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GLOBAL ECONOMICS

FLASH REPORT
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ECB: This Meeting Could Have Been an E-Mail

- **To no one's surprise, today's was an uneventful ECB decision—with all policy settings left unchanged—that stands as a placeholder until a 25bps September rate cut.**
- **Lagarde's press conference was in focus after a brief two-paragraph statement. The ECB's president's comments on the growth and inflation outlook point to a September move, though she cautioned the meeting remains "wide open".**
- **Markets didn't make much of today's events. A small bid in European rates brought yields back to around yesterday's closing levels and the EUR is trading marginally weaker.**

Today's ECB decision was as uneventful as expected, with a two-paragraph statement—where the final paragraph was identical to June's—that gave nothing away on the timing of the bank's next rate cut. As was universally seen by economists and priced in by markets, officials decided to leave all policy settings unchanged. The ECB will now monitor incoming data—namely inflation and wages—to determine whether to cut again in September, as we expect followed by consecutive quarterly cuts of 25bps to a 2.25% deposit rate at end-2025.

The brief ECB statement has some dovish and some hawkish elements but overall reads like a neutral placeholder. After boxing itself into its first cut at the June decision, the ECB is better off sticking to a dry data-dependent meeting-by-meeting approach. On the dovish side, the highlight is the ECB saying that the May uptick in some underlying inflation measures owed to one-offs and that June readings were stable or edged lower. On the hawkish side, the statement keeps that "domestic price pressures are still high" and inflation "will remain above the target well into next year". Also, no one voted for a rate cut today as Lagarde said the decision was unanimous.

The statement didn't give us a lot to work with, so the press conference was the focus. President Lagarde expressed that risks to economic growth are tilted to the downside and that growth softened in Q2, that credit dynamics remain weak, and that profits are absorbing wages growth (and should continue to do so). Her relatively dovish presser that suggested the ECB is trending towards a September cut was interrupted by caution, as she noted that the "question of what to do in September is wide open". Fair enough, it's irrational to criticize the ECB for holding if data surprise greatly to the upside, but for now this is far from our baseline (nor it Lagarde's, seemingly).

Markets struggled somewhat with the dry statement, drawing few conclusions from it and holding losses in rates markets on the day; German 2s and 10s were 2–3bps weaker ahead of the statement. An upside surprise in US jobless claims data released fifteen minutes of the data built some gains into European rates that was followed by clearer yield declines through Lagarde's benign press conference.

The intraday range for European yields has been relatively narrow (about 3–5bps in German 2s and 10s, for example), all things considered, which looks like an appropriate reaction to an uneventful ECB decision day. At writing (14.45UK/9.45ET), German 2s and 10s are down 3bps from pre-statement levels (vs little changed USTs but 1–2bps in comparable UK yields). Markets have only added 1bp in expected rate cuts by year-end to total 46bps, where this closed yesterday, while holding September implied pricing at 20bps in cuts. The EUR is only down 0.1% against the USD since the statement was published.