

## Contributors

**Juan Manuel Herrera**

Senior Economist/Strategist

Scotiabank GBM

+44.207.826.5654

[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

## ECB: Bland 25bps Cut as Scheduled; October Pause and December Cut Await

- **The ECB failed to surprise on policy decision day as it delivered a well-telegraphed 25bps rate cut, while Lagarde poured cold water on small October cut bets that slightly weighed on European debt but with limited impact on the EUR or local bourses.**
- **The “relatively short period” until the next meeting will not provide enough information to judge that a faster pace/size of cuts is needed, so see you at the December forecasts round for the next 25bps cut.**
- **ECB staff predictably made minimal changes to their macroeconomic projections, with small upside revisions to core inflation contrasting with marginally lower growth over the forecast horizon.**

Once again, the ECB failed to surprise on policy decision day as it delivered a well-telegraphed 25bps rate cut to its deposit facility rate to 3.50% as we, economists, and markets had fully expected. The rate cut size, according to Pres Lagarde, was also unanimously agreed upon. Technical adjustments to its main refinancing and marginal lending facility rates to narrow spreads between official rates were also executed in line with guidance, bringing these to 3.65% and 3.90%, from 4.25% and 4.50%, respectively.

The unsurprising monetary policy statement and roughly in line forecast revisions gave markets little to move on until Lagarde’s presser (and US data in between) fed a small increase in yields and EUR strength. Lagarde pouring cold water on (already small) October cut expectations may have been the bigger driver of the small moves. At writing (9.15ET), when compared to pre-statement levels, markets have left German 2s 4bps higher (vs 2bps in US and UK 2s), implied October cuts trimmed by 2bps at 6bps, and the EUR up only 0.2% while Euro Stoxx broadly track US futures.

The ECB is clearly acting cautiously given worries about services inflation and wages growth, sticking to a data-dependent, meeting-by-meeting approach. After maybe boxing itself into cutting somewhat early at its June decision, it’s clear they want to take their time to monitor data and slowly reduce the degree of policy tightening. The ECB’s quarterly forecast revisions rounds, like today’s and again in December, are the best opportunity to take stock and adjust real policy rates.

ECB staff predictably made minimal changes to their macroeconomic projections. Headline inflation forecasts were left unchanged at a 2.5/2.2/1.9% average for 2024/25/26, but core inflation projections were lifted by 0.1ppts this year and next, and held steady for 2026, leaving them at 2.9/2.3/2.0% respectively. In contrast to the marginally higher core inflation path, the GDP growth outlook was revised lower by 0.1ppts each year, to 0.8/1.3/1.5% average for 2024/25/26.

These forecast revisions are not large enough to suggest in any material way that the ECB would consider a faster or slower pace of easing—especially in the near-term. Inflation is still converging towards target in headline terms, though elevated services inflation and wages growth are delaying the achievement of the ECB’s goals.

Pres Lagarde pointed to a series of wages growth data and trackers that support their optimism for easing services inflation. She also highlighted that strong negotiated wages growth over the next few quarters would owe to the result of large bargaining agreements—namely in German industry—while the underlying trend is more encouraging. On this note, recent news and data regarding the bloc’s manufacturing sector reinforce the view that these big pay increases are mostly catch-up to past inflation (i.e., backward looking) rather than industrial strength, which faces demand and competitiveness challenges (e.g. China, and high energy and labour costs).

---

September 12, 2024

Barring a marked economic deterioration (or market collapse) in the five weeks until the next decision, the ECB will hold at its October meeting, after which we expect quarterly 25bps rate cuts in December, through 2025. Though Lagarde noted in her press conference that Eurozone growth risks are tilted to the downside, the data due for release between meetings would not be evidence enough to determine the bloc's GDP is sharply slowing or contracting. September Regional PMIs on the 23<sup>rd</sup> and a combination of August industrial production or retail sales data won't do it.

Lagarde didn't rule out an October cut due to a strict adherence to the meeting-by-meeting approach, but it was heavily implied. Lagarde remarked the "relatively short period" until the next meeting and also highlighted the "data dependency does not mean data-point dependency" and that they will not fixate on one single number like the September HICP release. On this, she also highlighted that base effects (mainly due to energy) will be behind a low reading for the month, and that they anticipate an acceleration in Q4; meaning, don't read too much into it.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.