

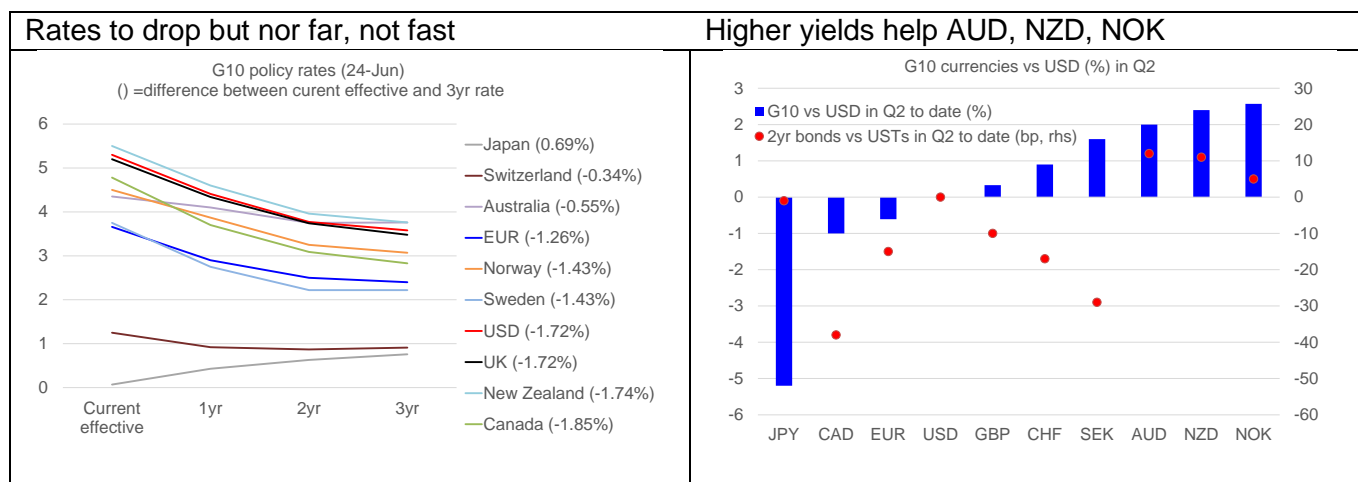
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## G10 – Easing cycle: Different strokes

- The G10 easing cycle is underway. The SNB, the Riksbank, the ECB and the BoC have already cut
- The BoE seems likely to be next in August. Despite solid data, the Fed looks keen to ease
- The RBA, RBNZ and Norges Bank will likely get deep into H2-24, possibly H1-25, before easing
- Easing elsewhere will only curtain rather than derail the BoJ hiking cycle

### SNB still leading the pack. Is the SNB easing cycle already over?

Last week, in a busy week for central bank activity the SNB continued to lead the G10 easing cycle with a second 25bp cut in the current cycle. Recall, that it kicked off the G10 easing cycle back in March. The SNB has therefore conducted back-to-back 25bp cuts. Also recall, that the SNB meets only every quarter and by the time it meets in late September, other central banks will likely have eased further too. In the wake of the calling of a snap election in France and the subsequent rise in political risk in the eurozone, CHF appreciated further. CHF was already appreciating in the wake of better-than-expected data in April and May meeting. The firm currency likely helped the SNB make up its mind to ease. In addition, the Swiss economy never had the same inflation problem as other G10 economies during the covid period. There is no concern that the SNB is going soft on its mandate or that inflation expectations will get out of control. The CPI sits well within the SNB's 0~2.0% target range. Whilst its not our baseline forecast, it is possible that after 2 cuts the SNB easing cycle is done, especially if geopolitical risks ease and CHF softens. The SNB policy rate is currently down 29% off its high. One more 25bp cut would take it down to 43% off the high. Currently, we don't see any G10 central banks more than halving their policy rate in the current easing cycle. We believe that the SNB is near the end of its easing cycle. Generally, we are looking for G10 central banks to proceed with caution and to leave rates much higher than they were in the post-GFC period.



Source: Bloomberg

### ECB, BoC, Riksbank set for gradual removal of restriction. No need for stimulus

The ECB, the Riksbank and the BoC have all eased policy by 25bp. We detect no rush to ease further among these banks and at least initially (say through end 2024) see a pace of 25bp per quarter as the likely pace of easing. All have battled elevated inflation since 2022 and consequently are likely to move slowly out of restrictive territory, especially as activity seems to be picking up even as inflation slowly declines back to target. The fact that activity is picking up and inflation risks seem likely to dissipate only slowly suggests no need for central banks to push the policy rate below neutral. We assume that neutral rates are well above the levels that they were in the post GFC period. As the chart above left suggests, current market pricing sees most G10 central banks with policy rates in the 2.5~3.75% range on a 3yr horizon. This seems reasonable to us. Japan and Switzerland, the traditional low inflation economies are the exception. Here rates seem likely to settle at a lower level – around the 1.00% level.

### BoE to join the easing party in August

Last week's BoE meeting set the stage for a 25bp cut in August. The 7-2 vote suggests 2 members are already set to vote for looser policy in August. The statement noted "*There continued to be a range of views among these members (the 7 that voted to leave rates unchanged) about the extent of accumulated evidence that was likely to be needed to warrant a change in Bank Rate.*" This camp is split into 2 groups – those that worry about inflation persistence and those that see less threat in recent developments. In the first group we see Mann, Greene and Haskel and expect that they will vote to leave policy unchanged in August. We suspect that the latter group includes Bailey and Breeden. We think Broadbent, who will be replaced by Clare Lombardelli at the next meeting, and Chief Economist Pill may be in either group. Assuming that Lombardelli votes with the Governor at the August meeting, there will be a majority for a cut, even if one assumes Pill will vote against a cut, which is not certain. The above assumes no major surprises in the data, which is our baseline assumption.

### Fed to ease in autumn, although arguably it shouldn't

The most recent Dot Plot showed the Fed cutting the funds rate just once this year. That remains our forecast. We don't think the data are likely to warrant easing. US economic activity seems to be slowing towards trend but at the same time inflation looks to be bottoming out above the Fed's 2.0% target. Easing could easily see inflation push higher again and thus the Fed would be well advised to exercise caution rather than push for a premature start to the easing cycle. Nonetheless, the Fed has articulated a clear easing bias, obvious in its asymmetric response to labour market weakness, which implies they are keen to start easing.

### RBA, RBNZ and Norges Bank – likely done hiking but not keen to give markets all clear on easing

The RBA, Norges Bank and the RBNZ all discussed hiking rates in recent weeks. The outlook is for all 3 to keep rates on hold deep into H2-24 or even into H1-25 rather than to actually tighten policy but the discussion of a hike seems necessary to prevent markets from getting overexcited, as other G10 central banks start easing. All 3 are relatively small, open economies where FX rates play an important role in policy. Note that all 3 have seen front end yields push higher vs USTs in Q2, helping to support their currencies.

Case for hiking looks less clear cut after Japan's Q1 wobble								
	Headline CPI	Core CPI	Policy rate	6m OIS implied policy rate	Current real policy rate	CPI target %	Q1 24 GDP (%YoY)	BBG Q4-24 CPI forecast
Switzerland	1.50	1.20	1.25	1.00	-0.25	0-2	0.50	1.4
Japan	2.80	2.10	0.10	0.29	-2.70	2	-0.70	2.1
Canada	2.70	2.90	4.75	4.22	2.05	2	1.10	2.2
US	3.30	3.40	5.375	5.02	2.08	2*	2.90	3.0
Norway	3.00	4.10	4.50	4.46	1.50	2	-0.80	2.8
New Zealand	4.00	4.10	5.50	5.16	1.50	1-3	0.30	2.6
Eurozone	2.40	2.70	3.00	3.36	0.60	2	0.40	2.3
Australia	3.60	4.10	3.75	4.32	0.15	2-3	1.10	3.2
UK	2.00	3.50	5.25	5.16	3.25	2	0.20	2.4
Sweden	3.70	2.30	3.75	3.22	0.05	2	0.70	2.1

\* The Fed's inflation target is a PCE not a CPI target

Source: Bloomberg. Blue implies policy is tight, while Red implies

### Easing elsewhere to curtail rather than derail BoJ hiking cycle

It is also noteworthy that despite the rise in front-end Japanese yields that USD/JPY has continued to push higher. The yen is the worst performing G10 currency in Q2. It is certainly true that even after Japan hikes rates (and we expect the first hike in October) the spread vs other countries will remain wide. In recent weeks, soft Japanese data have cast some doubt over the BoJ's hiking cycle and the Fed's easing cycle will certainly be a lot slower than envisaged just six months ago. Nonetheless, we expect that easing overseas will only curtail rather than derail the BoJ's hiking cycle. We expect that policy rates in Japan will top out ~1.0% in H2-25. Under Governor Ueda, the BoJ has made slow but steady progress on preparing the ground for tighter policy and we do not see a step change in the speed of action now. We think that Ueda's cautious rhetoric is designed to prevent bond investors from getting ahead of themselves in pricing in policy tightening but at the same time it spurs FX investors to remain short JPY.

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