

Interest Rates Focus

Central banks outlook – watching inflation risks

Frances Cheung, CFA
Head of FX and Rates Strategy

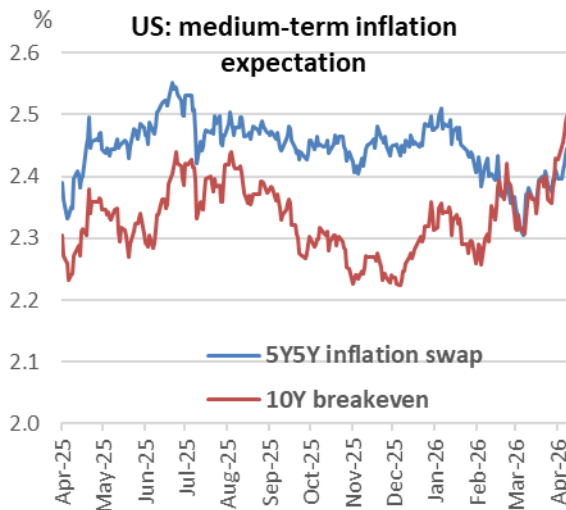
- *Fed: We still have one 25bp Fed funds rate cut on our forecast profile considering downside risk in the labour market and to growth, but we are pushing this expected rate cut to 4Q2026 as energy prices have stayed elevated.*
- *ECB: We have pencilled in a 25bp policy rate hike at the June meeting. At this juncture, we do not expect an aggressive hiking cycle to kick in.*
- *BoE: We remain of the view that the room for the BoE to hike rates is limited, given where Bank Rate is and expectedly slower wage growth ahead. That said, BoE “stands ready to act” as necessary.*
- *RBA: We continue to expect RBA to deliver another 25bp hike at its May meeting, bringing the overnight cash rate to 4.35%. Thereafter, there is room for RBA to become more patient.*

Fed

We still have one 25bp Fed funds rate cut on our forecast profile considering downside risk in the labour market and to growth, but we are pushing this expected rate cut to 4Q2026 from 3Q2026 as energy prices have stay elevated. We note medium-term inflation expectations as reflected by 10Y breakeven and 5Y5Y inflation swaps have edged higher of late. Risk is for more intense second-round inflation impact to kick in should the energy shocks become more persistent – in that scenario the window of opportunities for the Fed to ease monetary policy would be close. April CPI is due out on 12 May which will shed more light on inflation pass-through. Before that, this week brings a slew of labour market data, including March JOLTs dataset, April non-farm payrolls and the unemployment rate.

FOMC decided to keep the target range for the Fed funds rate unchanged at 3.50-3.75% at the April meeting, in line with expectations. The FOMC statement mentioned three members “did not support inclusion of an easing bias in the statement at this time”, which had led to hawkish market re-pricing of the Fed funds rate. We would however note that the minutes for the March meeting already revealed that “some participants judged that there was a strong case for a two-sided description” of future interest rate decisions. Moreover, the March dot-plot also showed 7 members (including not-voting members) not expecting a rate cut this year. In this regard, the explicit

mentioning of the objection to the statement maintaining an easing bias does not represent a notable hawkish shift from last month. That said, it may be a preparation to remove the commitment to an easing bias given high uncertainty in economic developments.



Source: Bloomberg, OCBC Group Research

ECB

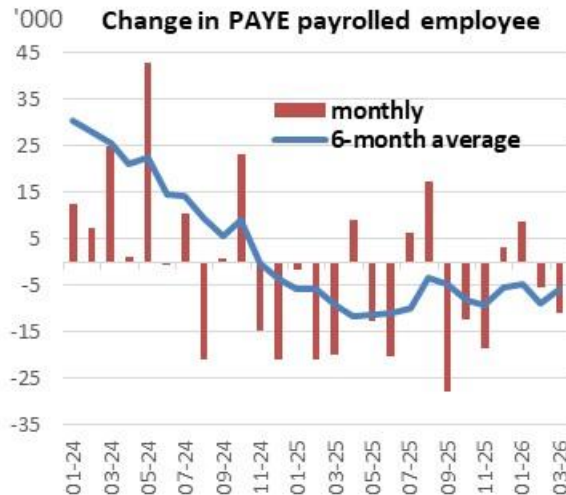
ECB decided to keep the three key ECB interest rates unchanged at its April meeting, in line with expectation. We have pencilled in a 25bp insurance hike at the June meeting. While ECB noted both the upside risks to inflation and the downside risks to growth have intensified, some members opened that economic developments are still close to baseline, but the inflation outlook has deteriorated. Given the potentially bigger impact on inflation, and the depo rate at a non-restrictive 2%, there is room for the ECB to mildly tighten monetary policy. 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, when softness has already been seen in some economic activities and survey data (including PMIs and German IFO). EUR OIS last priced a total of 74bps of hikes by year end, which looks overly hawkish to us.

BoE

We remain of the view that the room for the BoE to hike rates is limited, given where Bank Rate is and expectedly slower wage growth ahead. On balance, we expect the central bank to keep Bank Rate unchanged at 3.75% through this year as the default option. Bank of England maintained Bank Rate at 3.75% at its April meeting. The vote at 8-1, with one member voting for a 25bp hike, was not more hawkish than market pricing. Gilt yields fell and market mildly paring back rate hikes

expectation as a response. Still, GBP OIS priced around 60bps of hikes by year end. We note risk is for a more hawkish BoE policy response function should second-round inflation effect become evident. BoE said the committee “stands ready to act” as necessary to ensure inflation meets target. At this juncture, BoE appears to be patient while assessing the situation.

BoE repeats a similar opinion, that “monetary policy cannot influence energy prices but will be set to ensure that the economic adjustment to them occurs in a way that achieves the 2% inflation target sustainably”. The central bank noted “there is a risk of material second-round effects in price and wage-setting, which policy would need to lean against”. Meanwhile, “the labour market continues to loosen, and a weakening economy could contain inflationary pressures”. Tighter financial conditions also help to reduce inflation over time.



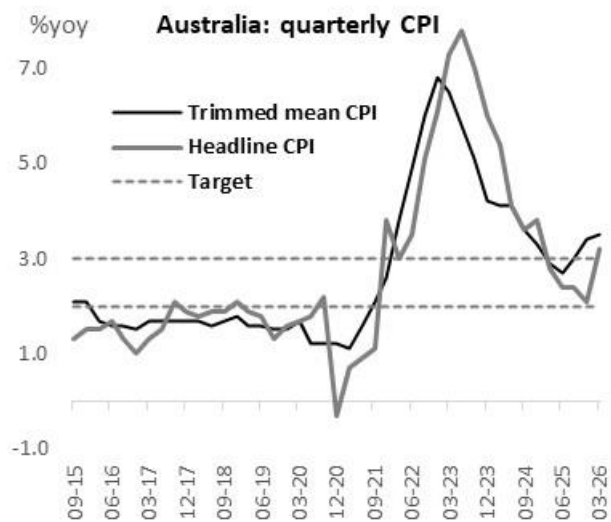
Source: Bloomberg, OCBC Group Research

BoJ

BoJ decided to keep its target for the o/n call rate unchanged at 0.75%, with three members preferring a 25bp hike. Ueda’s post-meeting comments were not as hawkish as the 6-3 split vote would have suggested. We had opined the conditions – namely another year of solid wage growth and continued proactive price setting behaviour among firms as reflected by the latest *Tankan* survey – had been met for a hike at the April meeting. Given the status quo decision, we push this expected 25bp hike to the June meeting. Thereafter, we maintain our call for another 25bp hike in Q4, which will then bring the policy rate to 1.25%. JPY OIS last priced a 64% chance of a 25bp hike at June meeting and a total of 44bps of hikes by year end.

RBA

We continue to expect RBA to deliver a 25bp hike at its May meeting, bringing the overnight cash rate to 4.35%, the same as the last cycle. March headline CPI inflation picked up to 4.6%YoY versus 3.7% prior, but below expectation of 4.8%. Trimmed mean was better anchored at 3.3%YoY in March. RBA’s preferred measure of inflation – the quarterly trimmed mean – was a tad higher at 3.5%YoY but eased somewhat on a sequential basis to 0.8%QoQ. On balance, after another expected policy rate hike, rates are likely working towards containing inflation pressure. This allows the RBA to turn a bit more patient, although RBA rhetoric has been on the hawkish side.



Source: Bloomberg, OCBC Group Research

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	4.10	4.35	4.35	4.35	4.35	4.35
RBNZ OCR	2.25	2.25	2.25	2.50	2.50	2.75

Source: OCBC Group Research

Disclaimers

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Additional disclosures and disclaimers applicable only to clients of Bank of Singapore Limited

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) ("BOS") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). BOS and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by BOS' or OCBC Bank's wilful default or gross negligence.

The DIFC Branch of BOS has not conducted or produced any research contained in this material and is acting solely as a conduit in forwarding it to you.

For BOS clients in the United Kingdom:

This research has been prepared by OCBC Bank and made available to BOS. It is intended solely for informational purposes and does not constitute investment advice, a personal recommendation, or an offer or solicitation to buy or sell any financial instruments. Any payments or non-monetary benefits received or paid will be fully disclosed in accordance with applicable regulations, promptly and transparently, and will not influence the advice or services offered to you. If you would like more information about any inducements received, please contact your Relationship Manager.

Cross Border Disclaimer and Disclosures

Please refer to https://www.bankofsingapore.com/Disclaimers_and_Disclosures.html for cross-border marketing disclaimers and disclosures.