# Special Edition: Economic Insight

## Global Monetary Policy

June 2025

STIFEL

# Executive Summary

This month, the Federal Reserve (Fed) and several other central banks announced their latest policy decisions. While most of them have been noting uncertainty about the global economy, their policy responses have varied.

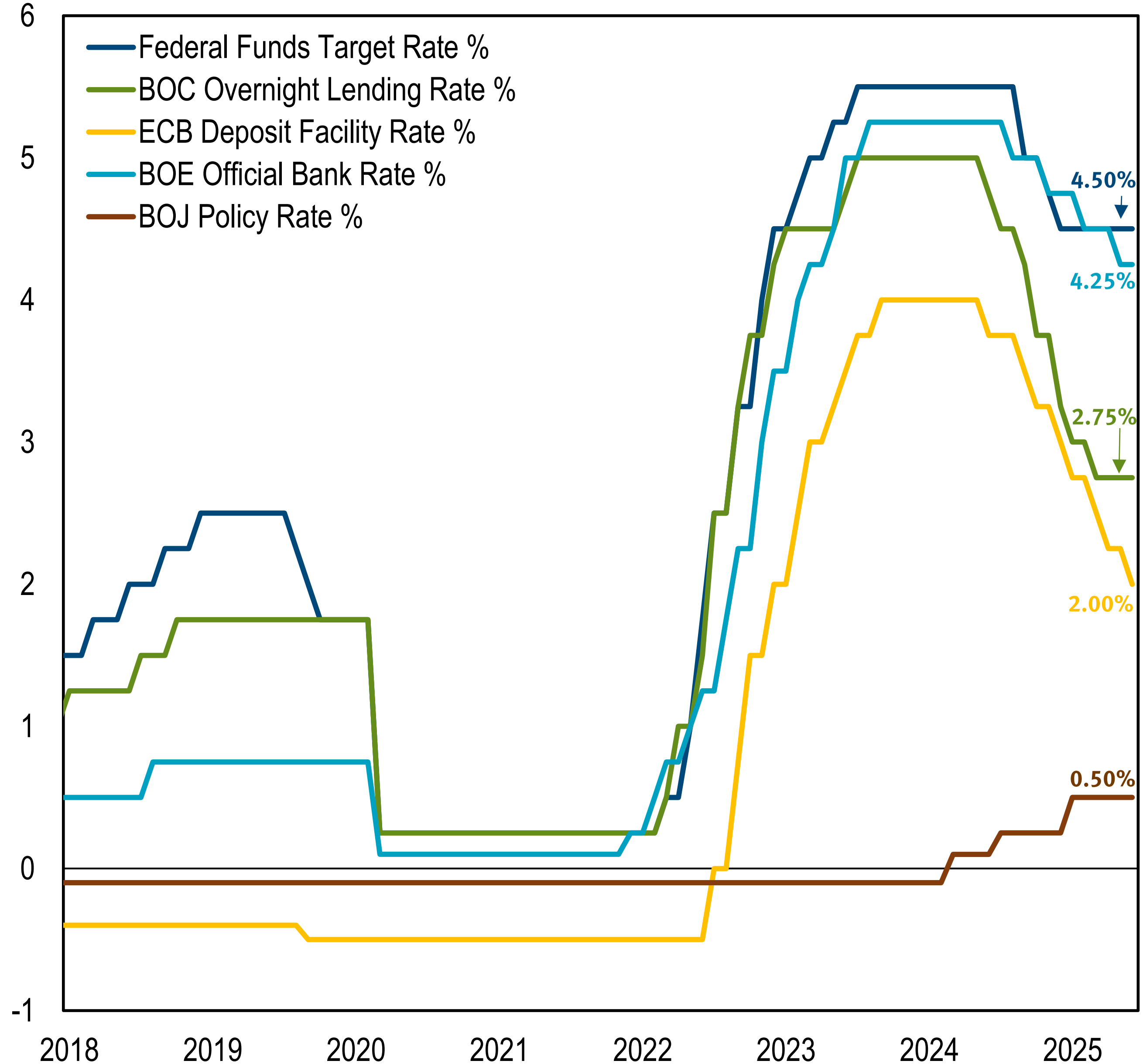
This week, we take a closer look at global central bank policy and the outlook for rates.

## Central Bank Policy Diverges

The Fed and Bank of Canada have taken a cautious approach to policy, with the Fed holding rates steady at an upper-bound of 4.50% since the start of the year. Meanwhile, the Canadian central bank held rates steady at 2.75% at its April and June meetings after lowering rates 50 basis points (bps) at the start of the year.

In contrast, the European Central Bank and the Bank of England have proceeded with more easing since the start of the year, lowering rates 100 bps and 50 bps to 2.00% and 4.25%, respectively. However, at its June 19 meeting, the Bank of England paused its rate cutting cycle, citing heightened global uncertainty.

On the other hand, the Bank of Japan hiked rates 25 bps to 0.50% in January and has since held rates steady.




Source: BOC/BOE/BOJ/ECB/Federal Reserve/Bloomberg



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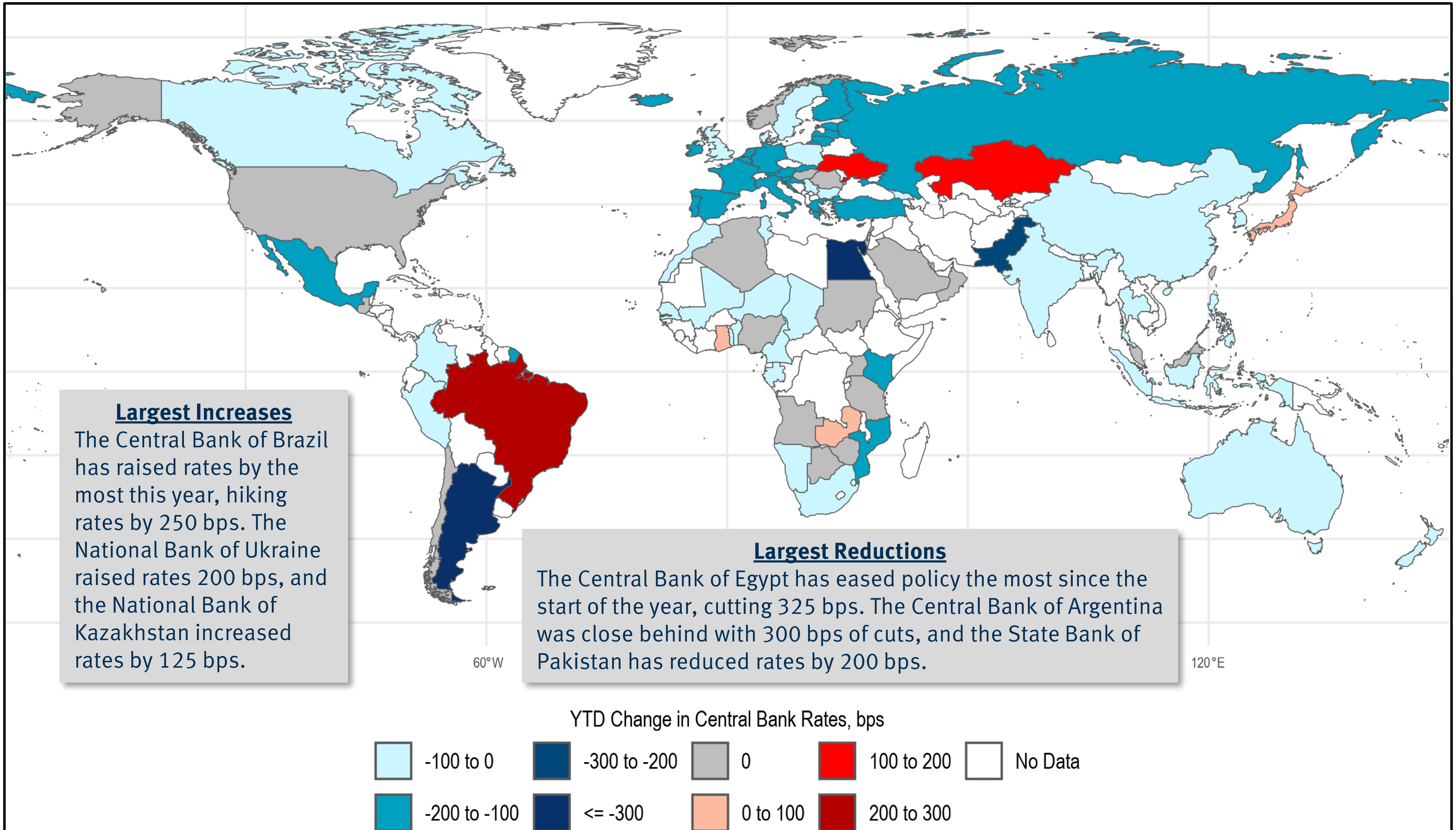
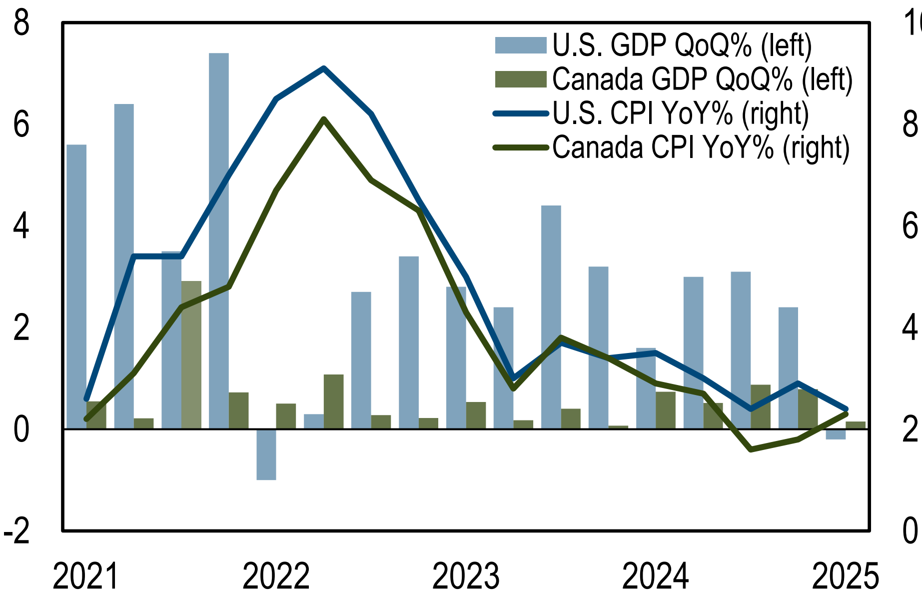
# Change in Global Central Bank Rate Decisions Since Start of the Year

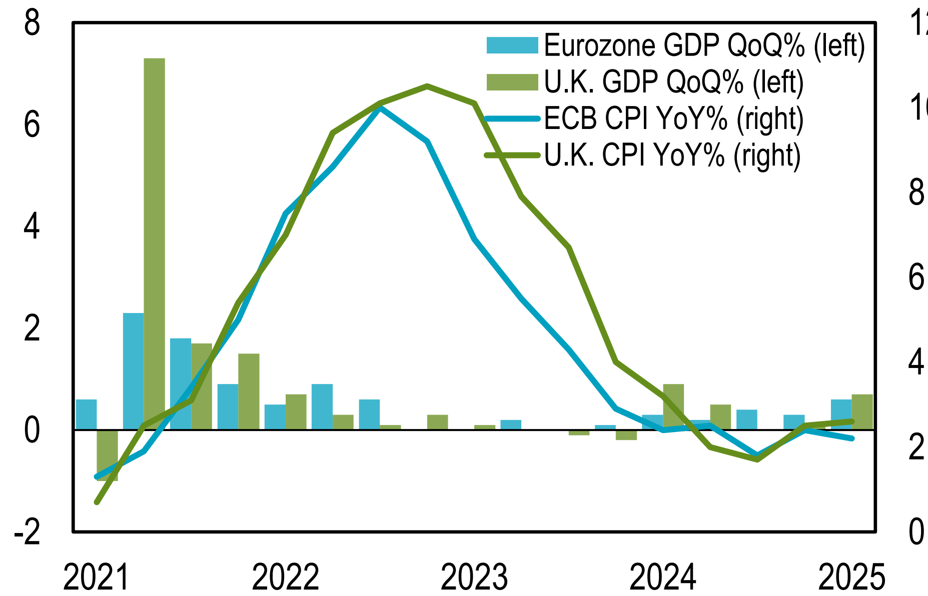



Source: Stifel/Bloomberg

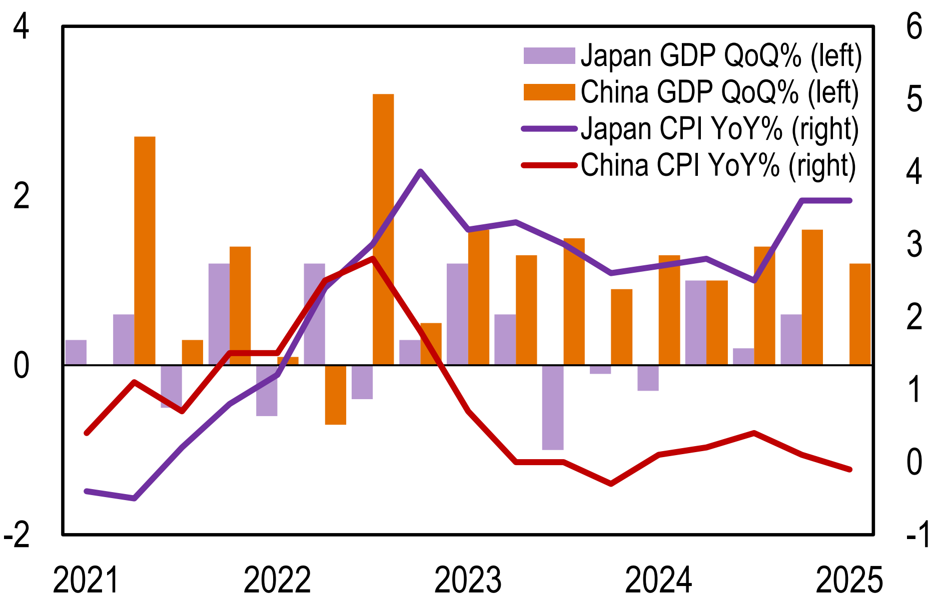
# Policy Drivers: Growth and Inflation




Source: BEA/BLS/Statistics Canada

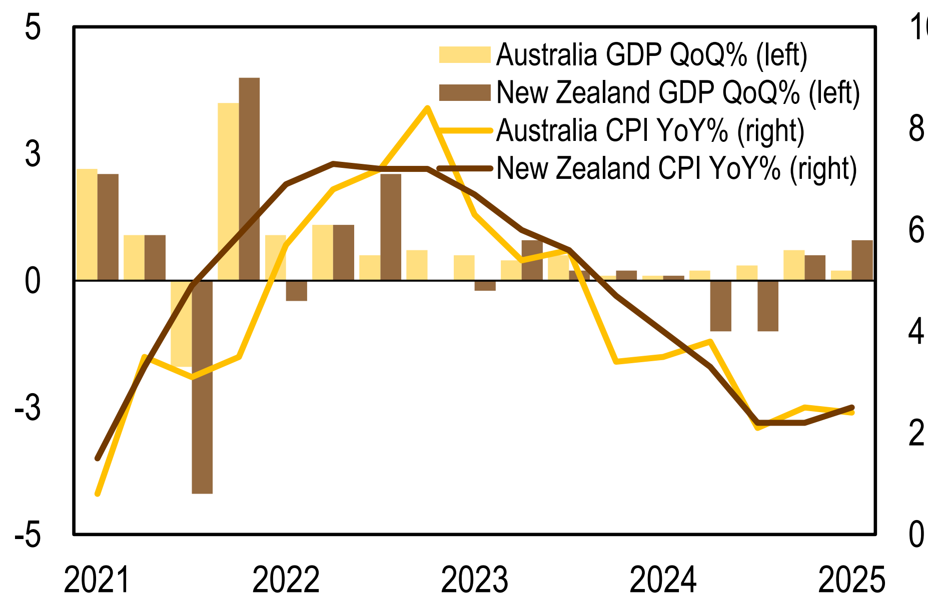



Source: Eurostat/U.K. Office for National Statistics




Source: Chinese National Bureau of Statistics/Economic and Social Research Institute Japan

Note: Japan's Q1'25 GDP print was 0.0%




Source: Australian Bureau of Statistics/Statistics New Zealand



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# Central Bank Statements Point to Continued Uncertainty

*"The Monetary Policy Board judged that the risks to inflation had become more balanced but that the outlook is uncertain and depends heavily on unpredictable developments in global trade policy. Against this backdrop, the Board decided to lower the cash rate target by 25 basis points to 3.85 per cent."*

***"Global trade policy uncertainty has risen substantially following the announcement of significant increases in tariffs by the United States in early April.*** *Many of these tariffs were subsequently reduced as the United States announced pauses to allow trade negotiations to take place."*

- May 19 Reserve Bank of Australia Statement

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*"The Bank of Canada today maintained its target for the overnight rate at 2.75%, with the Bank Rate at 3% and the deposit rate at 2.70%."*

***"With uncertainty about US tariffs still high, the Canadian economy softer but not sharply weaker, and some unexpected firmness in recent inflation data, Governing Council decided to hold the policy rate as we gain more information on US trade policy and its impacts.*** *We will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs…* ***Governing Council is proceeding carefully, with particular attention to the risks and uncertainties facing the Canadian economy."***

- June 4 Bank of Canada Statement

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*"In particular, the decision to lower the deposit facility rate – the rate through which the Governing Council steers the monetary policy stance – is based on its updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission."*

***"The outlook for euro area inflation is more uncertain than usual, as a result of the volatile global trade policy environment.*** *Falling energy prices and a stronger euro could put further downward pressure on inflation. This could be reinforced if higher tariffs led to lower demand for euro area exports and to countries with overcapacity rerouting their exports to the euro area."*

- June 5 European Central Bank Statement

# Central Bank Statements Point to Continued Uncertainty

*"At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote, to set the following guideline for money market operations for the intermeeting period: The Bank will encourage the uncollateralized overnight call rate to remain at around 0.5 percent."*

***"There are various risks to the outlook. In particular, it is extremely uncertain how trade and other policies in each jurisdiction will evolve and how overseas economic activity and prices will react to them.*** *It is therefore necessary to pay due attention to the impact of these developments on financial and foreign exchange markets and on Japan's economic activity and prices."*

- June 17 Bank of Japan Statement

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*"In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."*

*"The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run.* ***Uncertainty about the economic outlook has diminished but remains elevated.*** *The Committee is attentive to the risks to both sides of its dual mandate."*

- June 18 Federal Reserve Bank Statement

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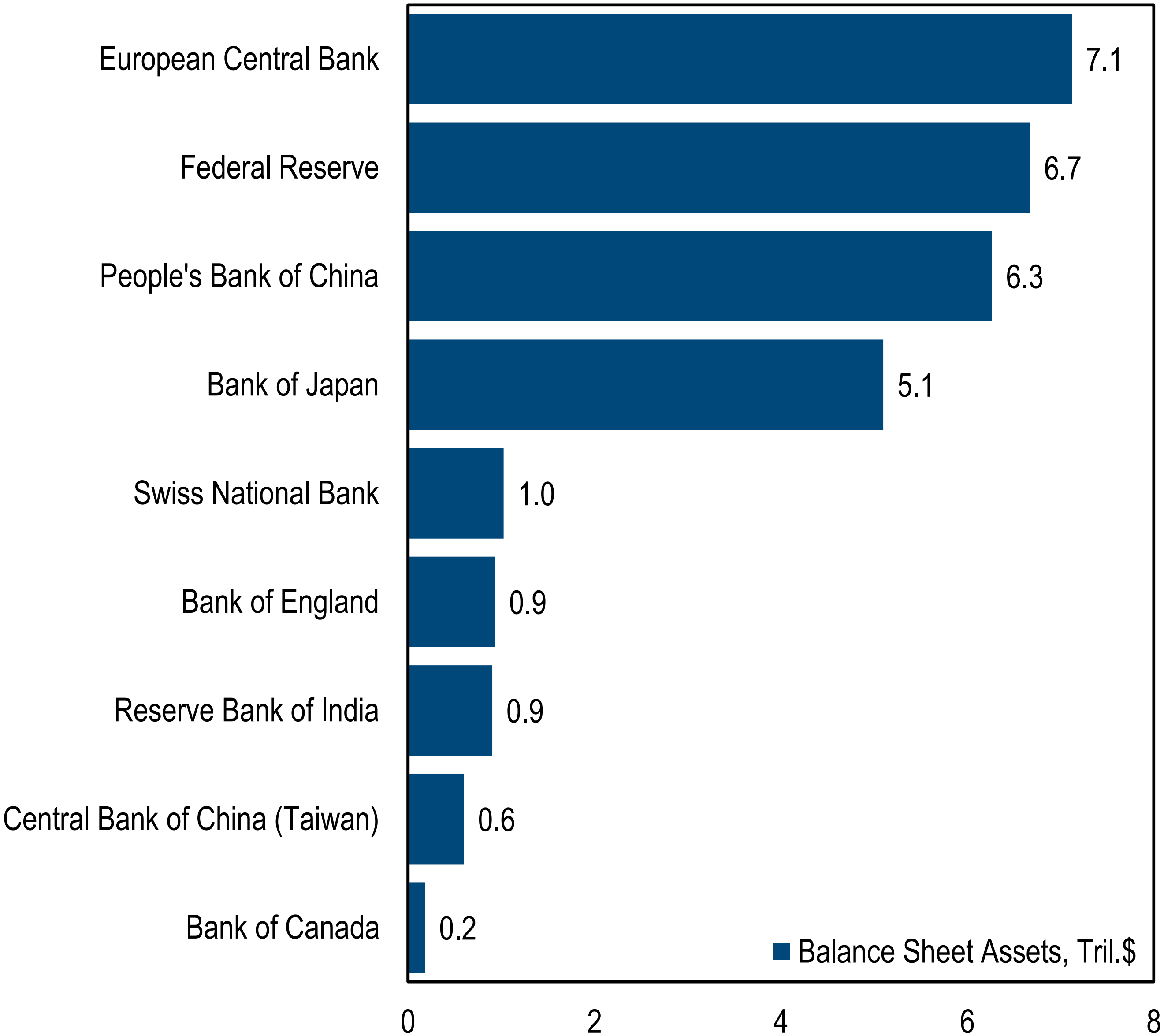
*"At its meeting ending on 18 June 2025, the MPC voted by a majority of 6–3 to maintain Bank Rate at 4.25%. Three members preferred to reduce Bank Rate by 0.25 percentage points, to 4%."*

***"Furthermore, global uncertainty remains elevated.*** *Energy prices have risen owing to an escalation of the conflict in the Middle East.* ***The Committee will remain sensitive to heightened unpredictability in the economic and geopolitical environment, and will continue to update its assessment of risks to the economy.*** *There remain two-sided risks to inflation. Given the outlook, and continued disinflation, a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate. Monetary policy is not on a pre-set path."*

- June 19 Bank of England Statement

# Top Central Bank Balance Sheets




Source: BOC/BOE/BOJ/CBC/ECB/Fed/PBoC/RBI/SNB/Bloomberg
Note: Data is in USD as of June 2025, Swiss National Bank & Central Bank of China (Taiwan) data is from April 2025

Global central banks have been steadily unwinding their balance sheets after almost all engaged in some form of COVID-related quantitative easing in the last five years.

The European Central Bank holds the largest amount of assets on its balance sheet, about $7.1 trillion. However, this is down 19% from a high of $8.8 trillion reached in June 2022.

The Fed's balance sheet, meanwhile, now stands at $6.7 trillion, down from the peak of $8.9 trillion in April 2022. In March, the Fed announced it would slow the pace of U.S. Treasury roll-off to $5 billion per month, while maintaining the cap on mortgage-backed securities at $35 billion.

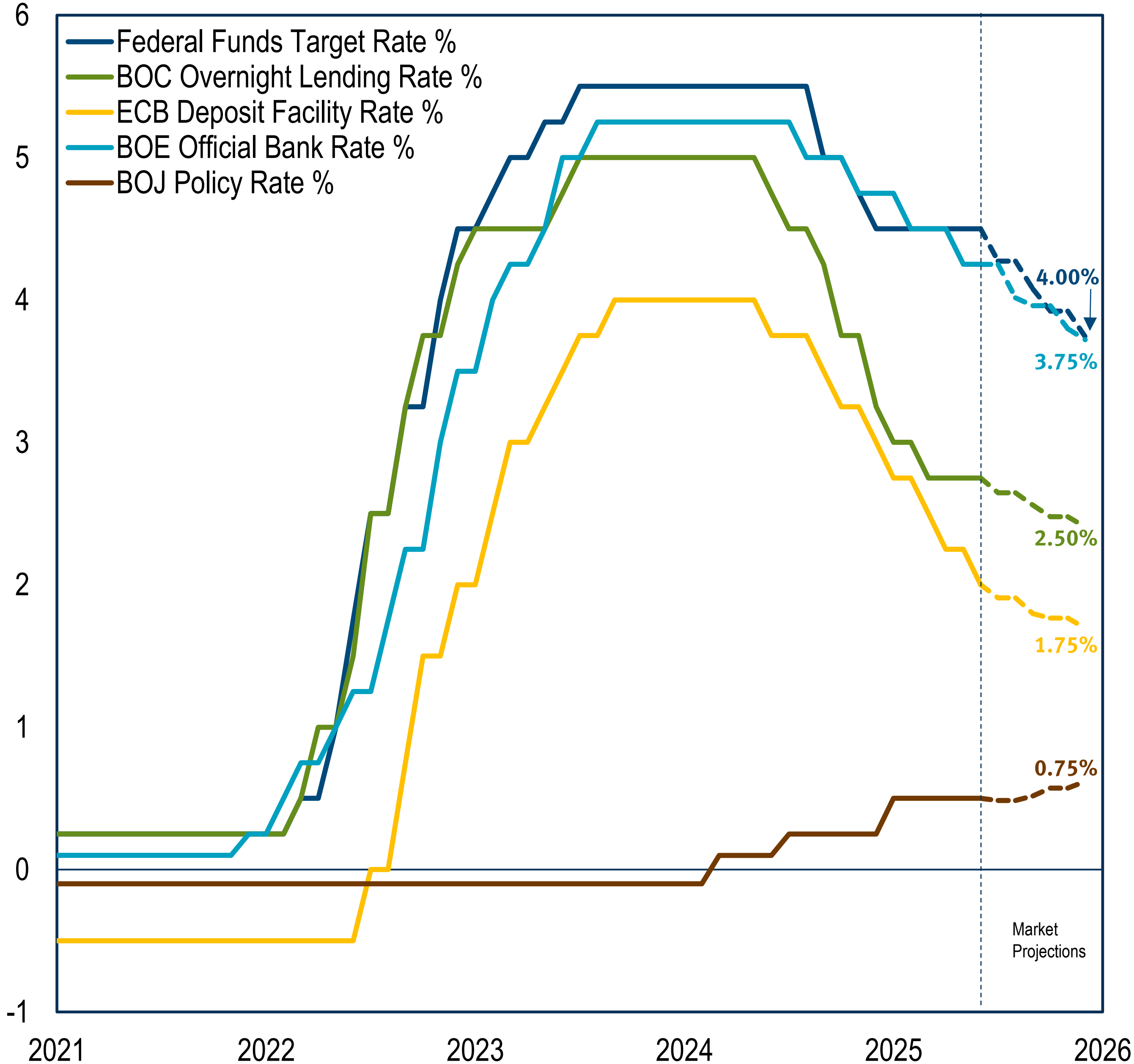
The People's Bank of China has held onto its assets more tightly than other central banks, with $6.3 trillion still on its books, down only slightly from a peak of $6.5 trillion reached in September of last year.

## Projections for Global Rates

According to market projections, investors expect a 25 bp cut by year-end from both the Bank of Canada and the European Central Bank.

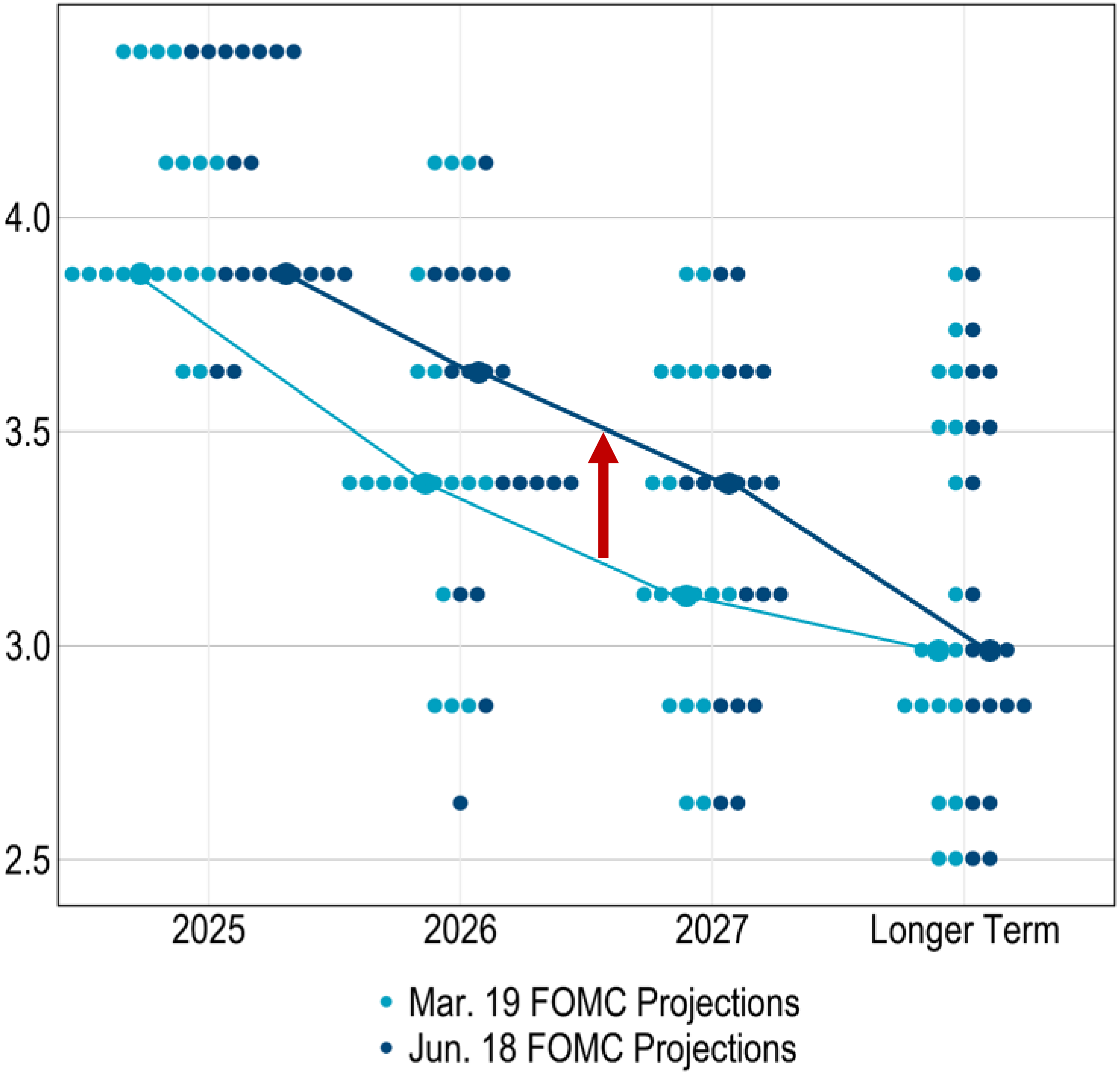
Meanwhile, projections point to around a 50 bp reduction in rates by the Bank of England and the Federal Reserve by the end of 2025.

On the other hand, according to market participants, there is a 50% probability that the Bank of Japan will raise rates 25 bps by year-end, potentially marking the second rate hike this year.




Source: BOC/ECB/Federal Reserve/Bloomberg

# Updated Federal Reserve Dot Plot Indicates Two Cuts in 2025, Fewer Cuts in 2026 and 2027




Source: Bloomberg

The Fed's Federal Open Market Committee (FOMC) held rates steady in June, yet its updated dot plot signaled two 25 bp rate reductions by year-end, which is unchanged from its March forecast.

Although, the forecasts were again compressed towards the hawkish end of the spectrum. For example, in March four officials anticipated holding rates steady through year-end, while seven officials now forecast no change to policy by the end of the year.

Additionally, Committee members now only anticipate one rate reduction in 2026 and one more in 2027, a revision from the two cuts previously forecasted in both 2026 and 2027.

Longer term, however, officials continue to forecast a neutral rate of 3.00%.

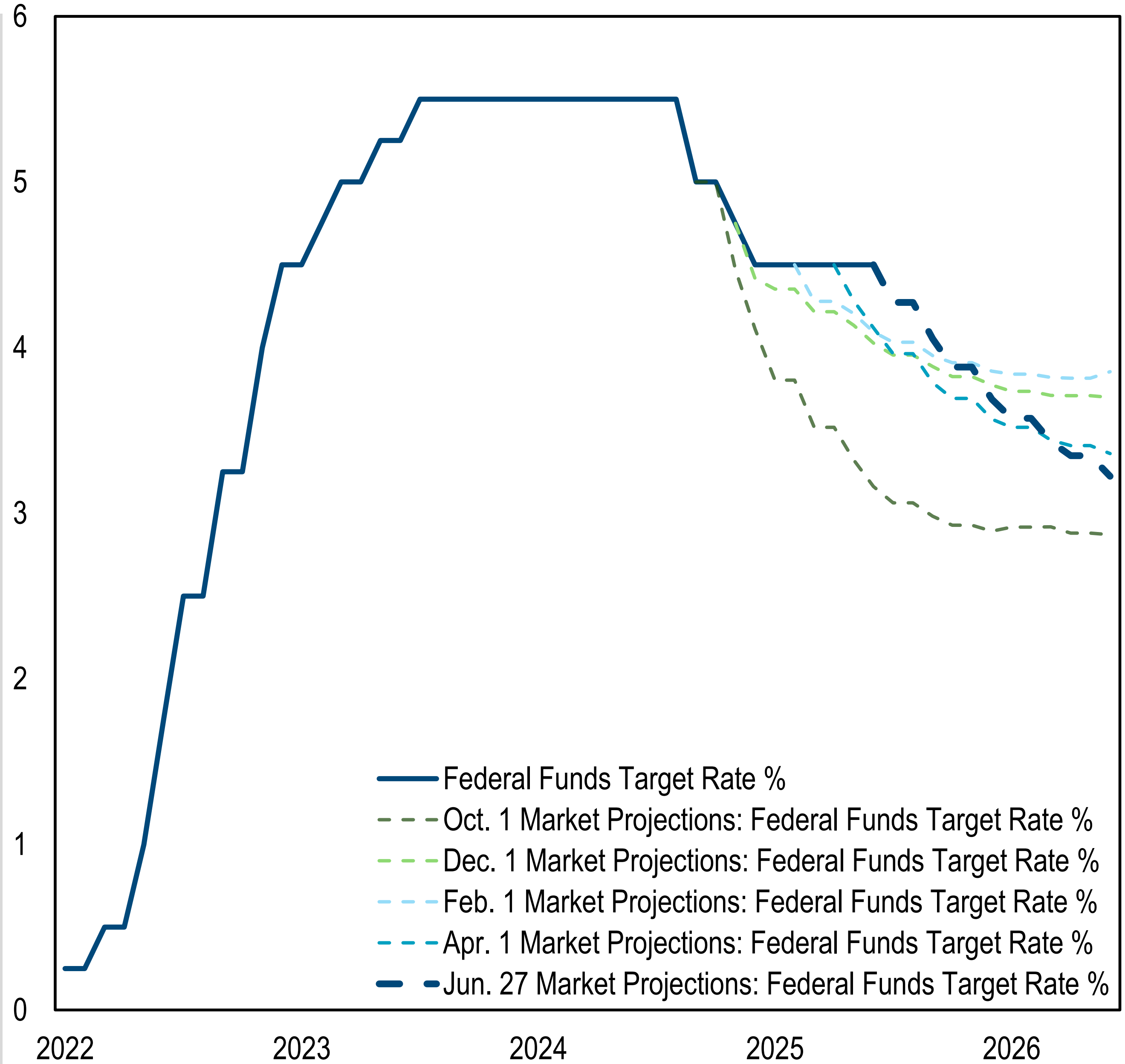
# Market Participants Dial Back Fed Rate Cut Projections

In October 2024, investors had forecasted nearly 200bps of Fed rate reductions by the end of 2025 following an outsized 50bp reduction by the Fed in September amid worries of emerging labor market weakness.

However, by February, market participants dialed back projections to just 50bps of cuts by year-end as inflation proved stickier than previously anticipated.

In April, rate cut expectations again rose to 75bps through year-end following concerns tariffs would contribute to further upward inflationary pressures.

As of June 27, projections now only point to about two 25bp cuts through year-end, in line with the Fed's updated June forecasts.




Source: Bloomberg/Federal Reserve

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