PREVIEW: ECB policy announcement due Thursday March 6th

- **ECB policy announcement due Thursday March 6th; rate decision at 13:15GMT/08:15EST, press conference from 13:45GMT/08:45EST**
- **Expectations are for the ECB to cut the Deposit Rate by 25bps to 2.50%**
- **Focus for the meeting will be on if the GC still views policy as restrictive**

OVERVIEW: ECB policymakers are widely-expected to deliver another 25bps rate reduction. Greater emphasis by the market will be placed on whether the Governing Council still views policy as restrictive and what, if any, hints are given about plans for a potential pause in the rate-cutting cycle. Elsewhere, the accompanying macro projections will be scrutinised to see how inflation is expected to align with the ECB's 2% target.

PRIOR MEETING: As expected, the ECB pulled the trigger on another 25bps rate cut, taking the Deposit Rate to 2.75%. The policy statement saw the GC reiterate that it will retain its meeting-by-meeting and data-dependent approach whilst not pre-committing to a specific policy path. Despite the easing, policymakers still saw policy as "restrictive". At the follow-up press conference, the overall lack of overtly dovish signals from Lagarde in her opening remarks elicited a hawkish reaction within the marketplace. However, as the Q&A segment got underway, this move faded as Lagarde noted the decision was unanimous and there was no discussion of the terminal rate. Elsewhere, Lagarde stated that the debate about neutral rates was "entirely premature" and could not say if rates will go below neutral.

RECENT ECONOMIC DEVELOPMENTS : Data since the prior meeting has seen headline inflation rate in February cool to 2.4% from 2.5%, driven by a pullback in services inflation to 3.7% from 3.9%, whilst the super-core metric nudged lower to 2.6% from 2.7%. The ECB's Consumer Expectations Survey for January saw the 12 month inflation projection slip to 2.6% from 2.8% with the 3 year ahead holding steady at 2.4%. The 5y5y inflation forward has slipped to 2.06% from circa 2.09% at the time of the last meeting. On the growth front, Q4 growth was revised higher to 0.1% vs. the 0.4% seen in Q3. More timely survey data from S&P Global has seen the EZ-wide manufacturing print rise to 47.6 from 46.6, services slip to 50.7 from 51.3, leaving the composite just about in expansionary territory at 50.2. The accompanying report noted “economic output in the eurozone is barely moving at all.” In the labour market, the unemployment rate remains just above the historic low @ 6.3%.

RECENT COMMUNICATIONS: Following the prior meeting, ECB President Lagarde stated that inflation is set to return to 2% medium-term target in the course of this year, with risks on both the upside and downside. Of greater importance, Germany's Schnabel noted "we are getting closer to the point where we may have to pause or halt our rate cuts", adding that "the data are showing that the degree of restriction has come down significantly, up to a point where we can no longer say with confidence that our monetary policy is still restrictive. " Chief Economist Lane said the 2% inflation target should be achieved "fairly soon", adding that "a middle path is appropriate, which neither over-weighs upside risk nor over-weighs downside risk." At the hawkish end of the spectrum, Austria's Holzmann is of the view that there is "some probability" of a March rate cut. However, decisions in favour of more rate cuts are getting harder. At the dovish end, Greece's Stournaras stated "It is too early to discuss pausing cuts. The ECB should keep cutting rates to 2%. ECB rates are definitely still restrictive." Elsewhere, Belgium's Wunsch says ECB faces the risk of ‘sleepwalking’ into too many rate cuts, while he feels “relatively comfortable” with market expectation of 2% rates by year-end “give or take 50 basis points”.

RATES: Markets assign a circa 97% probability of the ECB lowering its Deposit Rate by 25bps, to 2.5%. Given confidence in the inflation outlook and concerns over the bloc’s growth outlook, as the threat of tariffs from the Trump admin looms large, a 25bps reduction is nailed on. As such, attention will be on any tweaks to the policy statement, which currently states that “monetary policy remains restrictive.” Morgan Stanley doubts that “restrictiveness will be dropped entirely” but thinks it could be “qualified.” The desk adds that “rates could be described as nearing levels that are no longer restrictive, setting the stage for a pause at one of the next meetings.” On the subject of the rate path, markets assign a circa 60% chance of a cut in April, with the next 25bps reduction fully priced by June, and a total of 83bps of easing seen by year-end.

MACRO PROJECTIONS: For the accompanying macro projections, MS flags the complex backdrop to generating forecasts which has seen “Euro area growth surprised on the downside, oil and gas prices are meaningfully up, tariffs are looming, France voted a 2025 budget, Germany held elections and European countries contemplate significant increases of their defense spending.” Overall, the desk expects growth to be revised down across the full forecast horizon. On the inflation front, the desk expects higher energy prices will boost the 2025 forecast, but ultimately prove to be a temporary shock with 2026 and 2027 projections to be below the 2% target.

Current forecasts

HICP INFLATION:

- 2025: 2.1%
- 2026: 1.9%
- 2027: 2.1%

HICP CORE INFLATION (EX-ENERGY & FOOD):

- 2025: 2.3%
- 2026: 1.9%

- 2027: 1.9%

GDP:

- 2025: 1.1%
- 2026: 1.4%
- 2027: 1.3%