

## German inflation is good news for ECB hawks

German inflation accelerated in November and will strengthen opposition against a 50bp rate cut



The just-released flash estimate of German inflation in November wraps up a good day for the ECB hawks. With headline inflation accelerating and economic sentiment stabilising, opposition against a 50bp rate cut at the December meeting will grow stronger.

German headline inflation came in at 2.2% year-on-year, up from 2.0% YoY in October. Back in September, headline inflation was still at 1.6% YoY. The European inflation measure came in at 2.4% YoY, unchanged from October.

### German inflation to move within the 2% to 2.5% range

Today's rebound in German inflation was mainly the result of less favourable energy base effects, while at the same time the timing of school vacation during the Fall season inserted downward pressure on headline inflation.

Looking ahead, the stickiness of inflation at slightly too high a level still looks set to continue as favourable energy base effects will continue petering out while wages are increasing. However,

with the current turning of the labour market, wage growth should come down more significantly than previously thought, leading to more disinflationary pressures next year. As a result, we continue to expect inflation to remain within the broad range of between 2% and 2.5% in 2025.

## Opposition for a 50bp rate cut in December growing

With today's surprise (meagre) improvement in eurozone sentiment and now German inflation, some ECB members might start doubting both the October rate cut decision and the opening to even larger rate cuts at the December meeting.

What remains is the genuine idea of almost all ECB officials that the rate-cutting cycle will continue. The only question is for how long and how far. Yesterday's remarks by Isabel Schnabel clearly stressed the hawkish case, which is one of a very gradual process of cutting rates. However, even more important than the debate about 50bp or 25bp at the December meeting is the question of how far the ECB will eventually go with rate cuts. Here, Schnabel tried to mark her preferred terminal rate of between 2% and 3%, while Philip Lane's comments earlier on suggested that the ECB could clearly go below any neutral interest rate level next year.

In any case, having been slow to address rising inflation and arguably late in stopping rate hikes last year, the ECB now appears determined to get ahead of the curve and return interest rates to neutral as quickly as possible. For the doves, this is a no-brainer, and for the hawks, the argument might be that getting rates back to neutral quickly could be enough to avoid another episode of unconventional monetary policy with quantitative easing and negative interest rates further down the line. Today's macro data releases in the eurozone, however, should encourage the ECB hawks to object to a 50bp rate cut in December and the case for a 25bp rate cut is growing.

In fact, a 50bp rate cut decision would be a security move to preempt any potential risks for the eurozone economy coming from the next US administration's potential economic policy choices. A 25bp rate cut decision would rather follow the cautious meeting-by-meeting approach, though running the risk of not yet getting ahead of the curve. We will wait for tomorrow's eurozone inflation numbers to finally make up our minds.

### 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).