PREVIEW: ECB Policy Announcement due Thursday 18th July 2024

- **ECB policy announcement due Thursday 18th July; rate decision at 13:15BST/08:15EDT, press conference from 13:45BST/08:45EDT**
- **Consensus firmly expects the ECB to hold its deposit rate at 3.75%**
- **Focus will be on how the ECB shapes expectations for the September announcement**

OVERVIEW: Expectations are unanimous amongst economists that the ECB will stand pat on rates with markets assigning a 92% chance of such an outcome. As such, it looks like the upcoming meeting will largely be a non-event with policymakers set to sit on their hands and see how data plays out between now and September. On which, market pricing currently assigns a roughly 80% chance of a cut with a total of 46bps of easing seen by year-end.

PRIOR MEETING: As expected, the ECB cut rates for the first time since September 2019, lowering the deposit rate by 25bps to 3.75%. Within the accompanying statement, the main highlight was that the "Governing Council is not pre-committing to a particular rate path". Furthermore, the ECB reiterated its pledge to "keep policy rates sufficiently restrictive for as long as necessary". For the accompanying macro projections, 2024 and 2025 headline and core inflation forecasts were raised, with the 2026 headline print held at 1.9%. From a growth perspective, the 2024 GDP forecast was raised by more than expected, and 2025 was lowered as expected. At the follow-up press conference, President Lagarde remarked that she would not say that the ECB is in a 'dialing back phase', but there is a strong likelihood that the ECB is dialling back. With regards to the unanimity of the decision, Lagarde said that all but one governor backed the decision to lower rates; it was later revealed by Reuters that Austria's Holzmann was the lone dissenter, voting for an unchanged policy rate on account of the increase in inflation projections. Elsewhere, Lagarde made the point that the ECB is far from the neutral rate, and refused to commit to deciding on rates only on projection round meetings, but noted that policymakers do have more data available at these meetings.

RECENT ECONOMIC DEVELOPMENTS: Since the June announcement, headline HICP ticked lower to 2.5% from 2.6%, core fell to 2.8% from 2.9%, whilst the super-core metric remained at 2.9%. ING made the observation that sticky services inflation at 4.1% kept “core inflation too elevated for another imminent rate cut”. In terms of survey measures of inflation, the ECB's Consumer Expectations release for May saw the 12-month expectation slip to 2.8% from 2.9% and the 3yr pullback to 2.3% from 2.4%. From a growth perspective, Q2 GDP will not be available until July 30th, however, more timely PMI metrics from S&P Global saw the EZ-wide manufacturing print fall to 45.8 from 47.3, services nudge lower to 52.8 from 53.2, leaving the composite at 50.9 vs. prev. 52.2. The accompanying release noted "“Growth in the Eurozone can be attributed fully to the service sector. While the manufacturing sector weakened considerably in June, activity growth in the services sector continued to be nearly as robust as the month before". In the labour market, the unemployment rate remains at its historic low of 6.4%.

RECENT COMMUNICATIONS: Rhetoric from officials has suggested a move lower in rates this month is unlikely with President Lagarde stating officials are in no hurry to cut rates again after June’s move and the central bank requires additional reassurance that inflation is headed back towards 2% before it cuts rates further. Chief Economist Lane followed up the June meeting by noting that there is a high level of uncertainty and the still-elevated price pressures that are evident in the indicators for domestic inflation. Adding that one way to deal with uncertainty is a little bit of waiting, wait and make sure you're not taking a step you're going to regret. Thought-leader Schnabel is of the view that the last mile of disinflation is proving bumpy but there are the first indications of easing wage growth. At the hawkish end of the spectrum, dissenter Holzmann of Austria has remarked that inflation is stickier than expected and the fight against inflation is not yet over, whilst Netherland's Knot remarked that there is no reason to cut in July, adding that the next truly open meeting is in September. From the dovish camp, Panetta believes the ECB should avoid even "casual" forward guidance on the timing of rate moves, whilst Greece's Stournaras thanks that two more rate cuts this year seems "reasonable".

RATES: Expectations are unanimous amongst economists that the ECB will stand pat on rates with markets assigning a 92% chance of such an outcome. As summarised above, data and comments from ECB officials are indicative that policymakers will wish to sit on their hands until the September meeting. With regards to September, market pricing currently assigns a roughly 80% chance of a cut with a total of 46bps of easing seen by year-end. ING makes the point that policymakers appear comfortable with 1 or 2 more cuts this year. However, given that this is not a typical rate-cutting cycle (ie. one prompted by a recession), additional rate cuts will not be on auto-pilot. As a reminder, guidance from the ECB currently notes that "it will keep policy rates sufficiently restrictive for as long as necessary to achieve" its goals. Furthermore, the GC will "continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction".

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com