

# MARKET COMMENTARY

More easing to follow today's ECB 25 bps cut

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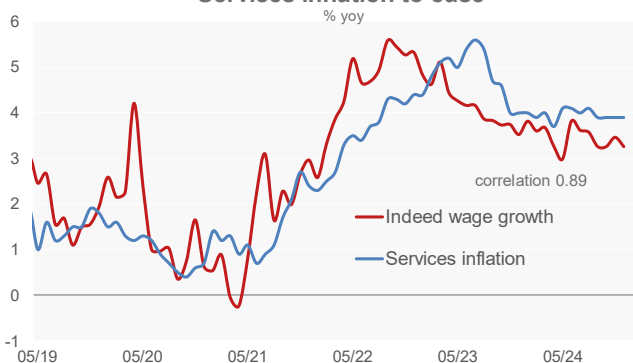
January 30, 2025

- At today's meeting the ECB's Governing Council (GC) unanimously decided again to cut its key rate by 25 bps to 2.75%, in line with latest market expectations.
- At current levels rates are still assessed as restrictive. Amid a weak near-term outlook, the conditions for a recovery are still seen in place and the disinflation process considered "well on track" and "broadly in line" with latest projections. At the same time uncertainty regarding the potential impact from tariffs were highlighted.
- There was no discussion where to stop the easing cycle at today's meeting as this would have been "premature" and the direction of travel was known according to President Lagarde suggesting that further cuts are in the offing.
- While data-dependency and the meeting-by meeting approach were maintained, we look for another 25 bps cut by March and continue to expect a terminal rate of 1.75%, likely reached in July.

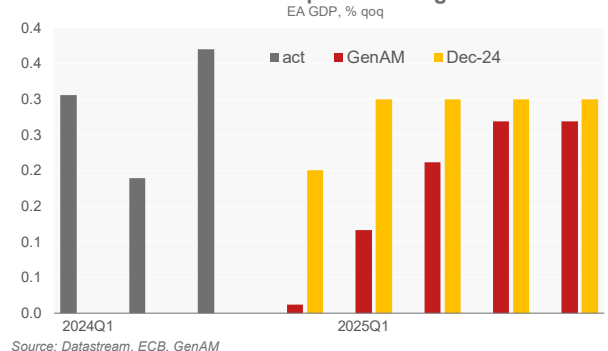
**ECB cut by 25 bps today:** At today's meeting the GC again decided to cut its key rate, the deposit rate, to 2.75%. It continues with fully non-reinvestments of its APP and PEPP purchases.

**Weak growth data:** Today's policy meeting coincided with the release of preliminary Q4/24 GDP data reporting stagnation as the EA-3 economies all performed weaker than expected thereby falling clearly below the ECB's latest staff projection assumption of 0.2% qoq and making the 2025 annual forecast of 1.1% looking too optimistic. At today's press conference President Lagarde acknowledged that near-term growth was weak but emphasized that the conditions for a recovery remained in place.

Services inflation to ease



ECB still too optimistic on growth

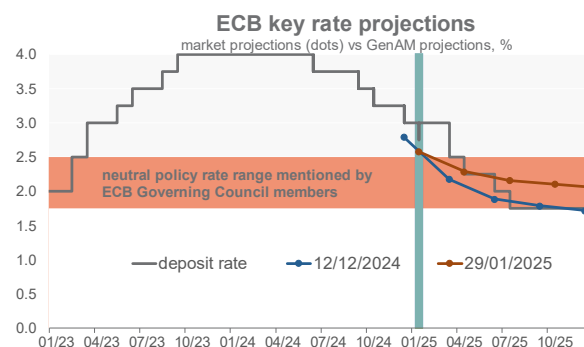
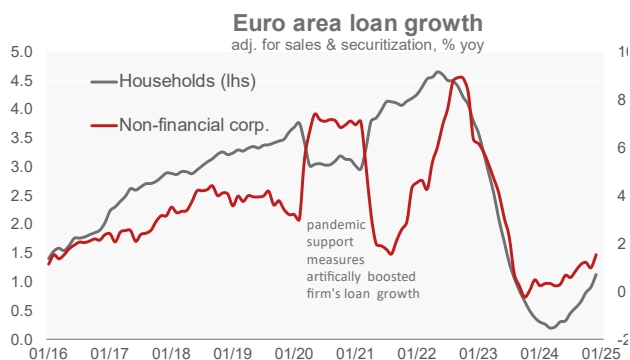


**Disinflation still seen well on track:** The GC continues to expect that underlying inflation sustainably settles around target. While acknowledging ongoing high domestic inflation pressure moderating wage growth and profits partially buffering its impact on inflation stand behind this outlook. The obvious elephant in the room is services inflation that hovers around 4% since November 2023. In the Q&A Mrs Lagarde attributed this to so-called latecomers (e.g. insurance companies) that started to adjust their prices only one year ago. The expectation is that this will not again be the case this year. Inflation uncertainty also comes from the potential impact of tariffs.

**Still restrictive monetary policy stance:** At current rates monetary policy is still assessed as “restrictive”. The crucial question, however, is when the neutral corridor will be reached. In recent speeches a 1.75% to 2.5% range had been mentioned but it also became clear that various GC members have diverging views on it. At today’s press conference Mrs Lagarde announced the publication of a staff paper on the neutral policy rate (r-star) by February 7. We got the impression that it will serve as an important yardstick in the discussion.

**Updated macro projections in March:** At the forthcoming March meeting updated macro projections and inflation data for January and February will be available. Moreover, we might have a clearer view whether the January rise in key sentiment indicators is more than a flash in the pan. In our view the ECB will need to adjust its 2025 growth outlook to the downside while the inflation outlook should all in all be confirmed.

**Easing cycle not to end soon:** Not surprisingly, President Lagarde again praised the ECB’s data-dependence and meeting-by-meeting approach. The fact that at today’s meeting a 50 bps cut was not in the debate at all supports us in our view that the GC proceeds on its path of small rate cuts. We continue to look for ongoing 25 bps cut until a terminal rate of 1.75%.



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