



## [PREVIEW] ECB Policy Announcement due Thursday 5th February at 13:15 GMT / 08:15 EST

- The ECB is expected to keep its rates on hold, a view held by the likes of Goldman Sachs and Morgan Stanley.
- Data developments play in favour of keeping rates steady; inflation dipped below the Bank's target in January, but largely due to base effects.
- Focus this meeting will be on any commentary surrounding the stronger EUR, trade/geopolitical uncertainty and higher gas prices.

**Overview:** The ECB is expected to maintain its deposit rate at 2.00%. Recent data have broadly tracked the Bank's projections, so President Lagarde is likely to reiterate that policy is in a "good place". GDP remains above staff forecasts and PMIs are mixed, although the January composite reading is still above the 50.0 mark, while January inflation did dip below the Bank's 2% inflation target. While current indicators support a steady policy stance, key risks to the outlook include a stronger euro, rising gas prices and geopolitical/trade uncertainty. The ECB will not update its projections at the January meeting, so any shift in the outlook, factoring in these risks, could come in the accompanying statement or during the press conference. Do note that President Lagarde will speak at the post-policy press conference at 13:45 GMT / 08:45 EST. Further out, Goldman Sachs expects the ECB to keep rates steady for the "foreseeable future", while Morgan Stanley sees a chance of a cut in June if the EUR continues to appreciate and the growth outlook deteriorates.

**Data:** Inflation has broadly developed in line with staff projections set out at the December meeting. Though January headline HICP printed at 1.7% versus a projected 2026 average of 1.9% and below the Bank's 2% target – but much of the drop can be attributed to base effects, as energy prices fell. The Core Y/Y figure (2.2%) in January also cooled, and now bang in line with the Bank's projections. On growth, preliminary Q4 GDP rose 1.3% Y/Y, slightly below the 1.4% average expected for 2025; Goldman Sachs noted the eurozone expanded 0.3% Q/Q, ahead of the projected 0.2%. On activity, PMIs have been more mixed across the region, but the eurozone-wide Composite reading remains above the 50.0 mark. The report itself struck a downbeat tone, saying services inflation has been rising "significantly", alongside input cost inflation. It concluded that "ECB members are likely to feel validated in holding rates where they are. Some of the more hawkish members may even argue that the next move should be up rather than down". Finally, the labour market remains stable, with the EU unemployment rate near historic lows at around 6.2% in January.

**Recent Commentary:** Since then, officials have largely stuck to the "good place" message, with Chief Economist Philip Lane saying there is "no near-term interest rate debate", while board member Isabel Schnabel said there would be no change in the "foreseeable future", after earlier remarks on tightening triggered a hawkish reaction in euro assets. The main exception was Lithuania's Gediminas Simkus, who said policy fits the moment and rates are on hold for now, but added that beyond February the path is less clear.

**EUR:** Beyond rates, EUR strength since mid-January has been a key talking point, and is likely to feature in the press conference. EUR/USD has risen c. 2% since the 19th of January (vs at most +4.3%); strength which has largely been attributed to the dollar side of the pair, as the "debasement" trade picked up. The EUR has long been seen as the "liquid" alternative to the USD and, as such, benefited from broader USD weakness. A few policymakers have made mention of the strength in recent weeks; Kocher suggested "of course exchange rate matters; whilst Villeroy said the Bank is "closely monitoring" the EUR and its effects on inflation – he highlighted that there is no target for the exchange rate. Finally, Simkus noted that the currency level does not imply any policy direction. Given the above, the EUR may get some attention in either the accompanying statement or the presser. But given the recent flimsy speak from policymakers, the Bank may opt to avoid explicit language on the matter.

**Last Meeting:** December's meeting reaffirmed a meeting-by-meeting, data-dependent approach, with its statement and the post-meeting press conference with President Christine Lagarde saying that policy was in a "good place". December also saw updates to staff projections, where 2026 headline & core inflation was raised with the growth outlook also revised higher. Shortly after the meeting, sourced reports echoed that view, while stressing that a rate cut remained an option if needed.

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