MARKET ANALYSIS

ECB Speak Wrap (July 24 – August 7)

August 7, by Emil Lundh

ECB speak since the July decision has portrayed a Governing Council that has increased the bar to a September cut.

- **Kazaks, Simkus, Nagel, Muller, Kazimir, Makhlouf** have all argued for a “steady hand” on rates. The hawkish **Holzmann** is unsurprisingly also in this camp, though his term on the Governing Council concludes at the end of August.
- However, more dovish leaning viewpoints have come from **Villeroy** and **Rehn**, with the latter “*increasingly concerned about economic growth in the euro area*”.
- Overall, data such as the August flash PMIs (August 21st) and the August flash inflation round (month-end) will be key to monitor ahead of the September decision, for which guidance will also be influenced by an updated set of staff macroeconomic projections.
- The MNI Policy Team’s post-decision sources piece noted that the hawkish shift following the July Governing Council meeting is more limited than markets’ reaction would suggest, particularly given the recent EU-US trade agreement - while there is a new mood music it has been overinterpreted.
- ECB-dated OIS currently price just 2.5bps of cuts through September, with 21bps of easing through the middle of next year.

Figure 1 OIS Implied ECB Rate Path

Meeting Date	ESTR ECB-Dated OIS (%)	Difference Vs. Current Effective ESTR Rate (bp)
Sep-25	1.896	-2.6
Oct-25	1.856	-6.6
Dec-25	1.775	-14.7
Feb-26	1.750	-17.2
Mar-26	1.710	-21.2
Apr-26	1.709	-21.3
Jun-26	1.710	-21.2
Jul-26	1.712	-21.0

Source: MNI/Bloomberg Finance L.P.

Table 2 Reverse-Chronological Summary

Date	Member	Next three votes	Monetary Policy Relevant Comments
06 Aug	Holzmann	n/a	* "I won't be attending the next meeting, but in my view there is no longer any reason to lower interest rates further,".... "In my opinion, the ECB should wait and see what economic developments arise, particularly outside Europe, and how we respond to them. Interest rates are currently where the markets expect them to be" (Interview with OOeN)
05 Aug	Holzmann	n/a	* "We will have a period in which growth is not as high as we had hoped. When you destroy an existing trade pattern, then you have adjustment costs, implying more expenditures but less value added. So, we'll have to deal with lower growth than anticipated, in Europe as well as in the US. Depending on various aspects, the adjustment is likely to create inflationary pressure. Or we may have a period in which lower growth requires further policy support. Which scenario we get is open, but the next couple of years will be difficult. I'm not optimistic about growth, because even if German infrastructure investment is €100 billion and defence spending several times as much, it won't make a huge difference, given that other countries face fiscal struggles". * "After so many interest rate cuts, we are at a level that is expansionary. For Europe and the world, r* has quite likely gone up again, so we would be well-advised to keep interest rates where they are and await further economic developments, without trying to satisfy market expectations. We are not in restrictive territory, and we mustn't react to short-term developments." (Interview with Econostream)
03 Aug	Patsalides	Dec, Feb, Mar	* "Thanks also to previous interest rate cuts, the euro area economy appears resilient, despite the difficulties that exist internationally. Nevertheless, the environment remains uncertain, mainly due to trade tensions"... "This [EU-US tariff] agreement removes a source of uncertainty, negatively affecting EU exports to the US, slowing down the growth of the European economy, although I do not see a risk of recession". (Interview with Politis)

29 Jul	Makhlouf	Sep, Oct, Dec	* "There is insufficient detail to provide any considered analysis of Sunday's news of a 15 per cent tariff "deal" (other than to say that headlines such as "EU agrees to pay 15% tariff on most exports to US" show a misunderstanding of tariffs). These tariffs will require a mix of absorption by firms (reducing their profits) or, as analysis of previous tariff increases shows, increasing the cost of these goods for US consumers. Overall, compared to 6 months ago, US tariffs of 15 per cent on EU goods will dampen economic growth, although it will be partially offset by reducing uncertainty and the likelihood of more damaging trade war that has dominated the economic environment since the start of the year" * "I think we have reached a point in our easing cycle where we can wait and see whether the data and evidence indicates the need for a change in our monetary policy stance. We are not committing to a particular rate path, and will continue to take account of new information when it arrives (our next monetary policy meeting is in September, when we will have an updated set of forecasts and associated set of risks surrounding the projections). But we also recognise that we have to remain humble in the face of a rapidly evolving geopolitical and geoeconomic environment. " (Blog post on CBI website)
28 Jul	Kazimir	Sep, Oct, Dec	* "There are those who fear that inflation risks are only and only to the downside. This is not the case. There are still risks that could push inflation higher, and we need to remain vigilant. These pressures could arise, for example, if global supply chains are disrupted. Personally, I see no signs that inflation will settle permanently below our 2% target. Its expected decline below target next year should be temporary. It is driven by energy prices and the exchange rate, not underlying problems in the eurozone economy. " * "I don't expect anything fundamental from the incoming economic data that would motivate me to act in September. I mean changing the level of key interest rates.....To do that, I would need to see fundamental problems in the labor market. " (Blog post on NBS Website)

28 Jul	MNI Sources	n/a	* The European Central Bank’s hawkish shift following its last Governing Council meeting is more limited than markets’ reaction would suggest, particularly given the weekend’s trade deal, Eurosystem national central bank sources told MNI, admitting that while there is a new mood music it has been overinterpreted. President Christine Lagarde emphasised the ECB’s meeting-by-meeting approach as it held the deposit rate at 2% on Thursday, after which markets pared back expectations for cuts this year by roughly six basis points, though sources told MNI there is still a strong possibility of a further 25-basis-point cut, even if most Governing Council members would now need to see a deterioration in the outlook for this to occur. * "September is the most likely point for a cut, officials said, with Q2 key for any additional rate cut. One raised October as a possibility" (MNI SOURCES: Markets Overplaying ECB's Hawkish Shift)
26 Jul	Cipollone	each meeting	* "We continue to see risks to economic growth as tilted to the downside" * "The outlook for inflation is more uncertain than usual. In particular, we will need to see how prices in the euro area are affected by trade disruptions – including their impact on supply chains as well as on trade diversion that is already resulting in higher euro area imports from China." (Interview with Delo)
25 Jul	Muller	Sep, Oct, Dec	* "It is also interesting to note that the euro exchange rate, which has appreciated significantly over the past six months, has not had a negative impact on euro area exports". * "It is appropriate to leave interest rates unchanged for the time being when shaping monetary policy and to assess whether and when interest rates need to be adjusted again based on data in the coming months and quarters". (Blog post on Estonian Central Bank Website)
25 Jul	Nagel	Sep, Dec, Feb	* "“The inflation outlook has remained unchanged since the last projection, and the economic outlook has improved slightly,”....“A steady-hand in monetary policy is therefore appropriate, not least because a lot can happen between now and the next monetary policy meeting.”(Emailed statement to press, via Bloomberg)

25 Jul	Rehn	Sep, Oct, Dec	* "Inflation is expected to slow down to well below 2 percent by the end of the year before it is forecast to return to the target level by the end of 2026. The drop is primarily due to lower energy prices than the previous year, so it is expected to be only temporary, but we are monitoring this development particularly closely"..."So the inflation situation is good right now, but vigilance is required in the future to ensure it stays on target. ". * "I am increasingly concerned about economic growth in the euro area."...."the risks to eurozone growth are on the downside if Trump's tariffs on Europe remain at the high level reported at the end of the week, as expected. They would significantly weaken eurozone growth, further dampening inflation." * ."The ECB Governing Council will next decide on interest rates in September, and new information available by then should shed further light on the extent to which the early-year growth spurt will be temporary. Allowing extra time for decision-making is particularly useful now – the option value of waiting is exceptionally high." * "Of course, we are also constantly monitoring the development of the inflation and growth outlook and are ready to react if the situation requires it. Given the prevailing inflation and growth outlook, market forces are pricing in a slightly looser monetary policy than currently."...."The ECB Governing Council is not committed to any interest rate path, but will retain full discretion regarding interest rate decisions at all its future meetings, both in September and beyond." (Blog post on BoF Websitre)
25 Jul	Villeroy	Sep, Oct, Feb	*"It is therefore important to remain completely open about future monetary policy decisions. More than ever, in a volatile environment, agile pragmatism in light of data and forecasts is of the essence" *Inflation - and relatedly wages - remains well under control: it is at our 2% target in the euro area and stands lower at 0.9% in France"... " The increases in US tariffs, the extent of which is still uncertain, are not expected to cause inflation to rise, while the appreciation of the euro is having a significant disinflationary effect". * "The (ECB) Governing Council considered that the risks to growth were still tilted to the downside, with uncertainty remaining very high. " (Statement on BdF Website)
25 Jul	Simkus	Sep, Dec, Feb	* "[Inflation] is expected to remain around 2 percent in the short to medium term, with some fluctuations, of course," * "Trade escalation adds considerable uncertainty both to the overall economic environment and to the forecasts" * Now is a good time to "see how the economic ship is sailing." (Interview with LRT Radio)

25 Jul	Kazaks	Dec, Feb, Mar	* “There is value in holding rates at the current levels and the time of no-brainer moves to hike or cut is over,”….“At the current juncture, a steady-hand policy is appropriate.”….“There is no need to be jumpy — there’s no urgent need to moves rates,”...“Given our sizeable and continued cuts over the last year, there’s still a lot of monetary easing to work through the economy" * “The euro moved a lot and quite quickly, but the level is still around historical averages — and do not forget its weakening late last year,”....“However, we will monitor this closely.” * "If the trade dispute is resolved quickly and excessive uncertainty is removed, some improvement in confidence may support investment and consumption thereby reducing the clearly negative impact from the tariffs "(Interview with Bloomberg)
24 Jul	Reuters Sources	n/a	* European Central Bank policymakers are setting a high bar for an interest rate cut in September and they would need to see a significant deterioration in growth and inflation before backing further easing, two sources told Reuters. * But sources at the meeting said that policymakers would not be spurred into action by the mere announcement of U.S. duties on European Union imports. * Instead, they would need to see an actual weakening in the inflation and growth data as well as lower projections from ECB staff in September if they are to back a rate cut. (ECB policymakers set high bar for Sept rate cut, sources say, Reuters)
24 Jul	Bloomberg Sources	n/a	"European Central Bank policymakers pushing for another cut in interest rates face an uphill battle, with inflation at 2% and the economy withstanding trade turbulence, according to people familiar with the matter". * "A hold looks like the baseline for September after eight reductions since June 2024, the people said, asking not to be identified revealing private discussions. Some suggested the onus is on those seeking further easing to justify their stance, rather than those opposed to more action having to make their case". "Given what can still happen with US tariffs before and after an Aug. 1 deadline for talks to conclude, the people highlighted that views can still shift." (ECB Officials Say Those Seeking Another Cut Face a Battle, Bloomberg)