

- Fed: Warsh wastes no time
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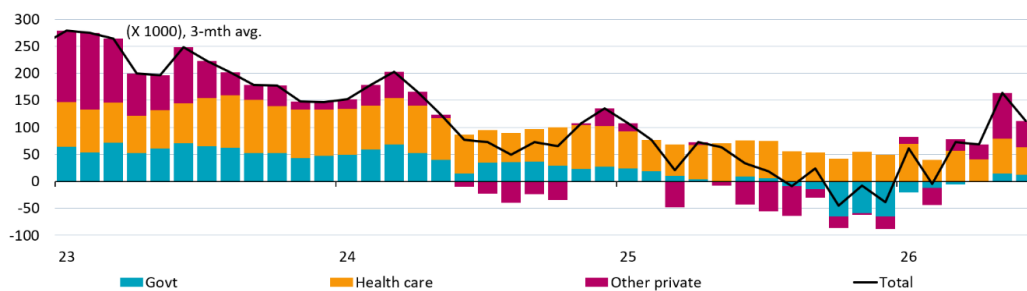
Kevin Warsh has taken the helm at the Fed. His impact on the Fed’s communications was immediately noticeable at his debut FOMC meeting, as the statement was halved in length and forward guidance was removed. The Fed chair and his colleagues also face new challenges, as an improving labour market raises questions about how restrictive current policy rates truly are, if at all.

In Europe, rates were not restrictive enough, according to ECB governors, as they steered policy in a new direction by hiking rates. This step was intended to contain any broadening of inflation pressures stemming from higher energy prices. The recent drop in energy prices will have been welcomed by ECB officials and is likely to limit any further policy tightening.

A debut in central bank action was also seen in China, where the PBoC announced a new policy tool, introducing an overnight rate alongside its long-standing benchmark, the 7-day repo rate. We continue to expect stealth easing as domestic demand growth remains lacklustre.

Meanwhile, in Japan, the BoJ has reached a milestone, raising its policy rate to 1% as the central bank’s confidence grows that Japan has left its deflationary decades behind for good. Yet financial conditions are still seen as loose, and economic growth remains solid.

Figure 1 – Monthly US Non-Farm Payrolls growth



Source: Bloomberg, Robeco, 6 July 2026

CENTRAL BANK WATCHER JULY 2026

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Philip McNicholas
Global Macro Strategist



Rikkert Scholten
Global Macro Strategist



Rogier Hoogeveen
Global Macro Strategist

The Federal Reserve: Warsh wastes no time

- Committee split on whether to hike in 2026
- Expect the Fed to hold rates steady
- Labor market stabilizing

Expecting an extended hold

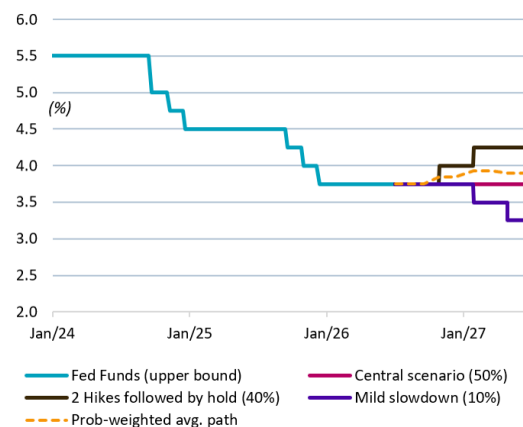
The new Fed chair, Kevin Warsh, made some notable changes in communication at his debut meeting. What became clear is that Warsh is not a big fan of extensive guidance on the direction of policy. That view was underlined by halving the statement and removing forward guidance. The communication that was provided was more hawkish than many had anticipated. The Summary of Economic Projections (SEP) showed a shift in the committee members' thinking, as half of them indicated they expect to see policy rates higher by year-end. Notably, Warsh abstained from providing his own projections, showing his reservations about the current setup of the SEP.

Warsh struck a hawkish tone at the press conference, reiterating multiple times the key objective of the committee was price stability. He also explicitly refrained from any guidance on the future path of policy rates. His actions helped quiet speculation about his independence from the White House. Warsh also outlined five committees to investigate possible changes in Fed policymaking. These committees will focus on topics ranging from Fed communication to the selection of data used in their meetings.

In the meantime, the decline in energy prices should give the FOMC members enough confidence to hold pat for now. Indeed, most Fed commentary since the June FOMC acknowledges this. The June labor market report also took some heat off the Fed, with employment growth slowing from previous months. Unemployment fell, but the participation rate dropped significantly, suggesting some workers may be becoming discouraged in their search for work.

In our base case, we expect the Fed to remain on hold for the time being, in order to assess the pass-through from the oil price shock. Risks to inflation remain decisively to the upside, especially if labor demand were to reaccelerate further, oil prices would rise again, or inflation were to spread to more service-related components. In this case, we would expect a 25 bps hike in September, possibly followed by a second move in December and a prolonged pause thereafter.

Figure 2 – Three scenarios for the Fed through Q2 2027



Source: Bloomberg, Robeco, 6 July 2026

Front-end offers some value

The market has priced in at least one 25 bps hike by year-end. On net this leaves front-end US rates as somewhat attractive in our view, warranting a small overweight duration stance. Note that half the committee were in favor of leaving rates unchanged at a time when oil prices were north of USD 80 per barrel; in the meantime, these have declined to USD 70. We continue to favor long positions in 3–5-year Treasuries relative to SOFR swaps, supported by the prospect of additional bank deregulation and its likely impact on Treasury demand. At the long end of the curve, however, fiscal risks remain a significant headwind, limiting the attractiveness of longer-dated US Treasuries.

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

Fed funds rate (% upper bound)	3.75	Sep-26	Dec-26	Mar-26	Jun-27
Change implied by FF Futures (bps)		17	29	34	34
Our probability-weighted expectation (bps)		0	10	18	15
Our central scenario (bps)		0	0	0	0
Fed funds rate central scenario (% upper bound)		3.75	3.75	3.75	3.75

Source: Bloomberg, Robeco 6 July 2026

European Central Bank: In action

- ECB hikes after staff sees higher core inflation
- Energy prices move away from adverse scenario
- Curve stable after earlier flattening

ECB hikes rates to prevent second round effects

At their June 11 meeting the ECB’s Governing Council (GC) decided to hike interest rates by 25 bps, bringing the deposit facility rate to 2.25%. The rate hike was a response to higher inflation risks originating from the jump in energy prices. ECB staff signaled that inflation pressures could spread beyond energy and predicted 2.5% core inflation for both 2026 and 2027 as a base case. The intention of the hike was to contain such second-round effects and to keep medium-term inflation expectations close to the ECB’s 2% target level.

Much has changed since. Spot Brent oil is now USD 20 per barrel cheaper, following the reopening of the Strait of Hormuz. Perhaps more importantly, the risk of an “Adverse” or “Severe” energy price scenario, as described by ECB staff, has been significantly reduced, while their new “Milder” scenario is now more likely. Obviously, this has implications for our view on ECB policy.

We expect a maximum of one additional 25 bps rate hike this year. At the 23 July meeting we expect they will keep rates on hold. A 25 bps hike in September remains a realistic risk, but this is not a done deal. Whether such a tightening step can be avoided will probably largely depend on the development of energy prices in the coming months. We disagree with the near certainty of a rate hike being priced for December.

ECB policymakers think the eurozone economy should be able to deal with slightly higher rates. That could be the conclusion drawn from ECB president Lagarde’s opening speech at the Sintra Forum. She sounded quite positive on the resilience of the eurozone economy, echoing ECB staff projections,

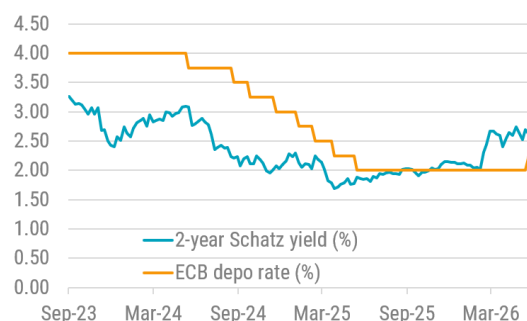
Table 2 - What is priced in for the ECB versus our expectations

ECB deposit rate (%)	2.25	Sep-26	Dec-26	Mar-27	Jun-27
Change implied by market pricing (bps)		16	23	26	27
Our probability-weighted expectation (bps)		15	15	15	15
Our central scenario (bps)		25	25	25	25
Depo rate central scenario (%)		2.50	2.50	2.50	2.50

Source: Bloomberg, Robeco; 6 July 2026

which forecast 1.2% growth for 2027. This looks overly optimistic to us. This year, the economy could still benefit from a fiscal impulse of circa ½% GDP. However, these effects will fade next year, while the growth outlook remains burdened by increased supply chain and trade uncertainty, and low household income growth. In our view only modest tightening would be needed to contain any renewed inflation pressure and we doubt whether the eurozone economy would be able to sustain a depo rate higher than 2.5%.

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, 1 July 2026

This ECB outlook is not overly hawkish, but it still suggests that a return to February’s interest rate levels will be a challenge. Recently Bunds have rallied, with yields tracking lower energy prices. With 10-year yields now close to 2.85%, the potential for the Bund to rally further seems low. Even in February, when ECB rate cuts were still being discussed, 10-year yields found a floor at 2.65%.

With ECB rates likely to remain range-bound, we expect limited room for movement in euro yield curves. Still, we see some relative value opportunities, for instance in 2s5s steepeners, after the substantial flattening in recent months.

People’s Bank of China: Chipping away

- Activity data signals ongoing consumer struggle
- PBoC’s new tool signals easing bias
- We see value in longer-tenor CGBs

PBoC still the only game in town

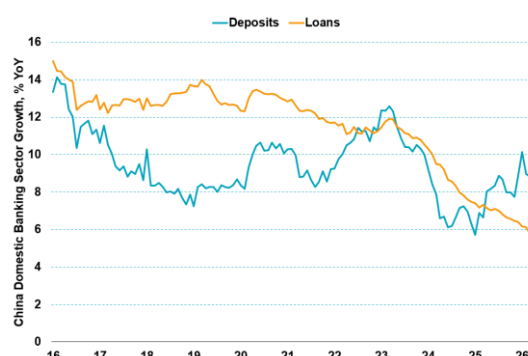
Recent activity data reinforces the sense that China’s domestic economy continues to struggle, manifesting in record trade surpluses. Notably, retail sales contracted for the first time since the Covid lockdowns. While this may partly reflect base effects from earlier fiscal stimulus, it points to sputtering domestic momentum. This is also evident in reasonably robust domestic deposit growth in the banking system, alongside a continued deceleration in loan growth.

As China’s policymakers have been reluctant to implement sizeable and prolonged consumption-focused fiscal stimulus, a piecemeal approach is likely to persist, prolonging the nominal growth struggles of the economy.

Consequently, support for growth remains largely the domain of the PBoC. Its latest move has been to introduce an overnight repo rate to its open market operations, aimed at better managing liquidity conditions and stabilizing front-end rates. This new rate is expected to become an important policy tool, although it is unlikely to displace the 7-day repo rate as the de facto policy rate in the near term.

Nevertheless, its initial use sent a clear easing signal. The overnight repo rate debuted at 1.25% on June 29, two days before month-, quarter- and year-half-end. While this is a period when liquidity normally tightens, the rate was lower than consensus expectations and has been interpreted as an implicit rate cut even if the 7-day repo rate was unchanged at 1.40%. Such a move is in keeping with our view that the PBoC will deliver another 10 bps rate cut within the next six months.

Figure 4 – Deposit dynamics aid easing liquidity



Source: Bloomberg, Robeco, 6 July 2026

Finding value in the long-end

The 10-year CGB yield has continued its seemingly relentless grind lower since the start of the year, edging toward 1.70% at end-June. This is despite a bullish turn in local equities. Undoubtedly, this has been assisted by sustained liquidity support and de facto PBoC yield curve control as it seeks to revive flagging nominal growth prospects and counter disruptions from the US-Iran conflict.

Front-end yields have continued to drift lower still, falling markedly below the 7-day reverse repo rate, but with downward pressure on yields extending out to the 10-year point, the 2s10s CGB curve has remained broadly stable since March.

Where we have become more constructive is in longer-dated CGBs, opting to cover our underweight position in China via 20- and 30-year bonds. Spreads such as the 5s30s and 10s30s are near their wides (excluding the extremes of the Covid shock in 2020). Given the collapse in global oil prices, signs of faltering Chinese domestic consumption growth and limited core inflation momentum, the steepness of the curve appears unjustified. Consequently, while we still prefer to underweight the 10-year bucket, we see value in longer-dated CGBs and 5-year NDIRS.

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

PBoC 7-day reverse repo (%)	1.40	Sep-26	Dec-26	Mar-27	Jun-27
Change implied by forwards (bps)		-2	-4	-7	-7
Our probability-weighted expectation (bps)		-10	-10	-11	-14
Our central scenario (bps)		-10	-10	-10	-10
PBoC 7-day reverse repo in central scenario (%)		1.30	1.30	1.30	1.30

Source: Bloomberg, Robeco; 6 July 2026

Bank of Japan: Big in Japan

- Policy rate increased to 1%, QT will continue
- Economy runs hot, as the Yen weakens
- Government unveils long-term growth ambitions

The big 1.0

The Bank of Japan (BoJ) has reached a new milestone, raising its policy rate by 25 bps to 1%, a level last seen in 1995. The BoJ also voted to continue its government bond buying program at a pace of JPY 2.1 trillion indefinitely from April 2027 onward (roughly USD 13 billion per month or 3.6% of GDP annually). This should provide somewhat more support for long-end JGBs. Do note that the current balance sheet run-off rate is still much higher, causing the BoJ’s balance sheet to continue to shrink over the coming years, albeit at a modestly slower pace.

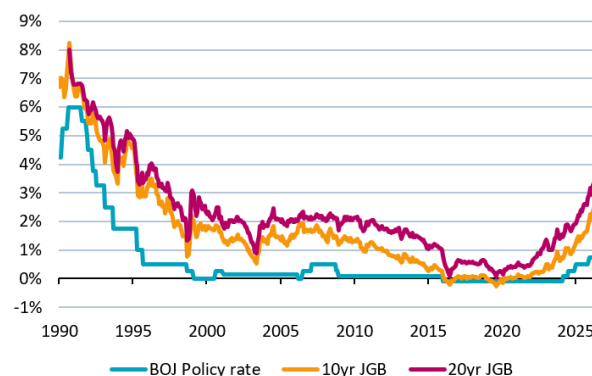
Economic boom continues

In the latest quarterly Tankan business survey, all previous trends remained intact: rising business optimism, continuous improvement in profitability of firms, higher inflation expectations and a very tight labor market. The Takaichi government has recently unveiled a public-private investment roadmap to improve Japan’s structural growth rate and strengthen the economy. We see this as highlighting the government’s strategic economic ambitions rather than a concrete plan.

Notably, the roadmap includes projections for how government deficits and debt-to-GDP ratio could evolve. Yet, from these projections, it is also clear how big a challenge the government faces. Despite assuming primary balance surpluses and an improved structural growth rate of 0.9%, the government debt-to-GDP does not fall below 170% by 2040. The government also intends to implement an election promise to decrease the VAT rate on food from 8% to 1%, likely further impeding progress towards fiscal objectives.

BoJ policy rate expectations have remained stable over the past weeks with one additional 25 bps hike priced for this year. We agree with this view. In our base case, the BoJ will continue with a gradual, semi-annual hiking pace, until the policy rate reaches the upper end of the BoJ’s neutral rate estimate of 2.25%. This allows policymakers time to continually assess if and when rates are becoming restrictive and should ensure the economy can maintain its reflationary path. The risks are tilted toward a faster hiking pace, if the yen were to weaken significantly from here or in case of a significant overshoot of inflation.

Figure 5 – JGBs continue to move higher



Source: Bloomberg, Robeco, 6 July 2026

Curve under renewed pressure

The BoJ’s very gradual approach, combined with the possibility of looser fiscal conditions is bringing renewed pressure on longer-tenor JGB yields. This trend is likely to stay, as there is no simple, quick-fix solution to the government’s high debt load. At some point, long-end JGB yields should entice enough demand from domestic investors to increase their allocations to domestic bonds. This should also slow the weakening of the yen. Yet for the time being, the path of least resistance is for higher JGB yields on longer maturities.

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

Policy balance rate (%)	1.00	Sep-26	Dec-26	Mar-26	Jun-27
Change implied by OIS (bps)		6	23	36	50
Our probability-weighted expectation (bps)		4	26	40	55
Our central scenario (bps)		0	25	25	50
Policy balance rate in central scenario (%)		1.00	1.25	1.25	1.50

Source: Bloomberg, Robeco; 6 July 2026

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