

Shifts towards hawkish pause in monetary policy outlook

Tracking the FOMC, ECB, SNB, BOE, BOJ & PBoC maintained benchmark policy rates last week
Hawkish tilts saw traders pencilling rates hikes for the ECB, SNB, BOE as well as the BOJ
Maintain our view that the ECB & SNB will pause while BOJ will hike; BOE to hold instead

Overview

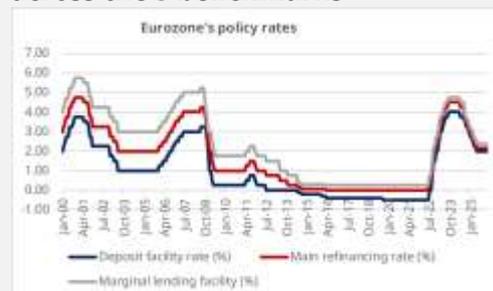
Major central banks starting from the FOMC, to the ECB, SNB, BOE, BOJ and PBoC, all stood pat at the end of last week. However, hawkish tilts in policy statements saw traders pencilling in rate hikes from some of the central banks in 2026.

While we do acknowledge growing inflation risks have raised the odds for policy tightening ahead, there is no change in our view at this juncture, that the ECB and SNB will maintain their policy rates at the current level for the whole of 2026, BOJ will deliver a 25bps rate hike in 3Q and that PBoC will lower its lending rates by 20bps by the end of the year. We are nonetheless revising our BOE's bank rate forecast from one 25bps cut to status quo for 2026. We have also dialled back our house view on Fed rate outlook from two 25bps cuts to just one 25bps cut for 2026. (Please refer to our Research Alert "The Fed dot plot maintained a 25bps cut each in 2026 and 2027" dated 19th March for details)

ECB maintained benchmark rates and upgraded growth and inflation forecasts; expect extended pause although rate hikes cannot be totally discounted

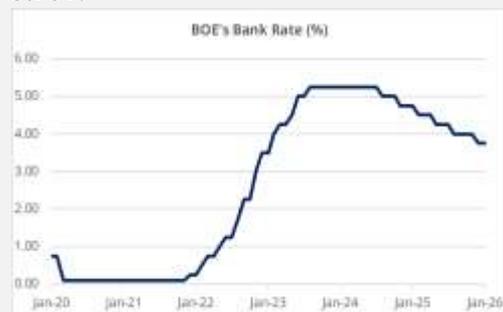
- As expected, the European Central Bank (ECB) maintained the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility unchanged at 2.00%, 2.15% and 2.40% respectively.
- The new ECB projections show headline inflation averaging 1.9% in 2026 (2025: 2.1%), 1.8% in 2027 and 2.0% in 2028. Excluding energy and food, core is expected to average 2.2% in 2026 (2025: 2.4%), 1.9% in 2027 and 2.0% in 2028. Inflation has been revised up for 2026 as services inflation is expected to ease more slowly.
- At the same time, economic growth is expected to be stronger than previously anticipated driven largely by domestic demand. Accordingly, growth has been revised up to 1.4% in 2025, 1.2% in 2026 and 1.4% in 2027 and is expected to remain at 1.4% in 2028.
- With the staff projection showing that the transitory inflation overshoot in 2026 likely to ease by 2027, and the risk analysis from the prolonged disruption in the supply of oil and gas balanced, we continue to expect ECB to extend its policy pause for now, while noting that rate hikes cannot be excluded, dependent on the duration and intensity of the war.

Figure 1: ECB maintained rates across the 3 benchmarks



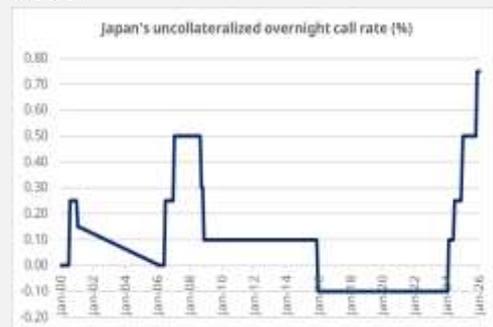
Source: Bloomberg, HLBB Global Markets Research

Figure 2: BOE held bank rate at 3.75%



Source: Bloomberg; HLBB Global Markets Research

Figure 3: Status quo for the BOJ at 0.75%



Source: Bloomberg, HLBB Global Markets Research

BOE maintained bank rate at 3.75%; expect inflation to cross above 3% for the next couple of quarters

- The Bank of England (BOE) voted unanimously to maintain Bank Rate at 3.75%. The previous monetary policy statement's collective guidance was overhauled, dropping its easing bias and said its members stand "ready to act as necessary to ensure that CPI inflation remained on track to meet the 2% target in the medium term."
- The statement, as well as the accompanying forecasts, tilted on the hawkish side. We opine that the BOE will likely hold the Bank Rate unchanged at this level for the whole of 2026, rather than delivering a rate cut as we previously anticipated.
- Accordingly, the near- term outlook for CPI inflation had risen relative to the February projection and is now likely to be between 3.0-3.5% over the next couple of quarters. In the February Report, CPI had previously been expected to fall back to around the 2% target from April, partly owing to measures in Budget 2025. Bank staff continued to estimate that underlying quarterly GDP growth for 1Q would be around 0.1-0.2%.
- While the market is pencilling in rate hikes for 2026, we opine that this is premature at the moment with labour demand still weak (unemployment rate at 5.2% in the 3 months to Jan). We will be keeping a close tab on this front, pending more clarity on how large any second-round effects from the new energy price shock would be through wage and price-setting.

BOJ maintained uncollateralized overnight call rate at 0.75%; on track for another round of tightening in 3Q

- In an 8-1 majority vote, the board of the Bank of Japan (BOJ) decided to leave the uncollateralized overnight call rate at 0.75%. Takata Hajime would have preferred to increase the policy rate to 1.0% considering that the price stability target had been more or less achieved and that risks to prices in Japan were skewed to the upside.
- We opine that the statement is mildly hawkish, especially with the statement reiterating its stance that the real interest rates are at significantly low levels and if the outlook for economic activity and prices were in line with expectations, the central bank remains on track to tighten its policy rate. Moreover, while the central bank opines that the Middle East war warrants attention of both growth and prices, there was no explicit mentioned on downside risks but a yes to upward pressure from the recent surge, the latter largely echoed by BOJ Governor Kazuo Ueda during his presser.
- With this, there is no change in our view that the BOJ will deliver another rate hike in the 3Q of this year, leaving board members enough leeway to assess the impact of the recent war on the economy and prices.

SNB maintained benchmark rate; warned of rapid and excessive appreciation of the CHF

- The Swiss National Bank (SNB) left its benchmark rate at zero for the third consecutive meeting as expected and at the same time, reiterated its willingness to intervene in the foreign exchange market (sell the CHF) to prevent a rapid and excessive appreciation of the CHF and its implications on price stability.
- With the SNB appears to be comforted by the fact that risks of a sharp decline in imported inflation will outweigh risks of persistent energy prices, we therefore are maintaining our view that the SNB will hold rates

unchanged at zero for the whole of 2026. Just a recap, CPI remained benign at 0.1% in February and is expected to stay tame at 0.5% this year.

PBoC maintained lending rates; likely staying cautious with policy move ahead to support the yuan

- The People's Bank of China (PBoC) held their 1Y and 5Y loan prime rates unchanged at 3.00% and 3.50%. The decision as within expectation and marks 10th straight month of status quo since the 10bps cut in May 2025.
- In our opinion, rising oil prices is unlikely to lift China's already low inflation rate significantly and as such, there is no change in our view that the PBoC will lower rates by 20bps this year. That said, pared rate cut bets by the FOMC and an easing by the PBoC could weigh on the yuan and such, could render the PBoC more cautious when, and if lowering rates.

House View and Forecasts

FX	This Week	1Q-26	2Q-26	3Q-26	4Q-26
DXY	96-102	96.71	95.13	94.70	95.49
EUR/USD	1.13-1.18	1.20	1.22	1.22	1.21
GBP/USD	1.31-1.36	1.36	1.37	1.37	1.35
USD/CHF	0.77-0.82	0.78	0.78	0.78	0.78
USD/JPY	156-162	153	149	147	147
AUD/USD	0.68-0.73	0.68	0.69	0.70	0.69
NZD/USD	0.57-0.61	0.58	0.59	0.59	0.58
USD/CNY	6.86-6.92	6.90	6.83	6.85	6.90
USD/MYR	3.89-3.97	4.00	3.97	3.97	4.00
USD/SGD	1.26-1.29	1.26	1.23	1.23	1.24
USD/THB	32.00-34.00	32.2	32.1	32.0	30.8

FX	Last close	1Q-26	2Q-26	3Q-26	4Q-26
EUR/MYR	4.5206	4.78	4.82	4.85	4.84
GBP/MYR	5.2295	5.44	5.45	5.45	5.41
AUD/MYR	2.7783	2.72	2.75	2.78	2.76
CNY/MYR	0.5708	0.58	0.58	0.58	0.58
SGD/MYR	3.0713	3.17	3.21	3.23	3.22

Rates, %	Current	1Q26	2Q26	3Q26	4Q26
Fed	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.25-3.50
ECB	2.00	2.00	2.00	2.00	2.00
BOE	3.75	3.75	3.75	3.75	3.75
SNB	0.00	0.00	0.00	0.00	0.00
BOJ	0.75	0.75	0.75	1.00	1.00
RBA	4.10	4.10	4.35	4.35	4.35
RBNZ	2.25	2.25	2.25	2.25	2.25
BNM	2.75	2.75	2.75	2.75	2.75

Source: HLBB Global Markets Research

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