure.” The central bank maintains the guidance that “a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate”. While inflation remains as an obstacle to aggressive rate cuts, weak PAYE payrolls support some further easing.

- **RBA.** We maintain our view that there is likely only one final 25bp cut in the cycle, and we expect this cut in Q4-2025. RBA kept Cash Rate unchanged at 3.60% at September meeting as widely expected. Bank bills futures fell (implied rates higher) as the statement and Bullock’s comments were seen as hawkish. The statement fell short of giving any hint of further easing and instead indicated that “inflation may be persistent in some areas”. After the previous August meeting, Cash Rate futures once priced additional 60bps of cuts for the rest of the cycle, but market has since pared back rate cut expectation to the latest additional 32bps of cuts (by mid-2026).
- **RBNZ** delivered a 50bp cut on 8 October, bringing the OCR to 2.50%. RBNZ opined there is “significant spare capacity in the domestic economy”, but nevertheless the central bank said more timely indicators suggest that economic activity recovered modestly in the September quarter. On balance, RBNZ remain “open to further reductions in the OCR”. We have pencilled in one additional 25bp cut for Q1-2026 as an insurance cut.

Interest rates forecasts	Current	4Q25	1Q26	2Q26	3Q26
Fed fund rates (upper)	4.25	3.75	3.50	3.50	3.50
BoJ Target Rate	0.50	0.75	1.00	1.00	1.00
ECB Depo Rate	2.00	2.00	1.75	1.75	1.75
BoE Bank Rate	4.00	3.75	3.50	3.50	3.50
RBA Cash Rate	3.60	3.35	3.35	3.35	3.35
RBNZ OCR	2.50	2.50	2.25	2.25	2.25

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