

CENTRAL BANK WATCHER

Sneak peak

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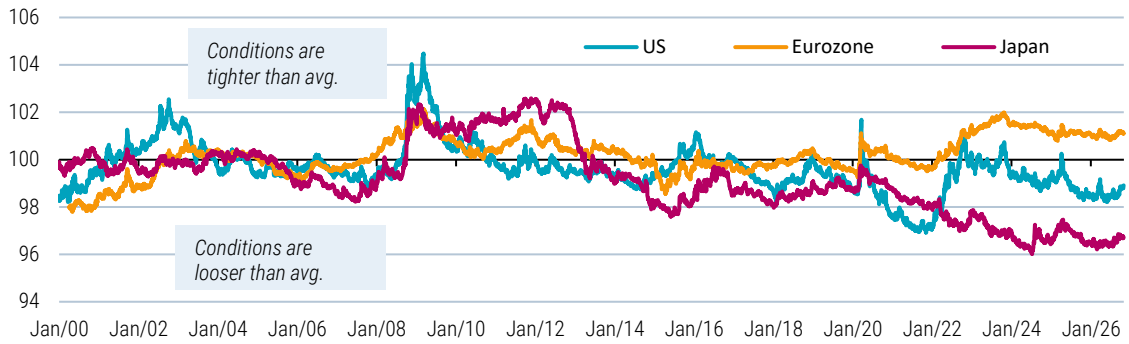
- Fed: tough talk, cautious action
- ECB: weighing energy and French risk
- PBoC: stealth easing
- BoJ: picking up the pace

As year-end draws closer, we offer a sneak peek at what central banks might do after December, when the Fed, ECB and BoJ all look set to raise their policy rates further, having paused in October.

Our central scenario has the Fed and ECB delivering at least one additional hike in Q1 2027, before reaching a (temporary) policy rate peak. This assumes that energy prices remain elevated amid the lingering conflict in the Middle East, with the risk of renewed escalation. **The BoJ's peak likely lies further into the future**. An earlier peak in US and euro-area policy rates, potentially after a December hike, cannot be ruled out, but would likely require a major risk-off move across equity and credit markets. Both the Fed and ECB appear increasingly focused on the evolution of broader financial conditions (see chart below).

A sharp tightening in financial conditions, whether through another surge in bond yields or a steep equity-market sell-off (rather than merely an AI rotation), could do part of the central banks' tightening work for them. For the ECB, a drastic further deterioration in the French government bond market could be enough to trigger a pause. In China, meanwhile, **the PBoC's recent stealth easing** through its shift to a new policy rate points to a prolonged policy pause from here. The BoJ has more work to do, as inflation is rising and financial conditions are loose.

Figure 1 – GS Financial Conditions Index*



Source: Bloomberg, Robeco, Goldman Sachs; 2 November 2026 *a value of 100 indicates country-specific long-term averages

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Marketing material for professional investors, not for onward distribution



Martin van Vliet
Global Macro Strategist



Rikkert Scholten
Global Macro Strategist



Rogier Hoogeveen
Global Macro Strategist

The Federal Reserve: tough talk, cautious action

- The Fed appears cautious about further hikes, despite its tough rhetoric
- Markets expect policy rates to rise another 50 bps and stay there
- We agree on the near-term path, but second-guess the trajectory further out

Treading carefully

Having raised policy rates by 25 bps in September, the Fed left the federal funds target range unchanged at 3.75-4.00% in October, broadly in line with expectations. Governors Cook and Hammack dissented, however, with both favoring another 25 bps hike. For them, raising rates further shortly before the midterms was clearly not an issue.

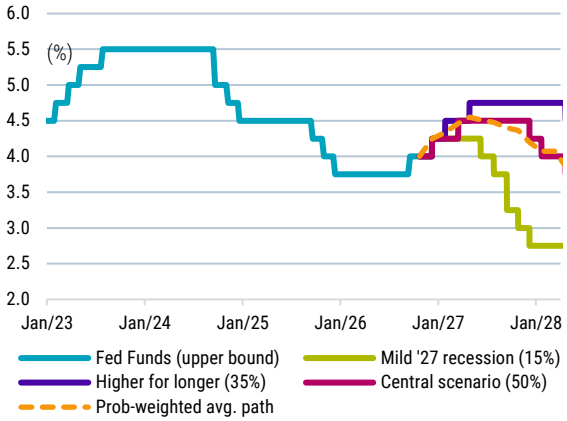
The changes to the statement were minimal. The economy was seen as expanding "at a strong pace", while inflation remains "elevated." Toward the end, the statement noted that "the accumulation of more information will help […] determine the […] stance appropriate to ensure a timely return of inflation to the […] 2% goal." In our view, this provides a subtle hint that tightening could resume in December.

During the press conference, Fed Chair Kevin Warsh stuck to his script of minimal forward guidance. However, in a dovish counterweight to the statement's subtle hint at a December hike, he stressed that financing and credit conditions had begun to tighten for some businesses and households. This tempered market expectations for rate hikes in 2027, when the Fed will hold seven rate-setting meetings instead of eight.

Under our central scenario, which assumes that energy prices and inflation remain elevated into next year, we expect the Fed to deliver one additional 25 bps rate hike in Q1 2027 on top of a December move. This would fully reverse the three rate cuts delivered in 2H 2025. We agree with markets that risks are skewed towards the Fed delivering more than 50 bps of tightening over the next six months. Further out, however, we disagree with the higher-for-longer path priced by markets. Indeed, our base case envisages the Fed resuming easing by late 2027/early 2028 as US inflation risks recede and downside risks to growth re-emerge.

Figure 2 presents our base case, next to two alternative scenarios and related probabilities. These outcomes imply a probability-weighted forecast for the funds rate that slips below market pricing from 2H 27 (Table 1).

Figure 2 – Three scenarios for the Fed through Q1 2028



Source: Bloomberg, Robeco, 30 October 2026

The peak might not be in yet

History shows that a peak in 10-year Treasury yields is typically reached around the second-to-last hike of a Fed tightening cycle. It also reveals that the Fed normally does not stop hiking until M2 money growth (currently: 5.7% YoY) has slowed down meaningfully – which is not imminent. Hence, our working assumption is that the peak in 10-year yields is not yet in, and that the yield curve, despite the recent re-steepening, will flatten further.
If we are wrong and the December hike proves to be the last, this is likely because risk assets have come down sharply, and our mild recession scenario for 2027 (15% probability) comes into play.

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

Fed funds rate (% upper bound)	4.00	Dec-26	Mar-27	Jun-27	Sep-27
Change implied by FF Futures (bps)		18	38	52	55
Our probability-weighted expectation (bps)		23	46	51	40
Our central scenario (bps)		25	50	50	50
Fed funds rate central scenario (% upper bound)		4.25	4.50	4.50	4.50

Source: Bloomberg, Robeco; 30 October 2026

European Central Bank: weighing energy and French risk

- ECB keeps rates on hold for now
- Energy prices still a risk to inflation
- Widening French spreads becoming a concern

ECB keeps expectations of a December hike alive

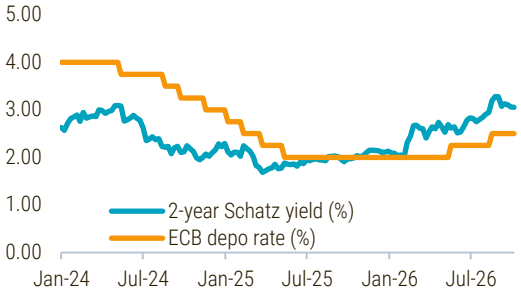
The ECB decided to keep interest rates unchanged at its October meeting, which was in line with expectations. At the press conference there were several questions raised regarding ECB president Lagarde's earlier departure, due in February. Still, the two dominant topics for this meeting were higher energy prices and tighter financial conditions.

High energy prices have so far had only modest "indirect" effects on other consumer prices. The "second-order" effects via higher wages have also remained limited. Still, this gives modest comfort to the central bankers. As time passes and energy prices remain elevated, chances of these influencing broader price setting could increase. In calmer bond market conditions this threat would probably have been sufficient to initiate further tightening. But bond markets have been far from calm. Spreads of French OATs have jumped recently, reflecting concerns about budget negotiations and the impending French presidential elections next year. The move in OATs dragged along lower-rated EGBs. As a result, 10-year Italian BTP yields have reached levels of circa 4.5%, up 100 bps from early July with the tighter financial conditions reducing the urgency for more restrictive monetary conditions.

Still, high energy prices cannot be ignored. Brent oil prices are back at the highs from early March, refinery margins have jumped and TTF natural gas prices have risen 70% from their initial peak in March. The ECB staff energy price scenarios have not been discussed much lately, but these have now moved above the "adverse" scenario. This has implications for our view on ECB policy.

Inflation is expected to move further away from the 2% target. 4% HICP inflation by year end looks realistic. Our base case is therefore for the ECB to raise rates by 25 bps in December, likely followed by another 25 bps increase in March.

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, 30 October 2026

Whether the ECB will be able to hike rates will also depend on developments in France. If OAT spreads continue to widen materially and this spills over to other markets, additional rate hikes may be skipped. Financial conditions would effectively tighten anyway, without further ECB action. For now, growth is less of a concern as the impulse from fiscal spending has become more visible in economic conditions. While this would allow temporarily higher rates, we doubt whether the eurozone economy would be able to sustain a depo rate higher than 2.5% for a longer period. We expect these conditions to result in a flatter yield curve.

In response to questions, Lagarde has pointed to TPI as an available tool in case of disorderly bond market moves. However, she refrained from very specific comments on the potential use of this instrument. Spreads would probably need to jump much further before the ECB would want to use TPI.

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

ECB deposit rate (%)	2.50	Dec-26	Mar-27	Jun-27	Sep-27
Change implied by market pricing (bps)		21	42	57	66
Our probability-weighted expectation (bps)		20	40	40	40
Our central scenario (bps)		25	50	50	50
Depo rate central scenario (%)		2.75	3.00	3.00	3.00

Source: Bloomberg, Robeco; 30 October 2026

People's Bank of China: stealth easing

- PBoC signals shift to *overnight* policy rate..
- …and already provides stealth easing
- As yields approach historic lows, further downside seems limited

PBoC intent on choosing a new key policy rate

Despite measures such as reductions in rates on structural liquidity-injection facilities and a narrowing of the rate corridor (from 70bp to 50bp), 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 updates, this likely reflects concerns about commercial banks' net interest margins, as well as a desire to maintain some appreciation of the CNY against the USD.

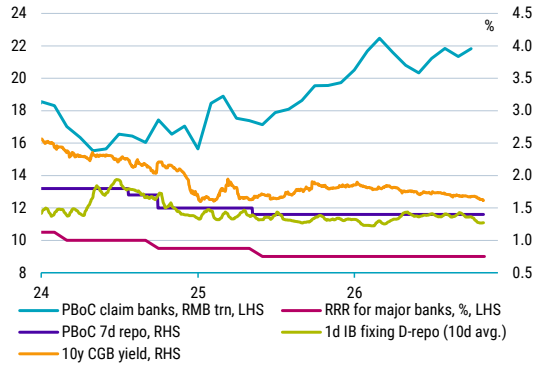
Although Q3 GDP data came in better than expected, overall growth remains very uneven, largely driven by external rather than domestic demand. Meanwhile, underlying inflation pressures remain muted, although PPI inflation at 5% YoY signals that the deflation pressures have receded for the time being.

Still, the PBoC retains an easing bias, underscored by the shift in its main policy rate from the 7-day to the overnight reverse repo rate, currently at 1.25%.

We find that the overnight repo rate fixing for banks (DR001) had already slipped below the PBoC 7-day reverse repo rate in recent weeks, as was also the case earlier this year. In our view, the shift entails a de facto easing of money market conditions.

Looking ahead, the modest improvement in money and credit dynamics could signal somewhat better domestic growth might be ahead. Nonetheless, we agree with financial markets that money market conditions will remain very loose into next year (see Table 3).

Figure 4 – Gap between 10y CGB yields and short-term money market rates has narrowed a lot



Past performance is no guarantee of future results. For illustrative purposes only. **Source**: Bloomberg, Robeco, 30 October 2026

Not much downside yield potential left

CGB yields have been steadily trending lower this year. Both 5-year and 10-year yields are now approaching the historical lows reached in late 2024, when the PBoC was engaged in significant CGB purchases. The 30-year yield, and particularly the 2-year yield, remain somewhat further above their historical lows.

Looking ahead, we see limited further downside potential for yields, particularly at the longer end of the curve. While the current bullish momentum could push the 30-year yield below 2% in the near term, it is worth recalling that in January 2025, when the yield reached 1.80%, the PBoC warned of bubble risks emerging in the bond market. This ultimately proved to be a turning point for the market. Thus, we will be on the lookout for any bond market-specific rhetoric from the PBoC in the coming months.

Much will also depend on developments in the equity market, which is now around 20% below its end-June level.

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

Fixing D-repo 1-day (%)	1.28	Dec-26	Mar-27	Jun-27	Sep-27
Change implied by forwards (bps)		0	-1	-2	-3
Our probability-weighted expectation (bps)		-3	-3	-3	-3
Our central scenario (bps)		0	-0	0	0
Fixing D-repo 1-day (%) in central scenario (%)		1.25	1.25	1.25	1.25

Source: Bloomberg, Robeco; 30 October 2026

Bank of Japan: picking up the pace

- Quarterly hiking pace becoming the new normal
- Inflation likely to pick up in coming months
- Flows suggest long-end is finding stable hands

Hold the line

The Bank of Japan (BoJ) voted 8-1 to hold rates steady at 1.25% at its October meeting, as the market expected. The BoJ stated that underlying CPI inflation is now generally consistent with its 2% price stability target, an important milestone, but emphasized that the focus is now on achieving it sustainably. Both growth and inflation forecasts were revised higher, and inflation excluding fresh food and energy is projected to be above target through 2028. The biggest surprise was the faster unwinding of the BoJ's equity portfolio, which is now set to take 43 years instead of 112, although the net market impact is likely to remain very small. The press conference was hawkish by BoJ standards, as Ueda reiterated that every meeting is now live and that current interest rates are below neutral.

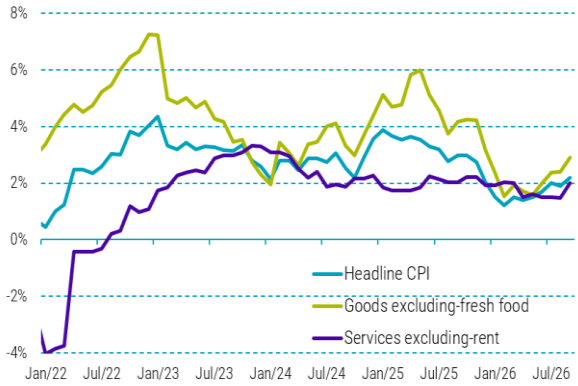
Loose policy meets strong growth

Growth and investment remain upbeat, although consumer spending likely slowed somewhat in the second half of the year. We agree that underlying inflation has become more structural in nature. Shunto base-pay wage demands have been above 2% for over three years, real wage growth is positive and the contribution of services to overall inflation has picked up. Core inflation is likely to rise further peaking around Q1 2027. Loan demand remains solid despite significantly higher rates, and the Tankan survey confirms that firms view financial conditions as accommodative. Together, these factors indicate that rates are not yet restrictive and the BoJ's job is not yet done.

Risks are towards a faster hiking pace

With inflation likely to pick up in the coming months, we expect pressure on the BoJ to communicate a faster return toward neutral than currently priced, with rates becoming modestly restrictive over the next year. The market has embraced the possibility of quarterly hikes until policy rates reach 2% over the next 12 months. We believe this should be the base case, with risks tilted towards a faster pace. We therefore remain modestly short front-end rates in Japan.

Figure 5 – Inflation pressure is broadening towards services



Source: Bloomberg, Robeco, 2 November 2026

Long-end finds domestic buyers

On an FX-hedged basis, Japanese yields are higher than those of German Bunds or US Treasuries. This has been the case for the past four years, prompting many global investors to add long-end JGB exposure. These buyers are rate sensitive and typically opportunistic, which causes high volatility in sell-off episodes. Over the past quarter, flow data show more domestic buyers adding exposure. This makes us more optimistic about adding long-end flattening exposure in case of yield spikes.

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

Policy balance rate (%)	1.25	Dec-26	Mar-27	Jun-27	Sep-27
Change implied by OIS (bps)		20	40	57	68
Our probability-weighted expectation (bps)		23	45	71	91
Our central scenario (bps)		25	50	75	100
Policy balance rate in central scenario (%)		1.50	1.75	2.0	2.25

Source: Bloomberg, Robeco; 2 November 2026

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