

ECB and BoE to cut as BoJ remains an outlier

For all developed market central banks (excluding the Bank of Japan (BoJ), which is an outlier), monetary policy is quite tight. They will want to avoid tipping their economies into recession. Consequently, these central banks can cut while preserving a tight monetary policy

stance. In fact, they will probably ease proactively if inflation allows—if they wait until economic activity craters before cutting, they will be far behind the curve because it will be a long way back to neutral.¹

¹ The neutral rate neither stimulates nor restrains economic growth.

Persistent wage growth will make ECB cautious over easing

(Fig. 3) The eurozone economy could be susceptible to an abrupt labor market slowdown

Labor Shortage vs. Eurozone Wages



As of May 24, 2024.
Sources: ECB, European Commission.

Eurozone Labor Demand vs. Labor Supply



As of May 24, 2024.
Sources: European Commission, Eurostat.

Fears of labor market cracks lead ECB to act

Eurozone inflation has fallen to the extent that the ECB was able to cut rates in June. ECB policymakers think that eurozone employers have been hoarding labor over the past 12 months. This makes the region's economy susceptible to an abrupt labor market downturn if corporate profit margins come under pressure amid softer final demand.

The big questions are: When will the ECB ease after June, and how large will the cuts be? The number of expected cuts has been steadily dropping, but we believe the ECB will likely cut twice before the end of 2024—however, it could be as few as once or as many as three times.

BoE likely to follow in the third quarter

There have been hopes that the BoE would follow fast on the heels of the ECB by cutting rates later in June, but we believe it may be a little later than that. With tentative signs that the UK economy is recovering, the BoE may not feel it needs to rush in cutting rates and is likely to wait until the autumn before doing so.

Gradual tightening from the BoJ

Japan has also struggled with inflation—but the lack of it rather than prices rising too quickly. After finally moving away from its subzero rates policy earlier in 2024, we expect the BoJ to continue gradually tightening while sounding dovish enough that the market doesn't undo its work in boosting inflation. By tightening policy, the BoJ would also support the yen, which has plumbed multi-decade lows against other major currencies in 2024.

“The BoE may not feel it needs to rush in cutting rates....”



Ken Orchard
Head of International
Fixed Income



Central bank decisions to watch

June 6

ECB became the first major developed market central bank to cut rates

June 12

Fed likely to stay put at FOMC meeting

June 14

BoJ could continue to tighten policy

July 31

Fed could make its first rate cut

September 18

September 19

With the U.S. presidential election on the horizon, Fed policymakers likely hesitant to cut

Possible first cut from the BoE

November 7

Two days after presidential election, Fed likely to hold rates steady

December 18

Look for the Fed to lower rates

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