

Crude disruption

- Fed: at the borderline
- ECB: ready to respond
- PBoC: holding pattern
- BoJ: the only way is up

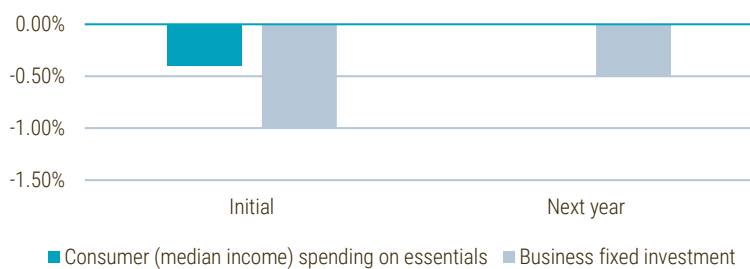
The jump in energy prices related to the Iran war has been a “crude disruption” to central bank policy plans globally. To contain rising inflation expectations, some central banks have been forced to postpone planned policy easing, while others feel the need to signal rate hikes that were not originally foreseen.

Globally, the impact of a prolonged period of elevated energy prices varies across regions. **Asia is widely viewed as the most affected given its high dependence on energy imports from the Middle East.** Within Asia, however, there are substantial differences, with China and Japan better positioned due to sizable energy reserves. Japan’s economy continues to run hot with a tight labor market, making it a prime candidate to relive the 2022 inflation episode that hit the Eurozone and the US.

Europe imports a relatively modest share of its energy from the Middle East but still faces global supply scarcity and higher prices. ECB analysis suggests a combined impact on consumption and business investment that could exceed -0.5pp GDP.

The US economy is better positioned to handle the energy price shock. Inflation is set to rise by over 1ppt, likely delaying Fed easing, but growth should hold up better, supported by its status as a net energy exporter. As a result, the re-steepening potential of yield curves in Europe seems smaller than in the US.

Figure 1 – Expected impact from 10% energy price shock on Eurozone growth (percentage point change from baseline)



Source: Bloomberg, Robeco, 11 April 2026

CENTRAL BANK WATCHER APRIL 2026

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The Federal Reserve: At the borderline

- Ceasefire reinforces near-term Fed inaction
- Central scenario still sees rate cuts under Warsh
- Fading the flattening

Still anticipating cuts later this year

The conflict in the Middle East has materially increased uncertainty around the interest rate outlook, as acknowledged by the Fed at its latest meeting in mid-March. While further rate cuts had previously been signaled, the emergence of upside inflation risks has forced policymakers to also consider a tail risk scenario of higher policy rates.

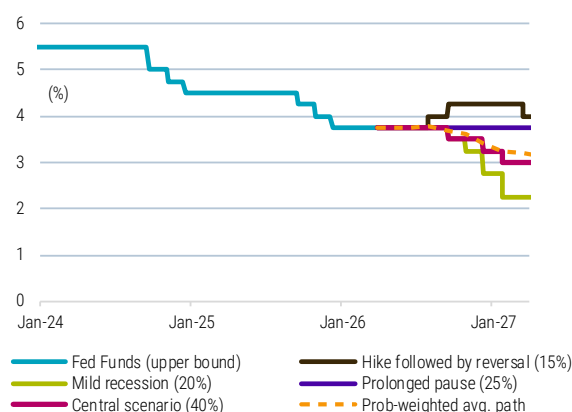
A notable moment during the March press conference was Chair Powell’s emphasis on the role of AI investment in temporarily lifting the “neutral” policy rate. Against this backdrop, he noted that policy rates are now “around the borderline between restrictive and not,” while adding that, “absent further progress on inflation, rate cuts would not be appropriate.” That said, the Fed’s updated economic projections continue to point to lower policy rates over the coming two years, with a median projection for the long-run “neutral” rate of close to 3%.

More recently, a (fragile) ceasefire between the US and Iran has come into effect, prompting financial markets to once again price in a greater likelihood of rate cuts. We agree with this reassessment. Our central scenario still assumes two rate cuts later this year, under the leadership of incoming Fed Chair Kevin Warsh. The main risks to this view are a renewed escalation of hostilities (and a related slower retreat in oil prices), as well as a potential strengthening of the labor market. Our base case, however, assumes upside risks to unemployment, as companies’ hiring intentions remain subdued.

Figure 2 presents our current base case of three rate cuts by mid-2027, alongside three alternative scenarios and related probabilities. Taken together,

these outcomes imply a probability-weighted forecast for the Fed funds rate that remains below current market pricing (see Table 1).

Figure 2 – Four scenarios for the Fed through Q1 2027



Source: Bloomberg, Robeco, 10 April 2026

Fading the flattening

We adopted a more constructive stance on US duration when 5-year Treasury yields moved above 4%. Since then, yields have retraced to around 3.90%. Even at these levels, and given our Fed outlook relative to market expectations, we remain moderately constructive on duration.

From a curve perspective, following the flattening observed in February and March, we see greater value in the 2- and 5-year segments than in 10-year maturities. At the long end, 30-year valuations appear more attractive than 10-years, particularly in inflation-linked bonds.

With further regulatory easing for banks in the pipeline, we remain constructive on long positions in 3–5-year Treasuries versus SOFR swaps. Given the still-troublesome US fiscal outlook, however, we refrain from recommending similar positions in longer-dated maturities.

Table 1 - What is priced in for the Fed versus our expectations

Fed funds rate (% upper bound)	3.75	Jun-26	Sep-26	Dec-26	Mar-27
Change implied by FF Futures (bps)		0	-2	-8	-11
Our probability-weighted expectation (bps)		0	-8	-33	-56
Our central scenario (bps)		0	-25	-50	-75
Fed funds rate central scenario (% upper bound)	3.75	3.50	3.25	3.00	

Source: Bloomberg, Robeco 10 April 2026

European Central Bank: Ready to respond

- Energy price jump impacts ECB outlook
- Oil and gas prices need to fall to avoid hikes
- Curve has flattened and this could continue

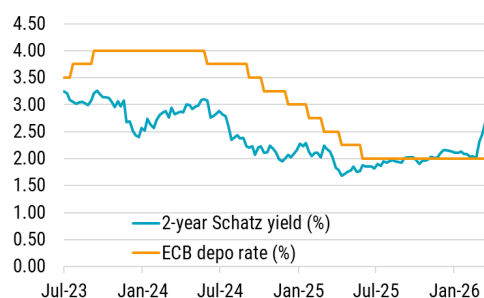
ECB better positioned than in 2022

Much has changed in the outlook for euro area inflation and growth since the start of the Iran war. While the evolution of the conflict remains highly uncertain, the ECB has been clear about its reaction function. ECB President Christine Lagarde has emphasized that the ECB entered this period from a position of relative strength, with inflation close to target, policy rates around neutral, and a cooler labor market than during the 2022 energy shock. Lagarde has stated that the Governing Council is closely monitoring: commodity prices, a variety of price and wage expectations and demand indicators. In their policy assessment, the Governing Council will also be guided by staff scenarios.

Recent data show a sharp rise in manufacturing selling-price expectations in February, although levels remain well below those seen in 2022. Inflation swaps have reacted modestly, with the 5y5y forward rising 5 bps on net to around 2.15%. Early business surveys point to softer growth expectations, and hard data suggest modest growth at the start of 2026. The key uncertainty remains energy prices, with December Brent now near USD 80 per barrel. We agree that the ECB has more room for patience than in 2022. If energy prices remain around current levels, the ECB is likely to stay on hold in April while signaling a possible hike in June. Time remains an important factor, though. Should prices remain at current levels, our base case is for 25 bps hikes in June and September. Going beyond 50 bps hikes probably requires a

renewed jump in energy prices. Not hiking would require a further drop in prices (for example below 75 USD p.b. for Brent in the December contracts). Note however, that in scenarios where the ECB lifts the depo rate beyond 2.5%, there would be pressure to cut rates back quickly.

Figure 3 – German 2-year yield and ECB depo rate (%)



Past performance is no guarantee of future results. For illustrative purposes only. Source: Bloomberg, Robeco, 10 April 2026

This ECB outlook suggests it will be difficult to get back to the February low of circa 2.65% in 10-year Bund yields. With the recent break of the 3% level, technical support beyond 3.10 can be found in the 2011 levels of around 3.30. While we see room for some recovery from the large sell off, the potential for Bunds to rally is probably curbed, with yields unlikely to fall much below 2.8%.

The move away from a neutral to a hiking bias is an important factor for yield curve dynamics. It suggests a trend towards a flatter yield curve, albeit with some room for tactical re-steepening, particularly in ultra-long maturities.

Table 2 - What is priced in for the ECB versus our expectations

ECB deposit rate (%)	2.0	Jun-26	Sep-26	Dec-26	Mar-27
Change implied by market pricing (bps)		30	55	60	65
Our probability-weighted expectation (bps)		25	35	35	25
Our central scenario (bps)		25	25	25	25
Depo rate central scenario (%)		2.25	2.25	2.25	2.25

Source: Bloomberg, Robeco; 10 April 2026

People’s Bank of China: Holding pattern

- PBoC continues to deliver targeted support...
- ...while resisting further OMO or RRR cuts
- CGB purchases still cap long-end yield upside

PBoC remains in holding pattern on key policy rate

Despite reductions in rates on structural liquidity-injection facilities, the PBoC has so far refrained from cutting the key policy rate – the 7-day reverse repo rate – this year. As discussed in our previous update, this likely reflects, in part, concerns about commercial banks’ net interest margins, as well as a desire to maintain some appreciation of the CNY against the USD.

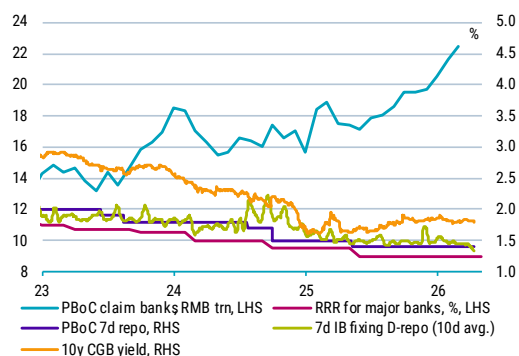
More recently, better-than-expected activity data in Q1 and renewed inflationary impulses stemming from the conflict in the Middle East have likely reinforced the PBoC’s reluctance to ease the key policy rate. Indeed, the statement following the Q1 MPC meeting, released on 31 March, reaffirmed the authorities’ preference for calibrated and targeted easing measures.

That said, in our view this does not imply that a cut to the key policy rate or the RRR is off the table in 2026. Domestic demand and inflationary pressures remain subdued, and a sustained recovery in the housing market has yet to materialize. Moreover, liquidity provision to banks has remained very ample in recent months, with several money-market rates now trading at or below the key policy rate.

Regarding the growth outlook – which in recent quarters has continued to rely primarily on exports – we have not abandoned the view that the recent improvement in M2 growth could translate into somewhat better domestic cyclical momentum later this year. Should this materialize, additional easing may not be required beyond the RRR cut and 10 bps rate cut assumed in our base case for Q2/Q3.

Overall, our policy-rate outlook remains more dovish than current market pricing (see Table 3).

Figure 4 – PBoC claims on banks continue to rise



Source: Bloomberg, Robeco, 11 April 2026

Upside potential for yields still capped

The 10-year CGB yield rose to 1.90% in January, following a strong start to the year in the Chinese equity market. Since February, however, it has traded in a very narrow range around 1.80%, underscoring the PBoC’s de facto yield-curve control through CGB purchases and ongoing liquidity injections.

With front-end yields drifting below the key policy rate, the 2s10s CGB curve has steepened to levels last seen in late 2024.

We continue to recommend an underweight position in 10-year CGBs. That said, we would become more constructive on longer-dated CGBs – and start to trim the underweight – should yields approach 1.90%. This reflects our view that, despite the potential for a cyclical improvement, China’s structural growth outlook is likely to remain subdued. In addition, we expect the PBoC to continue capping upside risks to 10-year CGB yields through the policies outlined above.

Table 3 - What is priced in for the PBoC versus our expectations

PBoC 7-day reverse repo (%)	1.40	Jun-26	Sep-26	Dec-26	Mar-27
Change implied by forwards (bps)		-1	0	2	2
Our probability-weighted expectation (bps)		-2	-8	-11	-13
Our central scenario (bps)		0	-10	-10	-10
PBoC 7-day reverse repo in central scenario (%)	1.40	1.30	1.30	1.30	1.30

Source: Bloomberg, Robeco; 11 April 2026

Bank of Japan: The only way is up

- New inflation series confirms momentum
- Economy is running hot
- Expecting a higher terminal rate

On the sidelines, for now

As expected, the BoJ left rates unchanged at the March MPM. The statement added multiple references to the developments in the Middle East and kept the expectation that the price stability target will be met in the second half of the projection period. Ueda expanded during the press conference that there were now more board members who placed emphasis on the upside risks to inflation. In the meantime, the BoJ has updated its neutral rate forecast, which raised the lower bound by 10 bps, and released new (core-) inflation series that strips out the effects of government subsidies. These data show that, once subsidy effects are removed, the BoJ’s preferred core inflation measure, excluding fresh food and energy, has been running above 2% for the past four years.

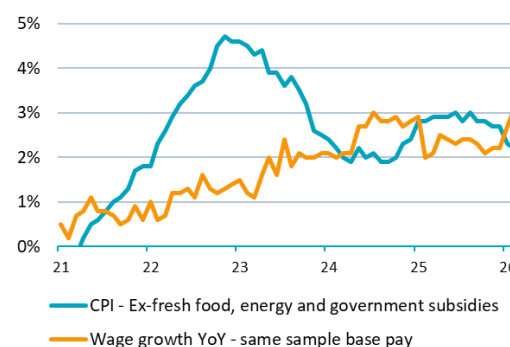
The wrong moment for an inflation shock

Japan imports around 90% of its oil from the Middle East, yet they also have one of the largest strategic oil reserves, covering about 230 days’ worth of demand. The government was quick to enact energy subsidies limiting part of the price impact on consumers. However, we believe that the sharp increase in energy prices could not have come at a worse time for Japan as the current economic setup has a strong resemblance to the US and Eurozone in 2022. The Japanese labor market is tight, wage growth is running at 3% and the Tankan business survey is giving its strongest reading in 35 years. Moreover, firms indicate that financing conditions are relatively loose, even with the rise in interest rates.

We expect the BoJ to increase its policy rate over the coming quarters. If policy makers opt to move in

April, we will likely have to see some ‘leaked’ stories in the coming weeks stating that the April meeting is live. Otherwise, market pricing will shift to June. This gives policy makers another month of data on the impact on the economy and provides the April CPI report, which is especially relevant as Japanese firms tend to raise prices at the start of a new fiscal year. Given the heightened uncertainty from the Middle East, we have placed more weight to our tail-risk scenarios for the BoJ. Further out, we believe that Japanese policy rates should be moving towards a somewhat restrictive level in two years’ time. This is currently priced at 1.95%, we believe this should be above 2.25%, the upper end of the neutral rate estimate.

Figure 5 – Inflation and wage growth are upbeat



Source: Bloomberg, Robeco, 11 April 2026

More conviction in UW duration, less on curve

The JGB curve steepening or flattening behavior will be dependent on how fast the BoJ raises its policy rate. As we have placed more weight to the tail scenarios, we have closed our curve-flattener positions and increased our short duration exposure in JGBs. Moreover, Japanese rates have lagged relative to the global rates complex.

Table 4 - What is priced in for the BoJ versus our expectations

Policy balance rate (%)	0.75	Jun-26	Sep-26	Dec-26	Mar-27
Change implied by OIS (bps)		19	35	52	67
Our probability-weighted expectation (bps)		24	34	60	70
Our central scenario (bps)		25	25	50	75
Policy balance rate in central scenario (%)		1.00	1.00	1.25	1.50

Source: Bloomberg, Robeco; 13 April 2026

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