

Snap | 13 July 2023

## Minutes of the June ECB meeting underline its hawkishness

With two weeks to go until the next European Central Bank meeting, the just-released minutes of the Bank's June meeting reiterated policymakers' determination to continue the current hiking cycle beyond the next meeting



The ECB's June meeting delivered not only another rate hike but also a de facto pre-announcement of a July hike by ECB President Christine Lagarde. The upward revision of the ECB's inflation forecasts for 2024 and a still-optimistic growth outlook were the main reasons for continued hawkishness. The pre-announcement at the press conference was reflected in the minutes, as the ECB concluded that in order to reach the inflation target the bank had "as a minimum, to deliver two successive interest rate increases in June and July".

Besides the next rate hike pre-announcement, the minutes provided some additional insights into the ECB's current thinking:

- Core inflation as a leading indicator. Here, a majority at the ECB seems to have some doubts, not only questioning the role of core inflation as a leading indicator but characterising it as a lagging indicator.
- Some doubts regarding the latest upward revision to inflation. Some members questioned the upward revision "in light of the latest, more encouraging data and with respect to changes in the assumptions underpinning the June projections".

- Getting inflation lower is easier than getting it to 2%. “It was also argued that bringing inflation down from very high numbers to more moderate levels was easier than achieving a full return to the 2% medium-term target. In this context, it was remarked that an envisaged return of inflation to 2% towards the end of 2025 could be considered too late.”

## 25bp rate hike in two weeks is done deal

Looking ahead, another 25bp rate hike at the ECB's next meeting in two weeks looks like a done deal. Even if signs of a cooling economy and fading inflationary pressure are emerging, they are still too weak for the ECB to change course. However, looking beyond the July meeting, the discussion on how far the ECB should go with its current hiking cycle will intensify and become more controversial.

In fact, with still lower-than-expected energy prices, dropping food prices and fading pipeline price pressures in both services and manufacturing, inflation could come down faster than the ECB expects, at least after the summer. In fact, there is the risk that another chapter will be added to the misconceptions of inflation dynamics; after 'inflation is dead' and 'inflation is transitory', we could now have 'inflation will never come down'.

Don't get us wrong, we still believe that, structurally, inflation will be higher over the coming years than it was pre-pandemic. Demographics, derisking and decarbonisation all argue in favour of upward pressure on price levels. However, be cautious when hearing comments that inflation will never come down. These comments might come from the same sources that only a few years ago argued that inflation would never surge again. This does not mean that the loss in purchasing power as a result of the last inflationary years will be reversed any time soon. It only means that headline inflation can come down faster than currently anticipated. Finally, historic evidence suggests that core inflation normally lags headline inflation while services inflation lags that of goods.

If we are right and the economy remains weak, the disinflationary process gains momentum and core inflation starts to drop after the summer, the ECB's hiking cycle should end with the September meeting, though the Bank might wait until the December meeting to officially declare it over.

### 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 [www.ing.com](http://www.ing.com).