

## ECB preview: another rate cut without new forward guidance

With the latest inflation data out of the eurozone, a rate cut at next week's European Central Bank meeting has almost become a done deal. As current headline inflation is closing in on 2% and longer-term inflation forecasts remain stable at around 2%, the ECB has enough reasons to further reduce the level of monetary policy restrictiveness



Contrary to the Fed, the ECB must have had a relatively quiet summer break. The message sent at the July meeting has worked: it's all about data dependency. Despite the message, we are still a bit amused when the ECB mentions data dependency as we had always thought that monitoring and assessing all available data is simply part of a central banker's job description. Still, and maybe with a bit of luck, the data releases in the eurozone since the ECB's July meeting almost all point to a weakening economic outlook and slowing inflation. The best economic backdrop for another rate cut.

### New forecasts will be key

Actual data is only factor in determining the ECB's rate decision next week. The other one is forecasts. Back in June, the ECB's macro forecasts had for the first time brought forward the timing

and profile for the economic recovery, expecting growth to have returned to potential (0.4% quarter-on-quarter) already in the second quarter of 2024. At the same time, the ECB had become a bit more cautious on inflation, seeing inflation returning to below 2% only in the first quarter of 2026. The newest batch of macro forecasts to be presented next week is likely to show broadly unchanged growth forecasts and probably a slight downward revision to inflation forecasts for 2025 and 2026, on the back of lower oil prices and a stronger euro exchange rate.

Back in June, the ECB had expected growth to come in at 0.9% this year, 1.4% in 2025 and 1.6% in 2026. We are less optimistic about the growth outlook but only remind you that it wouldn't be the first time that the ECB would eventually postpone the moment of a eurozone recovery. As regards inflation, the ECB in June expected headline inflation to come in at 2.5% this year, 2.2% in 2025 and 1.9% in 2026. For us these inflation forecasts were slightly too optimistic as we expect wage growth to remain higher for longer and inflation to remain stickier. Almost needless to say that for the ECB next week, any downward revision to growth or inflation would increase the likelihood of a more rapid pace of rate cuts, while upward revisions would motivate the hawks to slow down further rate cuts.

## Technical detail

As one of the conclusions from the ECB's review of its operational framework, it had announced that by 18 September the spread between the refi and deposit rate would be lowered to 15bp, from 50bp currently. As such, this narrowing of the spread could be interpreted as an easing of monetary conditions (though the main refinancing operations are hardly used nowadays). While this narrowing of the spread could theoretically be used by ECB hawks, for us it is not a very convincing argument to keep the deposit rate on hold next week. We still think that a majority at the ECB would prefer an outright cut of all three policy rates.

## No new forward guidance

For next week, fading inflationary pressures are the strongest argument in favour of another rate cut. At the same time, still high wage growth and still too high, albeit declining, selling price expectations suggest that the fight against inflation is not entirely over, yet. This will make further rate cut decisions beyond the September meeting initially more complicated and controversial than currently priced in by financial markets. As a result, we don't expect any new forward guidance at next week's meeting. For now, the data-dependency narrative has worked, why change it.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.