Oil, war and tariffs tear up markets’ central bank roadmap

Jun 22, 2025 ***Reuters - By Naomi Rovnick and Dhara Ranasinghe***

Investor unease about an increasingly uncertain environment is rising, as Norway's shock rate cut on Thursday highlights how U.S. tariffs, Middle East conflict and a shaky dollar make global monetary policy and inflation even harder to predict.

Norway's crown slid roughly 1% against the dollar and the euro in a sign of how unexpected the move was. And Switzerland, which cut borrowing costs to 0% on Thursday, confounded some expectations among traders for a return to negative rates in the deflation-hit nation, as its central bank warned of a cloudy global outlook.

Just a day earlier the U.S. Federal Reserve kept rates on hold and chair Jerome Powell said "no one" had conviction on the rate path ahead.

The conclusion for markets: monetary policy uncertainty is one more headwind to navigate against a backdrop of geopolitical and trade risks.

Global stocks pulled away from recent peaks, a gauge of expected volatility in European equities touched a two-month high as stocks across the region fell and government bonds, usually geopolitical risk havens, sold off.

"We're at a moment of considerable policy and macro uncertainty," said BlueBay chief investment officer at RBC Global Asset Management Mark Dowding.

"We can't see a clear trend on interest rates," he added, which meant he was holding back from active market bets across the group's investment portfolios.

Volatility was set to rise, some investors said, because a choppy dollar and oil prices whipped around by geopolitics meant that central banks were far less able to provide markets and investors a clear route map for the future.

"You cannot just take your cues from the central banks anymore as they are facing a harder job of reading the economy themselves," T.S. Lombard director of European and global macro Davide Oneglia said.

BROKEN MODELS

Rate-cutting European central banks are not just diverging from the Fed, which is grappling with the inflationary risks of President Donald Trump's tariffs.

They are also struggling to navigate a new era where the dollar, the lynchpin of world trade, commodity prices and asset valuations, has turned weaker and more volatile under trade war stress and government debt anxiety.

"That's a massive, massive fundamental shift in global markets that everyone is trying to assess," Monex Europe head of Macro Research Nick Rees said.

"All of those standard economic rules of thumb we use for forecasting are completely broken right now."

The dollar is down almost 9% against other major currencies this year but has risen following the outbreak of a war between Israel and Iran.

European Central Bank policymaker Francois Villeroy de Galhau said on Thursday the ECB might have to adapt its rate cut plans if oil price volatility was long-lasting.

The new status quo in markets could well be an era of central bank surprises that create rapid shifts in the market narrative, asset pricing and volatility trends, analysts said.

"We're getting into this next cycle in which variables are much more volatile, because, rather than (monetary policy) being just easily predictable, events just take over and policy and human factors, as we now know with Donald Trump, play an important role," Oneglia said.

Norway's surprise cut came because the crown was a "runaway top currency" of the trade-war era, added Societe Generale's head of FX strategy Kit Juckes.

With investors chasing around the world to identify stores of wealth that are not U.S. dollars, meanwhile, the Swiss franc has soared, cutting the costs of imports and pushing the economy into deflation.

On Thursday, the franc rose against the dollar as traders saw the SNB's cut as too small to keep deflation at bay.

Ninety One multi-asset head John Stopford said the hazard risk was rising for global stocks and that options products that aim to offer protection from incoming volatility looked fairly cheap.

He was buying bonds issued in nations where inflation and rates could come down materially, such as New Zealand, but was negative on longer-dated U.S. Treasuries and German Bunds where economic uncertainty was higher and government borrowing was likely to rise.

Global stocks remain almost 20% above their April trough, after investors relaxed about tariffs.

Stopford said there was more to worry about in the short term.

"The stock market feels like it's a thatched house in a hot country with a fire hazard risk, and people aren't charging much to insure the house," Stopford added.

(Reporting by Naomi Rovnick and Dhara Ranasinghe; Editing by Toby Chopra)