

ECB Watch: September fog

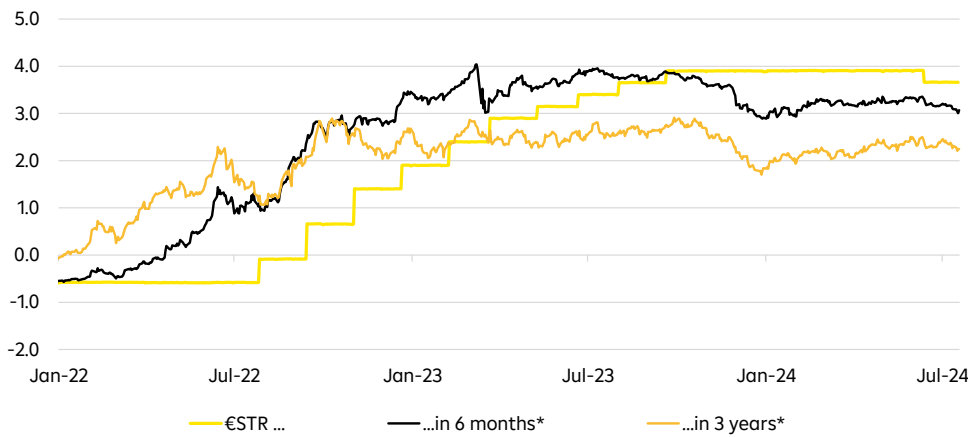
The ECB left key interest rates unchanged and intentionally gave no clear signals about a possible rate cut in September. Despite recent increases in inflation momentum in the euro area, the ECB Governing Council considers the medium-term inflation outlook to be confirmed. This reinforces our expectation that the ECB will cut key interest rates once again in September.

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ECB kept key rates constant today but rate cuts are priced short- and mid-term



* shows 3M €STR OIS in the stated time period

Source: LSEG, RBI/Raiffeisen Research

The ECB kept **key interest rates unchanged** at today's meeting. The deposit rate will therefore remain at 3.75% and the main refinancing rate at 4.25%. This is in line with market expectations, meaning that the release of the monetary policy statement did not lead to any significant market volatility. We, along with all other analysts surveyed by Reuters, expected key interest rates to remain unchanged.

Given this clear expectation, the **focus is exclusively on signals about the rate path ahead**. As the [chart above](#) shows, the market is pricing interest rate cuts in both the short and medium term. In the monetary policy statement, the ECB Governing Council decided not to send any clear signals, but to stick to old wording: the Governing Council follows a data-driven approach and decides from meeting to meeting.

Despite the lack of signals, we would still be **confident that the next rate cut will occur in September**. Why? The ECB emphasizes that the latest information broadly confirms the ECB's medium-term inflation outlook, which was published in June. In our view, the ECB will follow a gradual rate cutting cycle if the current inflation outlook is confirmed. Furthermore, the higher price pressure does not seem to worry the ECB which refers

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to one-off effects and the assessment that falling margins reduce price pressure from elevated wage growth.

At the **press conference**, we waited in vain for a clear position from President Lagarde regarding further interest rate cuts. It seems to us that the contradictory approach prior to the June rate cut, when a rate cut was clearly signalled but at the same time it was emphasized that no precommitment wants to be made, should not be repeated. In particular, the ECB wants to closely monitor developments in wages and profit margins, as this is seen as a key uncertainty for the inflation - and thus key rates - outlook. At the end of the day, we think that key interest rates will be cut in September if the inflation outlook presented in June finds further support by the data ahead.

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