

ECB hikes rates by 25bp

The European Central Bank hikes rates by 25bp and doesn't seem to blink, despite the latest batch of disappointing macro data



The eurozone's wage growth drop is firming up expectations of a 25bp cut from the ECB next month

The ECB just hiked its main policy interest rates by 25bp. The deposit interest rate is now at 3.75%. What is more interesting, the accompanying policy statement kept the door for further rate hikes wide open and did not strike a more cautious note. Let's see whether this stance will be confirmed at the press conference, starting at 2.45pm CET.

After the June pre-announcement, it was hard not to hike interest rates today. The ECB has been too explicit that the risk of stopping rate hikes prematurely is much higher than going too far.

However, the recent batch of negative data from the eurozone, ie. weak PMIs and a weak Ifo index, another drop in demand for new bank loans, tighter lending standards and weak loan growth must have had a terrifying impact on sentiment in the EuroTower, even if this was not reflected in the policy statement. In fact, the ECB is again running the risk of being behind the curve. This time not by being too benign on inflation but rather by being too optimistic and too benign on the economic impact of its own policy measures.

Looking ahead, today's first announcement keeps the door to further rate hikes wide open. The mention of inflation coming down but staying above target "for an extended period" does not sound as if the ECB is yet willing to stop hiking rates. In fact, and a bit conditional on ECB President Christine Lagarde's comments at the press conference, the ECB's own growth and inflation projection in September will have to see a significant downward revision in order to stop the central bank from hiking rates at least once more after today.

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