ECB decision – our take following yesterday's meeting

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After lowering key rates in the last seven consecutive meetings, the ECB decided yesterday (24.07) to make a pause in its rate cutting cycle. The decision was taken unanimously by the Governing Council.

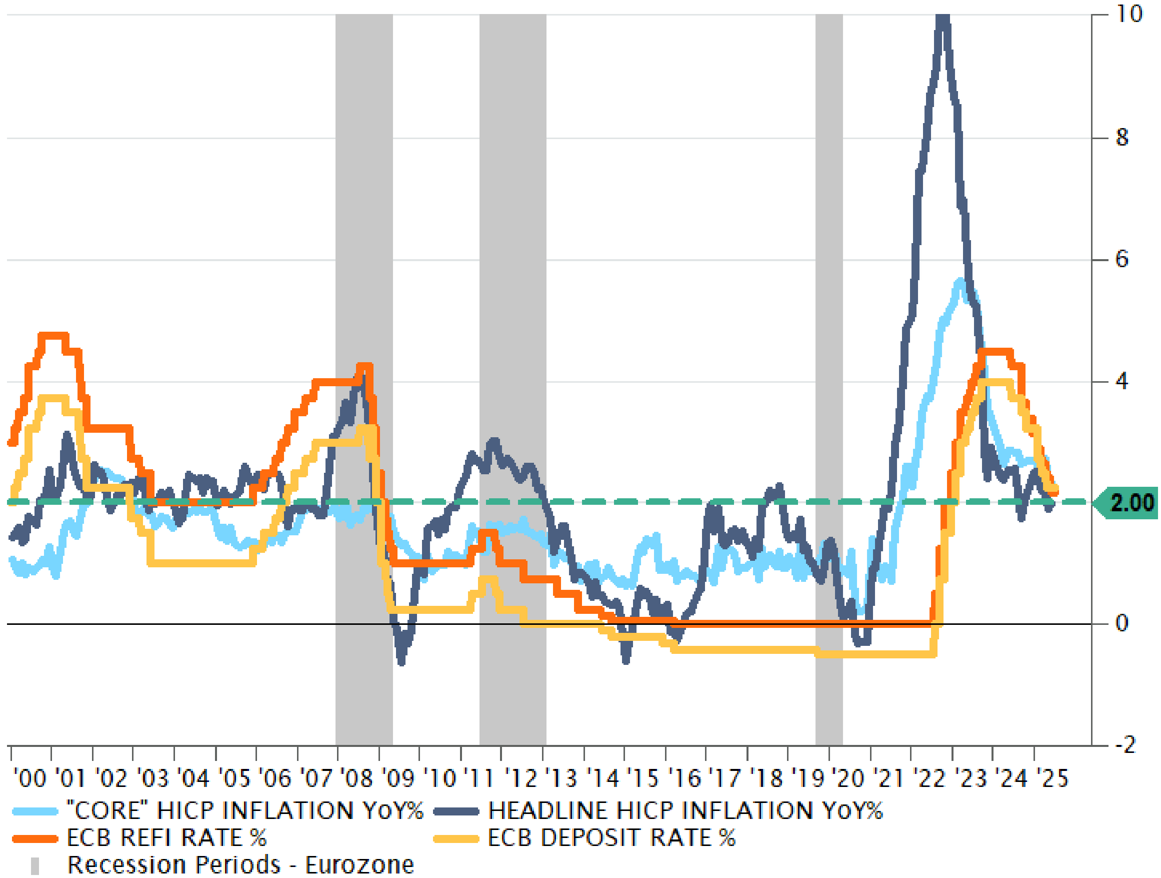
In our view, there were no major surprises. President Lagarde reiterated that the ECB remains data-dependent, taking decisions on a meeting-by-meeting basis without any pre-commitment. The ECB confirmed it would remain in a "wait-and-see" mode, consistent with the current approach taken by the Federal Reserve. Neither the central bank's communication nor the market's reaction has led us to revise our baseline expectation of one rate cut in the second half of 2025. That said, the probability of a cut has partially decreased, while a "no-cut" scenario has become slightly more likely. Market pricing for the next ECB meetings indicates that the likelihood of a rate cut is now only 19% for September and around 60% for a rate cut until the end of the year.

Regarding the ECB's assessment of growth and inflation, there were no notable shifts in tone or substance during the press conference. President Lagarde emphasised that they remain focused on their medium-term inflation target and are prepared to look through any short-term undershooting of consumer prices. Importantly, she did not signal any change in the ECB's view relative to the June staff projections. Even her commentary on trade-related developments was in line with previous messaging.

On the matter of trade tariffs, Lagarde reiterated the ECB staff's earlier assessment from the June meeting, noting that the expected impact of the proposed tariffs would be more growth-negative than inflationary. The preliminary analysis even suggests that a higher-tariff environment may exert downward pressure on inflation in the euro area. However, she also highlighted the presence of multiple countervailing factors and acknowledged that supply chain disruptions could still materialise in ways that lead to renewed inflationary pressure. As such, considerable uncertainty remains until there is greater clarity regarding the level, scope and timing of potential EU–US tariffs.

Market reaction was relatively pronounced, as some investors had appeared to position for a more dovish signal, potentially hinting at a rate cut in September. This was not delivered in either the official statement or President Lagarde's remarks. Consequently, market expectations for rate cuts in both September and October have been partially priced out while bond yields in the Eurozone grinded higher, for example the German 10-year Bund rose by approximately 9 bps, climbing to around 2.68%, or the Italian 10-year BTP, which rose by 7 bps, closing at 3.58%. In response, the euro has strengthened somewhat against the dollar, and European bond yields have moved higher. After an earlier rally, the EUR/USD lost again closing at around 1.18. We expect the ECB to get more specific on its rate path once there is more clarity on the final level and scope of the trade tariffs.

Eurozone monetary policy and inflation rates (2000–2025)



Source: Bank Syz, FactSet Research Systems

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