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Central Banks Recalibrating Monetary Policies

Nomura economists see more rate hikes, but well below consensus as policy rates are near or above neutral



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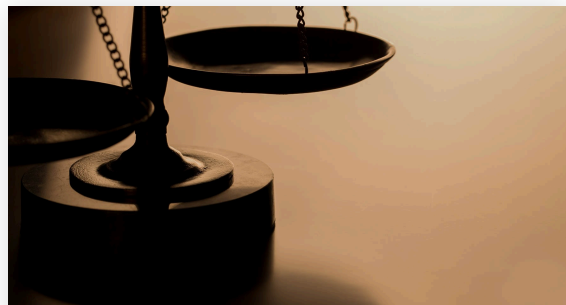
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Suggested views



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Finding Opportunities
in an Uncertain World

- US growth remains robust. We expect the Fed to deliver another hike in December.
 - We see Japan's core CPI evolving in three stages towards 2028, with the second critical in determining the terminal policy rate.
 - Across broader Asia, sustained artificial intelligence (AI) demand and the gradual normalization of energy supply chains support a constructive regional outlook.
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With sticky inflation and a renewed rise in oil prices, we have incorporated additional rate hikes into our global monetary policy forecasts, though still significantly fewer than what markets are pricing.

Our forecasts diverge from consensus, as we view this is a resumption – rather than the start – of hiking cycles, as most policy rates are already near or above neutral levels and much of the current inflation is cost-push in nature, which should weigh on growth over time.

We now expect:

- A hike in December by the US Federal Reserve followed by an extended hold through 2027, while the market has priced in three more rate increases.
- Two more hikes by the European Central Bank in December 2026 and March 2027, compared with market expectations for two to three more hikes.
- Two more hikes from the Bank of Japan against a market consensus of four or more.
- None for the Bank of England and Bank of Canada against market pricing of around four for each.
- Fewer hikes than consensus for Australia, India and Korea.

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the Second Half of
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	Real GDP (% y-o-y)						Consumer Prices (% y-o-y)			Policy Rate (% end period)		
	2025			2026			2025			2025		
Global	3.4	3.3	3.2				2.9	3.5	2.8			
Developed Markets	1.8	1.7	1.7				2.5	3.1	2.4			
Emerging Markets	4.5	4.4	4.2				3.2	3.8	3.1			
Americas	2.2	2.1	1.9				3.1	3.6	2.8			
United States*	2.3	2.3	2.0				2.7	3.4	2.4	3.625	4.125	4.125
Asia/Pacific	5.0	5.0	4.4				1.1	2.2	1.8			
Japan	1.2	0.9	0.7				3.2	1.9	2.1	0.75	1.50	1.75
Asia ex-Japan, Aust., NZ	5.4	5.4	4.8				0.9	2.2	1.8			
Western Europe	1.3	1.1	1.6				2.3	3.1	2.6			
Euro area**	1.3	1.1	1.6				2.1	3.1	2.6	2.00	2.75	3.00
United Kingdom	1.3	1.3	1.4				3.4	3.2	2.5	3.75	3.75	3.25

Note: Aggregates are calculated using purchasing power parity (PPP) adjusted shares of world GDP (rate covers about 84% of world GDP on a PPP basis); our forecasts incorporate assumptions on the future path of oil prices based on oil price futures. Currently, assumed Brent oil prices for 2026 and 2027 are \$91.1 and \$81.0, respectively. Policy rate for China is 7d reverse repo rate. Consumer prices for euro area countries are HICP measure. The US policy rate forecasts are midpoints of 4.00-4.25% for 2026 and 4.00-4.25% for 2027 target federal funds rate ranges, respectively. **Policy rate for the euro area is deposit facility rate. ***For Singapore, the policy rate refers to the SORA 3-month compounded average. GDP forecasts for Latin America are year-on-year changes for December. Reported numbers are in bold. We use Bloomberg Economic Forecasts for Latin America and EMEA except Türkiye, for which we use Nomura forecasts; rest are Nomura forecasts.

Source: IMF, Bloomberg, Nomura Global Economics.

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Fig. 1: Forecast summary

Our view in a nutshell		
United States ■ The Fed is likely to deliver a 25bp hike in December, followed by an extended hold. ■ Growth is likely to remain strong due to robust fixed investment and steady personal consumption.	Japan ■ We see rate hikes in December 2026 and March 2027. A weaker JPY and higher oil prices could lead to three hikes. ■ We expect capex to drive economic recovery.	Euro area ■ Growth was resilient in H1 2026, though headwinds from the Iran war remain for H2 2026. ■ We see growth improving into 2027 and expect rate hikes in December and March.
United Kingdom ■ GDP growth was strong in Q1 and Q2, but there are questions over seasonal adjustments. ■ We expect the BoE to leave rates unchanged for the rest of 2026 and see two rate cuts in H2 2027.	China ■ While we expect another round of supportive measures, the scale is likely to remain limited. ■ We maintain our forecast for no RRR and rate cuts until Q2 2027.	The Rest of Asia ■ Elevated oil prices, El Niño, and rising memory prices pose upside risks to inflation. ■ Most Asian central banks have turned hawkish, amid better-than-expected growth and rising inflation.
Scandinavia and Switzerland ■ Sweden: Inflation is low but set to rise. We expect Riksbank hikes in November, February and May. ■ Norway: We expect rates on hold until end-2027.	Türkiye ■ Inflation continues to decrease despite some delays in meeting interim targets. ■ The CBRT maintains hawkish due to resilient growth and upside risks to inflation.	Canada ■ We expect the BoC to hold rates steady, with risks skewed to tightening. ■ Labor markets have shown some signs of stabilization, but risks remain skewed to the downside.

Source: Nomura.

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Fig. 2: Our view in a nutshell

US: A December hike followed by an extended hold

Growth remains robust, driven by strong business investment and resilient consumer spending.

Economic activity

Business investment is increasingly broadening beyond AI, and capex-led growth is expected to continue. Despite higher energy prices, consumption accelerated in Q2, primarily due to higher tax refunds and strong income growth. We expect some negative payback in Q3; however, consumer weakness will likely reflect a modest momentum slowdown rather than a serious deterioration.

Inflation

Core inflation remains well above the Fed's 2% target, with risks skewed to the upside. Renewed tensions in the Middle East have driven a sharp rise in energy

prices, and crude oil prices have the potential to remain elevated in the coming months, increasing the risk of broader spillovers.

Policy

We now expect the Fed to deliver another 25 basis point (bp) hike in December. Recent data demonstrate little progress on inflation, with core personal consumption expenditure (PCE) essentially stuck at above 3% y-o-y, while the surge in energy prices has further tilted risks to the upside. Beyond 2026, anticipated disinflation will likely allow the Fed to stay on hold in 2027.

Euro area: ECB call updated

We now expect the Bank to raise rates in December 2026 and March 2027, bringing the depo rate to 3.00%.

Economic activity

GDP growth accelerated in Q2, despite widely expected headwinds from the Iran war and higher energy prices. However, if we exclude volatile Ireland from our calculations, growth has been quite stable since the start of 2024. Wage growth slowed in Q2, and inflation-driven wage effects are expected to appear only in the Q1 2027 data.

Inflation

A rise in the Harmonized Index of Consumer Prices (HICP) inflation, which measures the average change over time in the prices paid by households for consumer goods and services across European Union countries, was driven mainly by energy prices. Core inflation rose slightly in September, but there are not yet signs of second-round inflation effects. We expect inflation to remain elevated through year-end, with moderation next year hinging on developments in Iran.

Policy

The ECB raised the depo rate in September to 2.50%, with forecasts turning more hawkish than we had expected. These forecasts embed two additional rate hikes, yet the Bank still projects above-target inflation in 2028. Prolonged energy pressure from the Iran war, combined with resilient growth in the euro area – supported by Germany’s fiscal bazooka and Spain’s exceptional growth – add to inflationary pressures and justify further rate hikes in December and March.

Japan: Three stages of inflation

We expect Japan’s core CPI to evolve in three stages towards 2028, with the second critical in determining when the Bank of Japan (BOJ) reaches its terminal rate.

Economic activity

We updated our outlook following the release of Q2 GDP’s second estimates. The Takaichi cabinet’s decision to not issue a second FY26 supplementary budget – consistent with its policy of consolidating major expenditures in the initial budget – implies a decline in real public investment in FY27. However, we continue to expect Japan’s economy to stay on a recovery path, driven by capital spending, as there is a growing need to tackle the labor shortage through investment in technologies such as software, digitalization and automation.

Prices

We revisited our CPI outlook and remain confident that Japan’s core CPI (excluding fresh food) will evolve through three distinct stages towards 2028.

- **Stage 1: Inflation acceleration through Q1 2027**, primarily driven by the pass-through of upstream and midstream corporate inflation – due to Middle East tensions – into downstream consumer prices.
- **Stage 2: Inflation deceleration from Q2 2027**, driven by a decline in oil prices along the forward curve, as well as Nomura’s call for a stronger yen.

- Stage 3: Inflation stabilization at around 2% y-o-y.

Policy

We expect the BOJ to raise its policy rate in December 2026 and March 2027, bringing it to 1.75% in our main scenario with 60% probability. Near-term rate hike(s) will be driven by risks rather than the BOJ's main scenario of the economy and prices.

Sustaining yen stability over time could be a challenging task for the BOJ. As the “Impossible Trinity” says a central bank cannot simultaneously achieve a stable exchange rate, free capital flow and discretionary monetary policy. Under a floating exchange regime, the BOJ therefore monitors the currency indirectly through the lens of inflation.

Asia ex-Japan: Inflation risks keep most Asian central banks hawkish

In **China**, we expect weak domestic growth momentum to continue in the near term, despite some moderate policy rollouts recently. While we expect Beijing to introduce another round of supportive measures, the scale of such initiatives is likely to remain limited.

Given ample market liquidity and falling China Government Bond yields, we maintain our forecast for no cuts to the Reserve Requirement Ratio (the percentage of customer deposits that banks must keep in reserve) or policy rates until Q2 next year. At the same time, we expect the ongoing AI boom to widen both demographic and geographic inequality, which could further dent demand.

Across the rest of Asia, sustained AI demand and the gradual normalization of the energy supply chains support a constructive regional outlook. **Malaysia** and **Singapore** stand out as outperformers, while we remain cautious on **Indonesia** and **Thailand**.

Elevated oil prices, El Niño and rising memory prices pose upside risks to inflation. Against this backdrop, most Asian central banks have adopted a hawkish stance, reflecting stronger-than-expected growth and mounting inflation pressures.

At the country level, we expect two more rate hikes in **Korea**, bringing the terminal rate to 3.50% as growth and demand-driven inflation remain robust. In **India**, a faster rise in food and oil prices alongside firming core inflation momentum point to two hikes in Q4. **Singapore** should benefit from tech boom-related spillovers and strong domestic demand, lifting core inflation to above 2.0%.

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