[PREVIEW] ECB Policy Announcement due on 23rd July 2026

- **The ECB is expected to keep rates on hold, with inflation cooling and policymakers opting to wait for more data into the September meeting.**
- **Focus will be on the outlook for the remainder of the year, though analysts at Berenberg and Goldman Sachs expect little guidance on the path ahead.**
- **Upside risks to inflation remain, given the US-Iran strikes in recent weeks.**

OVERVIEW: The ECB is widely expected to keep rates on hold, with the Deposit Facility Rate at 2.25%, Main Refinancing Operations at 2.40%, and Marginal Lending Facility at 2.65%. This view is supported by recent economic data, policymakers' comments and lower energy prices relative to recent extremes. Recent domestic data have pointed to easing inflation in the euro zone, with both headline and services inflation printing below the previous reading and consensus forecasts. Nonetheless, inflation remains elevated and well above the Bank's medium-term target, keeping the prospect of further tightening alive. Adding to this risk is the renewed US-Iran conflict, which has pushed energy prices higher again. Against this backdrop, money markets price a 16% chance of a 25bps rate hike in July, about an 88% probability for September and fully price in a move by October. Sell-side analysts also broadly expect the ECB to leave rates unchanged in July. As a result, the focus at the July meeting will be on guidance for September or, more likely, any broader clues from policymakers on the outlook for the economy and monetary policy. However, Berenberg's Schmidt said ECB President Lagarde "will not provide any forward guidance at the press conference".

DATA: On the domestic front, euro zone data support keeping rates steady in July. Headline inflation eased in June to 2.8% Y/Y from 3.2%, while services inflation slowed to 3.2% from 3.5%. Given the lack of evidence that second-round effects are feeding through into broader prices, the ECB has scope to hold rates at its forthcoming meeting, Oxford Economics wrote. On the activity side, June PMIs improved from the previous month, suggesting the growth slowdown may be bottoming out. The accompanying commentary said the "near-unprecedented cooling of cost pressures" would temper some hawkish views and reduce the odds of near-term tightening. However, the July PMI report is due a day later and is likely to be clouded by heightened uncertainty over the renewed US-Iran conflict and the rebound in energy prices.

ECB RHETORIC: Overall, recent data sets the stage for ECB President Lagarde to reiterate her familiar "data-dependent" and "meeting-by-meeting" approach. She said in late June that there was no evidence of second-round effects warranting a "more forceful policy response at this stage". This prompted a dovish adjustment, with traders effectively pricing out a back-to-back move. She later clarified, however, that "we are more likely to face shocks in the coming years that push inflation away from target". Other policymakers have highlighted risks surrounding inflation; Chief Economist Lane stated that inflation risks being above 2% for some time. Interestingly, he suggested that the terminal rate could have crept up to 2.5% from 2.25%. Elsewhere, Schnabel reiterated her hawkish stance, stating that policymakers “cannot simply look through the shock”.

ANALYST COMMENTARY: There is broad consensus that the ECB will keep rates unchanged in July. DWS's Kastens said "there are many reasons for the ECB to wait in July", adding that policymakers would probably hold off until the September meeting, when they can assess new inflation and growth data. Goldman Sachs analysts also expect rates to remain on hold and the ECB to provide "little guidance on the path ahead". Instead, Goldman Sachs expects the Governing Council to acknowledge that data have broadly matched the June staff baseline while noting that upside risks to inflation remain.

VIEWS AHEAD: Views are more varied on what the ECB will do later this year. ING's Brzeski said the recent spike in oil prices could prompt some of the more hawkish policymakers to push for an earlier hike, but assigned only a "small chance" to that outcome. Instead, the firm sees a September hike as a "more realistic scenario". Goldman Sachs also expects a hike in September, which it said would take the Deposit Rate to a terminal level of 2.50%. Bank of America broadly shares this view.

LAST MEETING: As a reminder, the ECB hiked by 25bps in June, lifting the Deposit Facility Rate to 2.25%, as expected. Both the statement and President Lagarde were non-committal to further tightening, but there was nothing standing in the way of additional action. The baseline forecasts have inflation back to target in 2028, suggesting that further tightening is not a certainty as the ECB arguably does not need it over the medium term. However, the adverse scenario that Lagarde pointed to does have inflation above target by the end of the forecast horizon, suggesting further tightening is a distinct possibility.

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