PREVIEW: ECB policy announcement due Thursday October 17th

- **ECB policy announcement due Thursday October 17th; rate decision at 13:15BST/08:15EDT, press conference from 13:45BST/08:45EDT**
- **Expectations are for the ECB to cut the Deposit Rate by 25bps to 3.25%**
- **The ramp up in expectations for easing has been driven by recent PMI and inflation metrics**

OVERVIEW: Despite the odds of an October move being seen as significantly more unlikely than likely in the wake of the September announcement, soft PMI and CPI metrics have seen a dramatic ramp up in easing expectations. Focus for the release will be on how Lagarde guides the cadence of further easing given that the Bank has been disturbed from what appeared to be an approach of only easing at meetings containing macro projections.

PRIOR MEETING: As expected, the ECB opted to cut the deposit rate by 25bps from 3.75% to 3.5% whilst also lowering the main refi and marginal lending rates by 60bps (as previously announced in March). In the policy statement, the ECB reiterated that it will continue to follow a meeting-by-meeting approach and remain in data-dependent mode. Furthermore, policy rates will be kept sufficiently restrictive for as long as necessary and the ECB will not pre-commit to a specific policy path. In the accompanying macro projections, headline inflation forecasts for 2024-26 were left unchanged; 2026 remained below target at 1.9%. On a core basis, 2024 and 2025 forecasts were upgraded by 10bps on account of stubborn services inflation. From a growth perspective, 2024-2026 projections were lowered by 10bps each “owing to a weaker contribution from domestic demand over the next few quarters”. At the follow-up press conference, Lagarde noted that the decision to cut the DFR by 25bps was “unanimous”. On the inflation path, the President noted that September inflation is likely to see a downtick on account of base effects before rising again in Q4. Source reporting in the aftermath of the announcement via Reuters stated that an October rate cut was unlikely as a move before December would require “exceptional negative growth surprises.”

RECENT ECONOMIC DEVELOPMENTS: Headline HICP in September slipped below target to 1.8% from 2.2%, super-core inflation pulled back to 2.7% from 2.8% and services inflation stood at a still-lofty 4%. The ECB Consumer Expectations survey for August saw the 1yr projection slip to 2.7% from 2.8%, whilst the 3yr fell to 2.3% from 2.4%. The 5y5y inflation forward has risen to just over 2.2% vs. the circa 2.04% seen at the time of the last meeting. Q3 flash GDP data is not due out until October 30th, however, more timely survey data from S&P Global showed the EZ-wide manufacturing print slip further into contractionary territory, services decline, dragging the composite into contractionary territory; its largest fall in 15 months. The accompanying report stated "our GDP nowcast model, which takes into account the PMI indicators, also points to only minimal growth." In the labour market, the Eurozone unemployment rate remains at its historic low of 6.4%.

RECENT COMMUNICATIONS: Since the prior meeting, President Lagarde stated that “the latest developments strengthen our confidence that inflation will return to target in a timely manner". Chief Economist Lane has not said anything of note in recent weeks following the latest inflation and PMI metrics. However, thought-leader Schnabel of Germany has remarked that the Bank "cannot ignore the headwinds to growth”. However, she also suggested that monetary policy cannot resolve structural issues. Elsewhere, known-hawk Nagel has suggested that he is "open" to a rate cut this week, with Kazaks stating that the "data points to an October rate cut". Tempering these expectations has been Kazimir who noted that he is not worried about the ECB undershooting the 2% goal and not as convinced as media reports on an October cut, adding that key information will be available by December. At the dovish end of the spectrum, Stournaras is of the view that the ECB should cut twice this year and continue easing into 2025. Source reporting via Econostream has pointed towards a rate cut this week, however, there may be some dissent at the meeting.

RATES: Expectations are for the ECB to lower the deposit rate by 25bps from 3.50% to 3.25%, according to 68/75 surveyed by Reuters. Markets price such an outcome at 96%. In the wake of the September meeting, markets assigned just a 28% chance of an October rate cut and were of the view that the ECB would opt to lower rates at meetings that are accompanied by macro projections, whilst pausing at those that do not contain them (as a reminder, the ECB cut in June, paused in July and cut in September). Furthermore, source reporting via Reuters stated that an October rate cut was unlikely as a move before December would require “exceptional negative growth surprises”. Fast forward to now and the playbook put forward by the ECB and absorbed by markets has been disregarded. The first wave of repricing for October was driven by the September PMI metrics. Thereafter, inflation metrics for September added to the dovishness. As such, the market raced to price in an October rate cut. ECB speak, even amongst the hawks, has largely endorsed such a move. That being said, from an alternative viewpoint, ING suggests that a rate cut is not a done deal. The desk cites the fact that soft inflation and growth outturns were already baked into the ECB’s forecasts. Furthemore, comments from Germany’s Schnabel stated that, whilst the bank cannot ignore headwinds to growth, it cannot do much to solve structural weaknesses. Looking beyond October, a further 25bps cut is near-enough fully priced in for December with four further cuts expected in 2025. Guidance from President Lagarde is likely to point towards further easing but without providing a specific policy path.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

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