

Interest Rates Focus

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

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- **Fed.** With the US labour market not cooling more rapidly while inflation stays above target, the Fed is likely to be in a wait-and-see mode. We hold onto our view that room for easing is small. Our base-case remains for one 25bp Fed funds rate cut this year, and we expect this cut to come in June. Any additional rate cut will probably require inflation moves near the 2% target, as the Fed funds rate is now “within a broad range of estimates of its neutral value”. Meanwhile, we expect continuity in Fed balance sheet policy. The end to QT and the start of RMPs represent a consensus view at the Fed. We do not expect a reversal to QT in the near term.
- **BoJ.** We now expect the BoJ to keep policy rate on hold at March meeting, and to deliver a 25bp hike at April meeting. The central bank’s stance remains that “if the outlook for economic activity and prices is realised... it will continue to raise the policy interest rate”. We see the criteria as being met for a rate hike as soon as in March, while BoJ also sounded hawkish regarding the expected wage negotiation outcome and firms’ proactive price setting behaviour. However, April appears to be a better window, as the BoJ would have the benefit of getting confirmation on the *Shunto* and another around of *Tankan* survey outcomes. These outcomes are particularly important in the face of pushback from the government on rate hikes.
- **RBA.** We are adding one 25bp hike to our forecast profile, which will then bring the policy Cash Rate to 4.10%. RBA analysis has it that a large part of the unexpected increase in 2H2025 inflation was due to sector-specific demand and price pressures, much of which is expected to dissipate in coming quarters. However, an increase in economy-wide capacity pressures was noted, partly due to stronger-than-expected aggregate demand. January CPI also printed on the firm side. On balance, the RBA may be inclined to deliver one additional policy rate hike to guard against inflation risk. The timing of this hike is likely the May meeting, when Q1 CPI will have been released while the central bank updates the quarterly economic outlook.
- **BoE.** We continue to expect a 25bp cut in the Bank Rate at the March MPC meeting which is a close call; the vote split is likely to be finely balanced in either a hold or a cut outcome. Market pricings of rate cuts have fluctuated over the past month, and GBP OIS last

priced a 53% chance of a 25bp cut at the March meeting versus 19% priced a month ago. Beyond this expected cut, the room for further easing seems to have increased somewhat as January inflation eased across measures. January CPIH (CPI including owner occupiers' housing costs) rose by 3.2%YoY, down from the 3.6% in December. The labour market has remained soft, but nevertheless the fall in December PAYE payrolled monthly was revised much narrower to 6K from the whopping 43K in an initial reading. We will observe more data before we decide as to whether to add one more cut to our profile. For now, we maintain our base-case for one 25bp cut this year.

- ECB.** ECB is likely to keep rates on hold through this year, with the key policy Deposit Facility Rate at 2.00% seen as a neutral level. January inflation in the region has come in mixed, with that in France and Spain on the firm side while in Germany a tad softer. These outcomes support the view that the easing cycle is over, and the ECB is likely to keep rates on hold for an extended period. More inflation data are due out this week. While ECB governing council member Nagel opined that the ECB is ready to adjust rate in any direction if needed, we do not expect a hiking cycle to start soon.

Interest rates forecasts	Current	1Q26	2Q26	3Q26	4Q26
Fed Funds Rate (upper)	3.75	3.75	3.50	3.50	3.50
BoE Bank Rate	3.75	3.50	3.50	3.50	3.50
ECB Depo Rate	2.00	2.00	2.00	2.00	2.00
BoJ Policy Rate	0.75	0.75	1.00	1.00	1.25
RBA Cash Rate	3.85	3.85	4.10	4.10	4.10

Source: OCBC Group Research

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