WEEKLY ANALYSIS

NUMBER 870, JULY 22, 2024

The ECB's decision in line with expectations

ECB maintained interest rates at the existing levels

- Last week's unanimous decision of the ECB's Governing Council to keep key rates at the existing levels was fully expected, the markets predicted only a minor probability for the July cut. In the past weeks, the Governing Council' s members and the national banks' governors implied or openly stated that the conditions for further reduction were already not met in July.

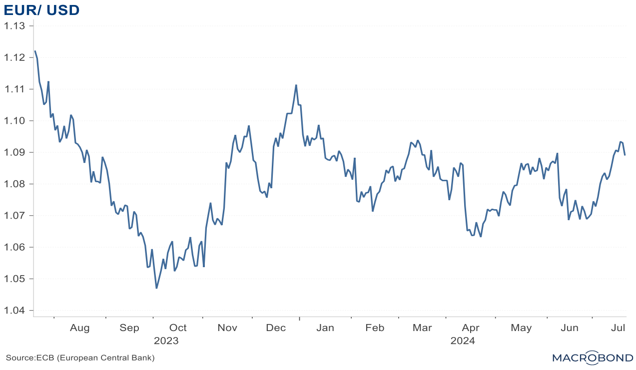
Absence of forward guidance

- Unlike the May meeting, which hinted at a move in June, the July meeting provided no forward guidance. The decision states that the Governing Council is not pre-committing to a particular rate path and will continue to follow a data-dependant approach. The data that will be observed are essentially constant, so the decision will be based on the underlying inflation trend, data-based assessment of inflation outlook, and monetary policy transmission strength.

We still expect rates to decrease by 25 bps in September

- The ECB estimates that inflationary pressures have not changed significantly, i.e., that most measures were stable or slightly decreased in June. Inflation in the eurozone was reduced from 2.6% y-o-y in May to 2.5% in June, but core inflation and service price growth (which has been stubbornly hovering around 4% since the year's beginning) are not easing as quickly as the ECB would like, and in June both rates remained at the level of the previous month. The overall index trend will continue fluctuating in the upcoming months, i.e., as president Lagarde recently vividly described, a bumpy road lies ahead on the way to mid-term target inflation of around 2%. Inflation data for July and August will become available to the ECB by the meeting in September, which, according to our estimates, should bring some relief, indicating a slight reduction in pressures, and data on the growth of negotiated wages in Q2 will also be available, for which Ms Lagarde stated that, according to surveys (e.g. SAFE), it will slow down during the next two years. Ms Lagarde noted that domestic price pressures are undeniably high, but the trend is favourable, and disinflation is present. When asked whether there will be cuts at the meeting in September, Ms Lagarde declined to comment, only answering that the issue of the decision in September is completely open and the decision will be made based on the data that will arrive. Our expectations, however, have remained unchanged – we foresee a reduction by 25 bps.

- Last week we noted a trend being maintained of a weaker dollar to the euro, as the possibility grew that both central banks will cut interest rates in September. At the end of the week, the exchange rate was 1.0890 dollars to the euro, almost unchanged w-o-w.
- In the week in which the ECB decided to keep interest rates unchanged, Euribor was almost stagnating, and a somewhat stronger downwards shift of 6 bps was recorded only for 12M so 3M and 6M were 3.7, i.e., 3.6% at the end of the week.
- Crobex continued the upward trend, realising 1.4% growth w-o-w, to 2,905 points. Out of more important sectoral indices, CROBEXindustry was also in the black (+2.2% to 2,100 points), while CROBEXnutris and CROBEXtourist recorded negative performances (-0.6% to 935 points, i.e., -0.9% to 4,422 points). Crobis was reduced by 0.1% to 96.5 points.



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