# WEEKLY ANALYSIS

## NUMBER 888, JANUARY 27, 2025

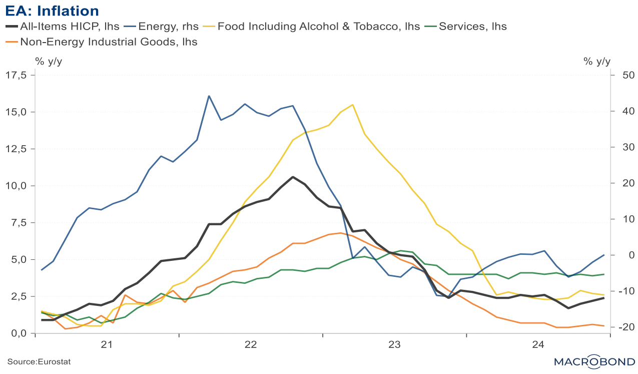
### The ECB's January meeting brings rate cuts again

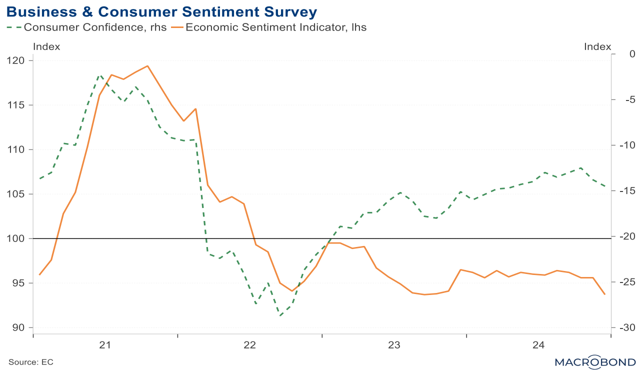
- Inflation in the eurozone accelerated as expected in December 2024 for the second consecutive month (to 2.4% y-o-y) due to higher energy prices, while core inflation stagnated (at 2.7%). Per the words of P. Lane[1], ECB chief economist, the reduction of total rate has so far maintained the decline in energy prices that will not be sustained in the upcoming period, which is why service price growth (that is constantly hovering around 4%) should weaken to bring inflation down to the target of 2%. Service price pressures are still present (EC survey shows that in the service sector the index of expectations of the prices over the next 3 months met the end of the year at the highest level since February), but it is expected they will abate towards the middle of the year. The direction of development of key interest rates is therefore quite clear, but Lane underscores that the ECB needs to balance between too aggressive and too cautious policy of their reduction. The prior could prevent "bringing service prices under control", while the latter could inhibit economic growth and result in inflation decline materially below target. After GDP exceeded expectations in Q3 with growth of 0.4% q-o-q, the drop in the economic sentiment indicator ESI in the last quarter points to a repeated growth deceleration, and consumer confidence has also gone downhill again after a longer period of recovery.

**Clear direction of development of key interest rates**

- We estimate that the expected decline in services inflation and weak economic activity will support the decision on interest rate reduction by an additional 25 bps at this week's ECB's Governing Council meeting. Our estimates regarding further rate trends remained unchanged in the last month so we believe that every meeting on monetary policy by June will result in a 25 bps cut. This would lower the overnight deposit rate from current 3.00% to 2.00%.

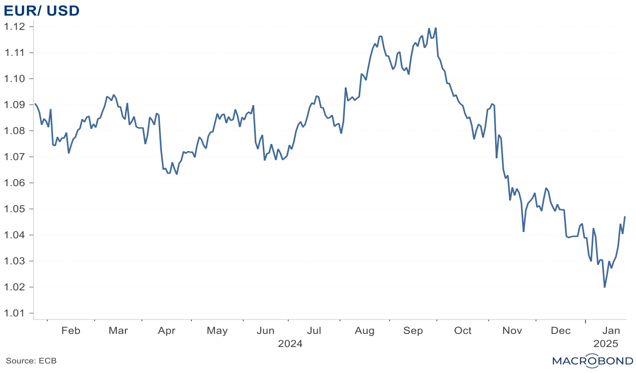
**On Thursday, we expect a 25 bps rate cut**

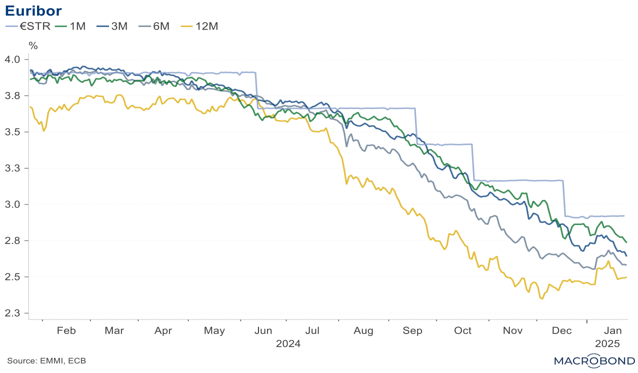


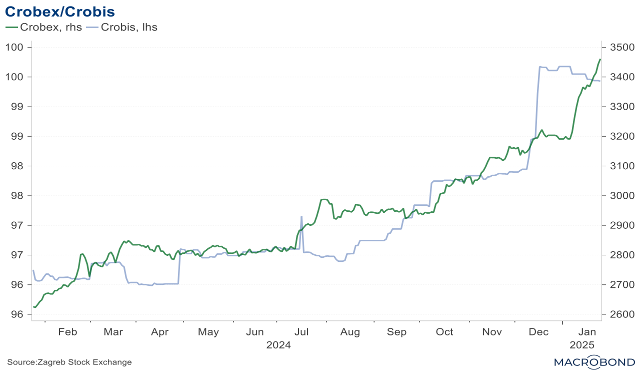

[1] Interview with Der Standard

- Speculations that the tariffs that the USA will impose, especially to China, will not be as high as previously expected led to a correction in EUR/USD, so the week ended at 1.0472, up by 1.7% w-o-w.
- Euribor continued to decline in anticipation of the ECB decision so on Friday, 3M and 6M declined by 10 bps w-o-w, to 2.6%.
- A positive climate was maintained at ZSE, so Crobex recorded a 2.8% growth w-o-w (to 3,461 points) with mixed performance of the most important sectoral indices (CROBEXindustry +3.4% to 2,451, CROBEXnutris -0.4% to 867, CROBEXtourist +4.4% to 4,311). Crobis was slightly reduced (to 99.4 points).





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