

January ECB cheat sheet: Expect the expected

ECB members have given strong hints that this Thursday's decision will be a 25bp rate cut, and we don't think this will be a market-rocking event. Our baseline is that a reiteration of the broadly dovish message can pave the way for lower eurozone rates. While the ECB remains a negative for the euro, the dollar correction might have a bit more to run

ING Research

	Inflation outlook	Growth outlook	Interest rates	EUR/USD (1.052)	10Y Bund (2.53%)
<i>Current stance</i>	Inflation to fluctuate in the near term, settle around 2% in medium term	Economic activity to be supported by rise in real wages. Risks to the downside	Depo at 3.00%. Data-dependent, meeting-by-meeting approach		
Dovish	Risks of inflation undershooting target in 2025 and beyond	US protectionism a tangible risk to growth, may call for frontloaded cuts	25bp cut. Larger cut was on the table. Strong hints of more cuts to follow	1.045	2.40%
Moderately dovish ING base-case	Overlooking sticky inflation of past months. Expecting 2% this year	Unchanged. Balance of risks for growth remains tilted to downside	25bp cut. Unchanged dovish-leaning message. Data dependency	1.050	2.50%
Neutral	Greater near-term upside risks for infl. but medium-term view unchanged	Some tentative improvement in PMIs, but US tariff risk tangible	25bp cut. Stressing data dependency, slightly more cautious on easing	1.058	2.55%
Hawkish	Higher oil prices can lead to upward revision in inflation projections	Downplaying US protectionism risk, upbeat view on growth	25bp cut. Market expectations for easing are too dovish	1.063	2.65%

This article is part of our European Central Bank coverage. Please refer to our [January ECB preview for details.](#)

This Thursday's ECB decision will almost certainly be a 25bp rate cut. Governing Council members have given very strong hints that rates would be lowered again in their latest comments, most recently in Davos. Our baseline view is that President Christine Lagarde will broadly repeat December's communication and her Davos forward guidance. That includes reiterating that rates will remain in restrictive territory and while not pre-committing to a specific easing path, sticky December inflation should not prevent the policy message from staying dovish, signalling further

gradual easing this year.

Rates: Risks of lower yields

The rates market is viewing a cut at the upcoming meeting as a near done deal. The same goes for the following March meeting, with a total of 47bp of easing discounted by then, which would take the deposit facility rate to 2.5%. This is all in tune with comments from ECB officials pointing to further gradual easing. But it's beyond the first quarter that the outlook gets less certain. The market sees the ECB at 2.25% in June with a decent chance of another cut to 2% before the end of the year.

Expectations late last year had seen the ECB cut down to at least 1.75%. Since then, to a degree spillover effects from the US but also a refocus on stickier inflation and energy price dynamics had turned the pricing more hawkish. After Friday's better-than-expected eurozone PMIs, markets found another reason to price a more cautious advance by the ECB as the neutral territory is approached. But we have already seen some expression of doubts surrounding the December forecasts in the ECB minutes. More hints along those lines could push rates lower again.

Overall, we believe the balance of risks points towards lower rates again at these levels. With the ECB only starting to enter the broader range of neutral estimates, the expectations of the next couple of cuts will serve as an anchor. The upside appears more capped by the uncertainty stemming from US policies.

FX: Euro not counting on the ECB for another rally

EUR/USD is retesting levels above 1.050 as markets have now priced out a good portion of the protectionism risk premium associated with President Donald Trump's tariff threat. Things on this matter can change overnight, as Trump often switched from friendly to hostile towards his trading partners without warning, but the longer eurozone and China are spared tariffs, the harder it will be for USD to regain momentum.

If the tail risk of US protectionism is getting thinner, there are lingering dampening eurozone-specific factors that will, in our view, prevent the euro from rallying much beyond the positioning re-adjustment. Eurozone growth remains concerning and political events this year can easily unnerve markets. Most importantly, we expect Thursday's ECB decision to show a resolutely dovish Governing Council that will keep a lid on any hawkish repricing of rate expectations even if inflation proves sticky at the next release.

We expect EUR/USD to hover around 1.050-1.060 in the short term, although the ECB could trigger a small correction on Thursday.

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Carsten Brzeski

Global Head of Macro

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>.