



ECB – is it really data-dependent?

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At today's press conference, ECB President Christine Lagarde once again emphasised the data dependency of future interest rate decisions. But that is only half the truth. As long as the inflation data is roughly pointing in the intended direction, the dovish-dominated ECB Governing Council is likely to cut its policy rates further at its next meeting in September. Further interest rate cuts should follow in December and March next year. However, the rate cuts are risky because the eurozone's inflation problem has not yet been solved.

Lagarde emphasises data dependency of future interest rate decisions, ...

Everyone had expected the ECB to leave its policy rates unchanged today. It was also clear that the ECB would again emphasise in its **statement** and during the press conference that its future monetary policy would depend on economic data and that it would not pre-commit to a particular rate path. The ECB Governing Council has decided this unanimously. According to President Christine Lagarde, everything is "wide open" regarding the next meeting in September.

... with which she also wants to appease the hawks

But such assurances don't mean much. After all, the ECB cut its rates only at the beginning of June, even though inflation in the second quarter was higher than it had expected. The June rate cut was *not* data-dependent. One should not put too much stock in the self proclaimed data dependency of ECB rate decisions. In doing so, the consensus-orientated Christine Lagarde is also making a certain concession to the small camp of hawks who insist on data dependency and who she does not want to vote against further interest rate cuts. According to media reports, this was exactly what four hawks had considered at the June meeting.

Interest rate cut likely in September

Much more important are the ECB's statements which see the ECB's medium-term inflation outlook confirmed. In particular, ECB President Christine Lagarde repeated that wages are unlikely to rise as much next year as they do this year. All of this was a hint that the ECB will lower its key interest rates at its next meeting in September, especially as it will then publish its updated inflation and economic projections, which the ECB typically employs to justify its interest rate decisions. As long as the inflation data is roughly pointing in the intended direction, a dovish-dominated ECB Governing Council is



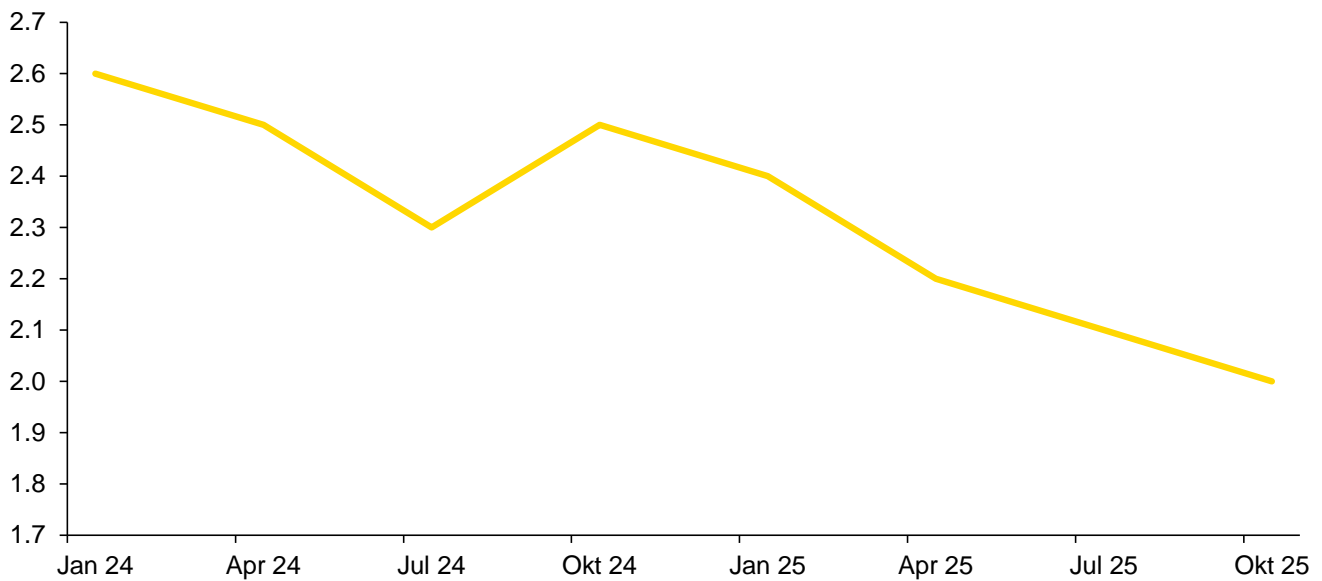
likely to cut interest rates at the next meeting. Moreover, the doves will use the August inflation figure, which will probably fall below 2% due to a base effect, as an argument in favour of a rate cut, even if core inflation remains at just under 3% and the inflation problem is far from being solved.

Higher Q4 inflation already included in ECB forecasts

In the fourth quarter, the still pronounced underlying inflationary pressure is likely to become visible again in the headline inflation rate. But the ECB has already anticipated this. As the chart below shows, its economists expect the inflation rate to rise again at the end of the year. If it does indeed rise, the ECB can point to the fact that inflation is not exceeding its expectations. We expect the ECB to cut its key interest rates again by 25 basis points in December. However, unlike the futures markets, we do not expect any further interest rate cuts after another cut in March next year. In our opinion, inflation is more likely to stabilise at 3% rather than 2% around the turn of the year. This should prevent even a dovish ECB from reducing interest rates further.

Chart 1 - Inflation hump at the turn of 2024/25

ECB projections on eurozone inflation, in % year-on-year



Source: ECB, Commerzbank Research



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