

Interest Rates Focus

Central banks outlook – June policy decisions

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- *Fed: the FOMC is likely to keep Fed funds rate unchanged at June meeting. In the Statement, the easing bias may be changed to a neutral stance. The dot-plot will also be updated.*
- *ECB: We expect a 25bp policy rate hike at the June meeting. At this juncture, we do not expect an aggressive hiking cycle to kick in.*
- *BoE: the BoE is likely to keep Bank Rate unchanged at 3.75% at June meeting. The room for the BoE to hike rates is limited, given where Bank Rate is and slowing wage growth.*
- *BoJ: we expect a 25bp hike at June meeting, which is long overdue. The BoJ is also due to conduct an interim assessment of its QT plan.*
- *RBA: Minutes of the monetary policy board meeting in May and the recent data underpinned our call for the cash rate to stay at 4.35%.*
- *RBNZ: the central bank was explicitly hawkish, looking to hike rates sooner. We now expect an earlier start of the hiking cycle, with one 25bp hike each in 3Q2026, 4Q2026 and 1Q2027.*

Fed

The FOMC is widely expected to keep the target range for the Fed funds rate unchanged at 3.50-3.75% at the June meeting. In the Statement, the easing bias may be changed to a neutral stance. The dot-plot will also be updated. Fed comments continued to mostly come in on the hawkish side, cautioning against inflation risks: Hammack is more concerned about the growing risks of persistently elevated inflation than the risks to full employment; Kashkari said inflation remains his top priority; Cook said she was prepared to raise rates if the expected disinflation does not appear in a timely manner. Meanwhile, Cook described the labour market as largely stable but said downside risks to employment are elevated. This shows the dilemma the Committee face with their dual mandate, while the stance of “prepared to raise rates” may be better seen from a risk management perspective, in our view.

Further out, we keep one final 25bp Fed funds rate cut in our forecast profile for now, as risk to the labour market remains tilted to the downside. The delivery of a rate cut would require inflation to ease towards the latter part of the year – on this, our base-case remains for oil prices to ease gradually in 2H2026 premised on some de-escalation

in geopolitics. Some second-round inflation impact is likely to be reflected in the next couple of CPI prints. As such, in the interim for the next couple of meetings, the default policy option, given high uncertainty on both side of the Fed's dual mandate, is probably a status quo.

ECB

For ECB, we have pencilled in a 25bp insurance hike at the June meeting, which is almost fully priced by the market. The account of the April monetary policy meeting (aka minutes) revealed that some officials wouldn't have objected to a rate hike at that meeting. Further out, ECB policy response depends much on the intensity and the duration of the energy price shock, and on the pass-through of energy inflation onto the broader consumer price level and onto inflation expectations. At this juncture, we do not expect an aggressive hiking cycle to kick in.

BoE

The BoE is likely to keep Bank Rate at 3.75% at June meeting. We remain of the view that the room for the BoE to hike rates is limited, given where Bank Rate is and slowing wage growth. PAYE payrolled employee unexpectedly fell by almost 100K in April, while the unemployment rate edged up to 5.0% in the three months to March. Governor Bailey expressed willingness to be patient, opining "tolerating temporarily above target inflation to provide some support for the real economy is an appropriate way to approach the trade-off". Policy direction further down the road hinges much on how temporary the inflation pressure would be which in turn depends on the scale and duration of the energy price shock. On balance, we expect the central bank to keep Bank Rate unchanged at 3.75% through this year as the default option. We note risk is for a more hawkish BoE policy response function should second-round inflation effect become prominent.

BoJ

Bank of Japan's summary of opinions for April meeting sent a strong rate hike signal, saying "it is quite possible that the Bank will raise the policy interest rate from the next MPM onward, even if the future course of the situation in the Middle East remains unclear". Although April CPI and May Tokyo CPI eased, the BoJ is still more likely than not to deliver a 25bp hike at the June meeting. First, part of the easing in CPI inflation was due to one-off factors. Second, a rate hike is long overdue. The BoJ is to conduct an interim assessment of its QT plan at the June MPM as well. The current plan is to reduce JGB purchases in a gradual manner, by about JPY200bn per month after each quarter. Our base-case is for the BoJ to stick with this plan. At the margin, the bank can increase the purchases of JGBs of tenors > 25Y while further reducing the purchases of JGBs of other tenors. A more notable tweak

would be to keep JGB purchase amounts unchanged, i.e. do not go ahead with further reduction but this is not our base-case.

RBA

Minutes of the monetary policy board meeting in May and the recent data underpinned our call for the cash rate to stay at 4.35%. The minutes revealed that at the May meeting, members considered whether to raise the cash rate target by 25bps or to leave it unchanged. The unemployment rate unexpectedly rose to 4.5% in April from the 4.3% in March, even when the participation rate edged lower to 66.7% from 66.8% prior. While April CPI trimmed mean edged up to 3.4%, it was as expected, and household spending came in weaker. RBA is likely to be patient and adopt a wait-and-see mode after delivering three hikes. Cash rate futures have pared back rate hike expectations, from pricing in around one and a half additional hikes after the May hike, to the latest 18bps of a hike by year end.

RBNZ

RBNZ held OCR unchanged at 2.25% as expected. The MPS was explicitly hawkish, notwithstanding the acknowledgment of spare capacity, and weaker business and consumer confidence. The Statement commented “the OCR will most likely need to increase sooner and by more than envisaged”. It also revealed that three members preferred to increase the OCR by 25bps at the May meeting; and “all Committee members agreed that increasing the OCR at upcoming meetings would likely be necessary.” We now expect an earlier start of the hiking cycle; we expect one 25bp hike in the OCR each in 3Q2026, 4Q2026 and 1Q2027, which will bring the rate to 3.00%. These expected hikes, together with the already tightened financial conditions and spare capacity helping to mitigate second-round inflation impact, might be enough to fight against interim inflation pressure – RBNZ expects inflation to peak at 4.3% in the September quarter and to return to 2% target mid-point in mid-2027.

Interest rates forecasts	Current	2Q26	3Q26	4Q26	1Q27	2Q27
Fed Funds Rate (upper)	3.75	3.75	3.75	3.50	3.50	3.50
BoE Bank Rate	3.75	3.75	3.75	3.75	3.50	3.50
ECB Depo Rate	2.00	2.25	2.25	2.25	2.25	2.25
BoJ Policy Rate	0.75	1.00	1.00	1.25	1.25	1.50
RBA Cash Rate	4.35	4.35	4.35	4.35	4.35	4.35
RBNZ OCR	2.25	2.25	2.50	2.75	3.00	3.00

Source: OCBC Group Research

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