

MNI ECB Preview: Jul 2025

Decision date: Thursday, 24th July 2025

Rate Announcement: 1315GMT/1415CET, **Press Conf.:** 1345GMT/1445CET

MNI Review of June Meeting: <https://www.mnimarkets.com/articles/mni-ecb-review-lagarde-sees-the-end-of-the-easing-cycle-1749143573604>

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MNI POV: See You In September

July 22, 2025 - By Chris Harrison

- The ECB is fully expected to leave its three key rates on hold on Thursday, with its deposit rate at 2.00%.
- ECB President Lagarde last month signalled that policy was in a good place after a cut to the mid-point of neutral estimates of 1.75-2.25%.
- There haven't been any significant data surprises in the intervening period and some Governing Council members have talked of a higher bar to cut rates.
- That higher bar might be met with the recent renewed trade uncertainty following US President Trump threatening 30% tariffs on Aug 1, which if realised would be more severe than the scenarios presented with the June projections. The ECB base case assumed 10% tariffs and no EU retaliation.
- Of course, that later deadline date, pushed back from Jul 9, has further delayed the point at which the ECB might start to see some clarity on trade policy, further boosting the case for no action this week.
- We expect this week's communication to be as non-committal as possible, maintaining flexibility and buying time for a fresh forecast round in time for the Sep 11 meeting.
- The balance of risks will be important in determining any market reaction. We expect any tweak to more clearly be shown in the balance of risks to economic growth, which have remained tilted to the downside.
- 24 of 29 analysts we review below expect a cut to follow in September, more dovish than the 11bp priced. The next and currently perceived final cut for the cycle isn't priced until December.
- Along with tariff deliberations, expect questions in the press conference on EUR/USD strength after its climb prompted unusually explicit remarks from De Guindos on the sidelines of the Sintra conference.

The ECB is fully priced and almost unanimously expected to leave its three key rates on hold on Thursday, including the deposit rate at 2.00%. ECB President Lagarde heavily emphasised that policy was in a "good place" at the June decision. Indeed, the deposit rate is conveniently in the middle of the ECB's neutral range of 1.75-2.25% (tweaked at the turn of the year) although senior Governing Council members have downplayed the concept considering the large shocks facing the economy including from US trade policy.

A July pause was hinted at in the June meeting communications and limited data surprises since then helped further whittle down already low expectations for a cut. That has been reinforced by US President Trump's latest threat of a 30% reciprocal tariff rate from August 1. This threat further delays the point at which the ECB might have started to get some trade policy clarity as it extended the previous deadline of July 9. It's also a potentially more severe outcome as last month's ECB baseline forecast had assumed a reciprocal tariff rate holding at the 10% seen in the 90-day 'pause' announced in the April 9 partial climb down from President Trump rather than reverting to the initially proposed 20% rate from July 9 onwards. There's no doubt some posturing in this latest 30% threat but wires have been running stories of minimum tariffs still comfortably higher than the ECB's 10% baseline, such as the [FT](#) seeing Trump pushing for a minimum 15-20% rate. On top of this, there is also growing willingness of EU member states for firmer retaliation (see highlights from our Policy Team's coverage [below](#)). In short, US-EU trade developments are pointing to potential escalation that is beyond what was covered in ECB June forecasts from both a US tariff rate angle and EU retaliation.

All of this points to this week's communications being as non-committal as possible, maintaining flexibility and buying time for a fresh forecast round in time for the Sep 11 meeting. As Lagarde suggested when wrapping up the June press conference: "I wish you a [...] happy summer for those of you that leave early". The balance of risks will be important in determining any market reaction, especially considering the Governing Council appears increasingly divided as to whether more easing is justified at this stage.

Inflation risks have been two-sided for a while and we expect them to continue to be characterised in that manner. If there are any tweaks we expect them to more clearly be shown in the balance of risks to economic growth, which have remained tilted to the downside. Trade policy has featured on both sides of the spectrum in recent ECB communications. To the downside “A further escalation in global trade tensions and associated uncertainties could lower euro area growth by dampening exports and dragging down investment and consumption” and to the upside “By contrast, if trade and geopolitical tensions were resolved swiftly, this could lift sentiment and spur activity.” Recent developments have clearly seen downside risks outweighing upside risks. Going against that is what is now expected to be a more front-loaded increase in German government spending. Morgan Stanley point out that the Bundesbank had expected a package of only around 0.2% GDP in 2025 and 1.3% in 2026 whereas the government has announced an increase in the deficit by 2.0% GDP in 2025 and 2.5% in 2026. Implementation risks remain though.

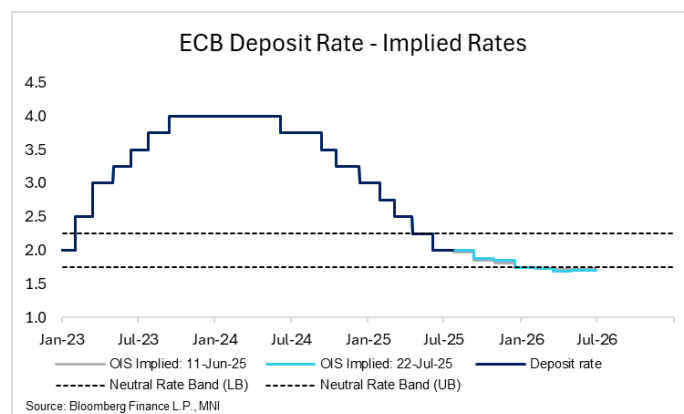
Markets: Final Cut Seen In December, EUR/USD Starts To Become More “Complicated”

Market pricing remains consistent with one more 25bp cut this cycle, which is in line with the implied rate curve embedded within the ECB's June macroeconomic projections. That cut currently isn't seen until December, however, with 11.5bp priced for the September decision.

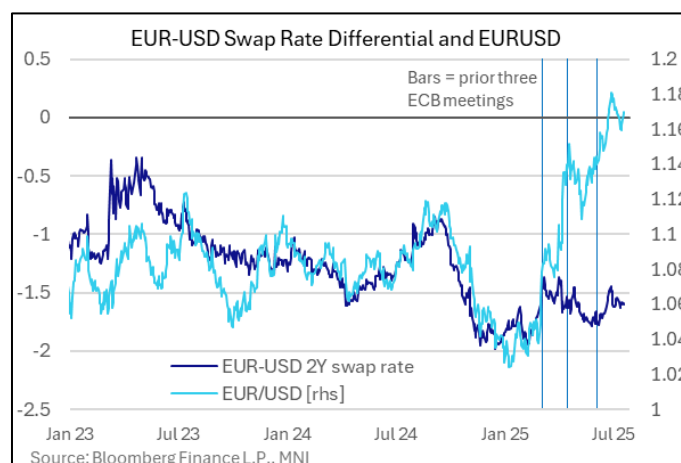
ECB Dated OIS

Meeting Date	ESTR ECB-Dated OIS (%)	Difference Vs. Current Effective ESTR Rate (bp)
Jul-25	1.922	-0.1
Sep-25	1.809	-11.4
Oct-25	1.774	-14.9
Dec-25	1.672	-25.1
Feb-26	1.653	-27.1
Mar-26	1.620	-30.3
Apr-26	1.623	-30.1
Jun-26	1.624	-29.9

Source: MNI/Bloomberg Finance L.P.



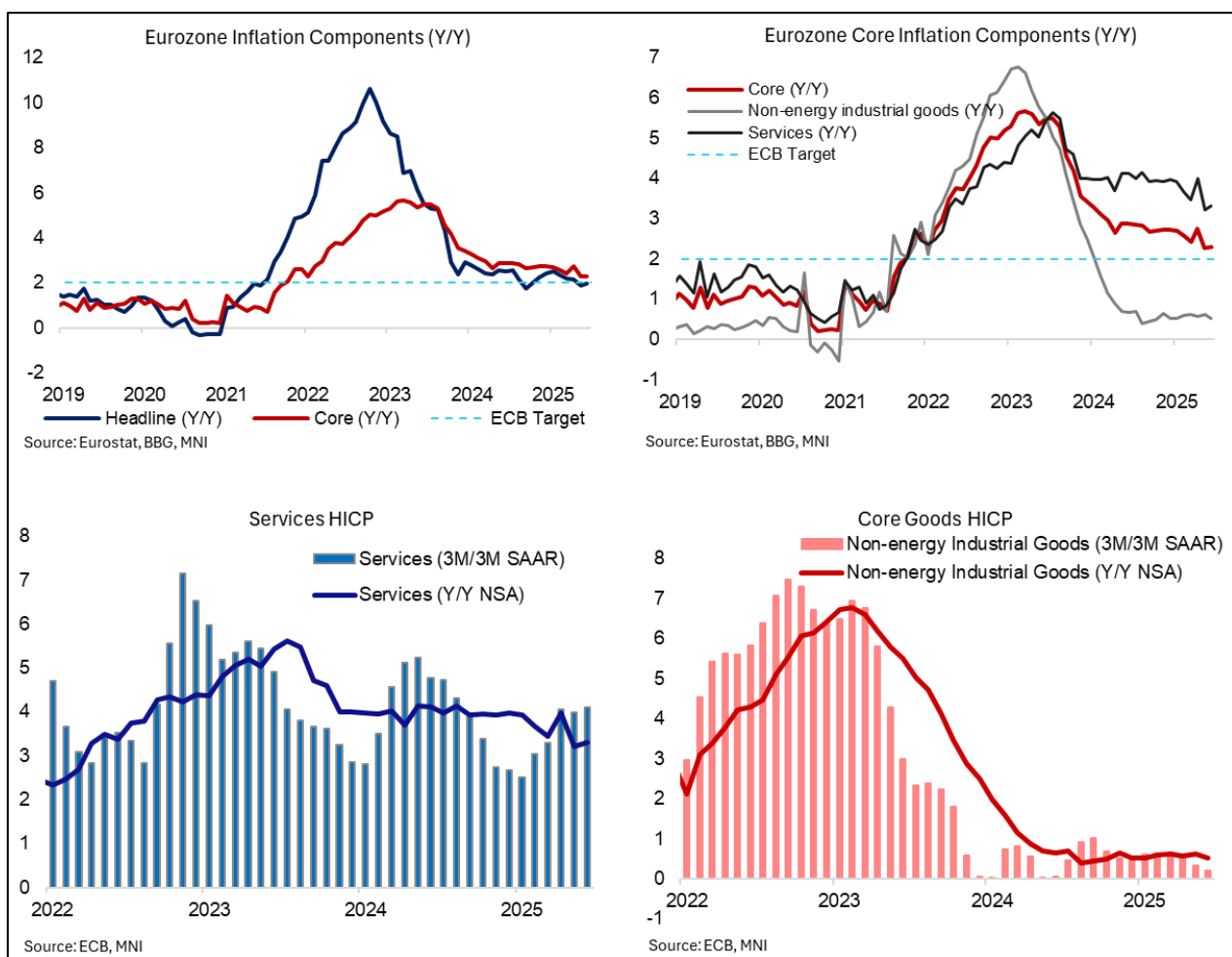
Near-term rate expectations have been relatively contained but FX markets have been more interesting. ECB Deputy Governor De Guindos has for now helped to put a top in EUR/USD in unusually explicit remarks at the sidelines of the Sintra conference, although has subsequently been helped by some on balance robust US data. The remarks were couched in typical central bank speak that the speed of the euro's climb is more worrying than the level although he also explicitly said that while a 1.20 level is “acceptable”, something above that “would be more complicated”. The pair peaked at 1.181 and currently trades at 1.17, still comfortably above the ~1.14 in the days leading up to the June decision and ECB assumptions of 1.11 for 2025, 1.13 for 2026 and 1.13 for 2027.



Macro Since Last ECB Decision: No Major Surprises

HICP Inflation: Services Moderation Pauses After May Progress

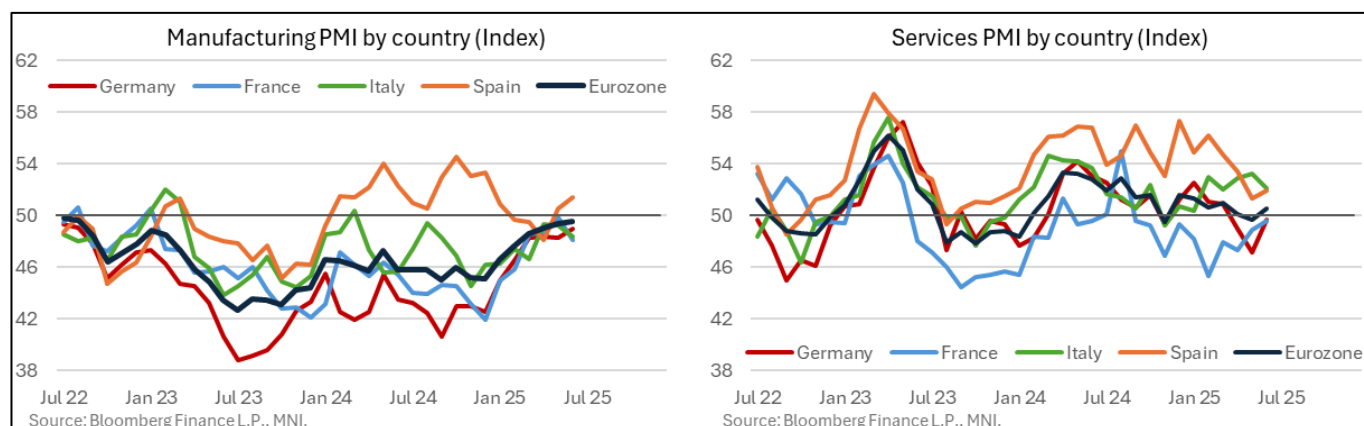
Last week's final June report saw headline HICP inflation tick up to 1.99% Y/Y after the 1.89% in May had been its lowest since Sep 2024 and before that Apr 2021. Core HICP inflation meanwhile was seen at 2.29% Y/Y after 2.28% Y/Y for lowest readings since Jan 2022. Service inflation remains particularly in focus, ticking up a tenth to 3.32% Y/Y in June as it remains caught between two ranges: it has cooled from a robust 3.9% Y/Y at the start of the year and 4% Y/Y averaged through 2024 but remains notably stronger than pre-pandemic trends such as the 1.5% averaged in 2019. What's more, the ECB's take on seasonally adjusted services inflation was strong in June at 0.45% M/M and 4.1% annualised on a 3m/3m basis. As the charts below show, latest disinflationary pressure from a recent trend sense is coming from non-energy industrial goods.



Growth: Retail Sales Disappoint In May, Tepid PMIs

Highlighting some of the more recent monthly hard data, Eurozone real retail sales were weak in May as they slipped -0.7% M/M (cons -0.6) after a downward revised 0.1% M/M (initially 0.3%). All the main categories fell and there was broad-based weakness by countries with Spain the strongest of the "big four" at 0.2% M/M. Going against this, Eurozone industrial production was much stronger than expected in May albeit with a likely Irish volatility caveat. Production rose 1.7% M/M (cons 1.0) after -2.2% M/M in April (revised up from -2.4% initial), following a particularly volatile period with Q1 production support by US tariff front-running and April then weighed down by Liberation Day-induced uncertainty. GDP for back in Q1 was revised up to 0.6% Q/Q non-annualised and 1.5% Y/Y but that's now hugely stale. The flash Q2 GDP release is on July 30.

As for softer data, June manufacturing PMI at 49.5 consolidated May's relative improvement for its highest since Aug 2022, albeit having remained in contractionary sub-50 territory the entire time. The services PMI meanwhile increased to 50.5 in June from 49.7 in May, what had been its lowest since Jan 2024. This level remains below the 51.0 averaged in Q1 prior to reciprocal tariffs and is only just in expansionary territory. The composite PMI at 50.6 remains just about in expansionary territory as well, painting a similar picture to the 50.2 in May, 50.4 in April and 50.4 in Q1. The preliminary July PMIs are released on the morning of the ECB decision this week.



Bank Lending Survey: Q2 BLS Feels Supportive Of One More Cut This Cycle

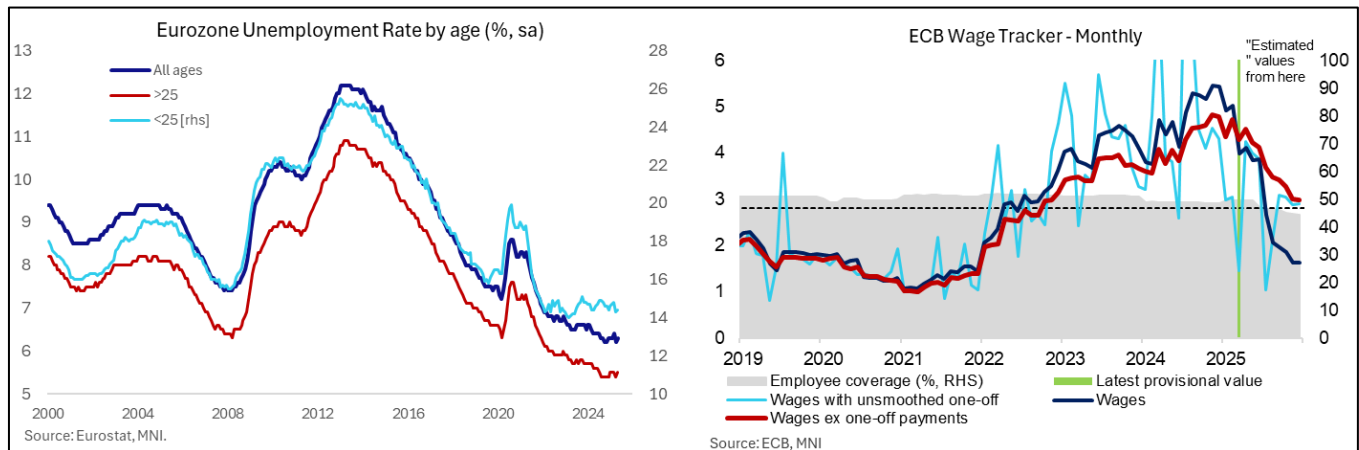
The ECB's Q2 BLS feels supportive of market expectations for one more 25bp cut this cycle - but does not signal a need to rush back into sequential rate cuts following a likely pause this week. While credit demand from firms rose relative to Q1, momentum remains weak amid ongoing uncertainty and trade tensions. Meanwhile, firms reported a broad-based tightening of standards across counterparties. However, expectations for Q3 are more optimistic.

- Banks reported a slight net increase in loan demand from enterprises, but demand remains weak. "Loan demand was supported by declining interest rates, but dampened by global uncertainty and trade tensions, while the impact of fixed investment and inventories and working capital was neutral". This is consistent with a loss of momentum in NFC credit demand growth in more timely monthly statistics.
- Demand for housing loans on the other hand "continued to increase substantially", due to "Declining interest rates, improved housing market prospects and, to a lesser extent, consumer confidence". Meanwhile demand for non-housing household loans "increased only slightly".
- There was a slight tightening in credit standards for firm and mortgage loans, and a more pronounced tightening for non-housing household loans. "Perceived risks related to the economic outlook continued to contribute to a tightening of credit standards, whereas competition had an easing impact. For the most part, banks reported no specific additional tightening impact on their credit standards related to geopolitical uncertainty and trade tensions, although they intensified their monitoring of the most exposed sectors and firms".
- Looking ahead, in Q3 "banks expect a net increase in loan demand from firms (net percentage of 7%), a further substantial net increase for housing loans (net percentage of 21%) and broadly unchanged demand for consumer credit (1%)".
- Meanwhile, "banks expect credit standards to remain unchanged for firms (0%), ease slightly for housing loans (-3%) and tighten further for consumer credit (4%)".

Labour Market: A Tiny Rise Off U/E Lows, Wages Still Expected To Cool

The unemployment rate was a tenth higher than expected in May at 6.3% as it increased off historical lows of 6.2% in April. It doesn't change the story, having averaged 6.3% since mid-2024. It's a release that hasn't been commanding much market attention but President Lagarde has cited this relative resilience of the labour market. The more up to date German unemployment rate series from the Bundesbank meanwhile pointed to some further stabilization in June, with a fourth month at 6.3% having ended 2024 at 6.1%, 2023 at 5.8% and 2022 at 5.5%. On the wage side, there were slight upward revisions to the ECB's forward looking wage tracker compared to the April vintage, but the broader theme of softening compensation pressures remains intact. The tracker excluding one-off payments is seen at 3.082% in 4Q25 (vs 3.024% in the April iteration). On the envisaged moderation from

4.5% in 1Q25, the ECB writes: "The downward trend of the forward-looking wage tracker for the remainder of 2025 partly reflects the mechanical impact of large one-off payments (that were paid in 2024 but drop out in 2025) and the front-loaded nature of wage increases in some sectors in 2024." Recall that the ECB projects compensation per employee growth at 2.8% by the last quarter of this year, down from 3.8% in Q1. More recently, the Indeed wage tracker for May eased to 2.5% Y/Y (vs 3.2% prior) for the lowest rate since late 2021. The smoother three-month average rate meanwhile was steady at 3.0% Y/Y, revealing a broadly consistent message to that of the ECB's forward-looking tracker.



Jun 5 Rate Decision Statement

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which the Governing Council steers the monetary policy stance – is based on its updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

Inflation is currently at around the Governing Council's 2% medium-term target. In the baseline of the new Eurosystem staff projections, headline inflation is set to average 2.0% in 2025, 1.6% in 2026 and 2.0% in 2027. The downward revisions compared with the March projections, by 0.3 percentage points for both 2025 and 2026, mainly reflect lower assumptions for energy prices and a stronger euro. Staff expect inflation excluding energy and food to average 2.4% in 2025 and 1.9% in 2026 and 2027, broadly unchanged since March.

Staff see real GDP growth averaging 0.9% in 2025, 1.1% in 2026 and 1.3% in 2027. The unrevised growth projection for 2025 reflects a stronger than expected first quarter combined with weaker prospects for the remainder of the year. While the uncertainty surrounding trade policies is expected to weigh on business investment and exports, especially in the short term, rising government investment in defence and infrastructure will increasingly support growth over the medium term. Higher real incomes and a robust labour market will allow households to spend more. Together with more favourable financing conditions, this should make the economy more resilient to global shocks.

In the context of high uncertainty, staff also assessed some of the mechanisms by which different trade policies could affect growth and inflation under some alternative illustrative scenarios. These scenarios will be published with the staff projections on the ECB's website. Under this scenario analysis, a further escalation of trade tensions over the coming months would result in growth and inflation being below the baseline projections. By contrast, if trade tensions were resolved with a benign outcome, growth and, to a lesser extent, inflation would be higher than in the baseline projections.

Most measures of underlying inflation suggest that inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. Wage growth is still elevated but continues to moderate visibly, and profits are partially

buffering its impact on inflation. The concerns that increased uncertainty and a volatile market response to the trade tensions in April would have a tightening impact on financing conditions have eased.

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. Especially in current conditions of exceptional uncertainty, it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. The Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.

Key ECB interest rates

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be decreased to 2.00%, 2.15% and 2.40% respectively, with effect from 11 June 2025.

Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)

The APP and PEPP portfolios are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises sustainably at its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:45 CET today.

Growth risks still tilted to the downside. Still two-sided for inflation amidst more uncertainty than usual.

"Risks to economic growth remain tilted to the downside. A further escalation in global trade tensions and associated uncertainties could lower euro area growth by dampening exports and dragging down investment and consumption. A deterioration in financial market sentiment could lead to tighter financing conditions and greater risk aversion, and make firms and households less willing to invest and consume. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, remain a major source of uncertainty. By contrast, if trade and geopolitical tensions were resolved swiftly, this could lift sentiment and spur activity. A further increase in defence and infrastructure spending, together with productivity-enhancing reforms, would also add to growth."

"The outlook for euro area inflation is more uncertain than usual, as a result of the volatile global trade policy environment. Falling energy prices and a stronger euro could put further downward pressure on inflation. This could be reinforced if higher tariffs led to lower demand for euro area exports and to countries with overcapacity rerouting their exports to the euro area. Trade tensions could lead to greater volatility and risk aversion in financial markets, which would weigh on domestic demand and would thereby also lower inflation. By contrast, a fragmentation of global supply chains could raise inflation by pushing up import prices and adding to capacity constraints in the domestic economy. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected."

Press Conference Q&A (from MNI real-time coverage rather than official transcript)

Highlights:

- Policy is well-positioned/in a good place
- Getting to the end of a monetary policy cycle that was responding to compounded shocks
- The decision was almost unanimous, with one dissenter
- Lagarde is determined to complete her term amidst pre-meeting WEF speculation

See the official ECB transcript for the full Q&A here: https://www.ecb.europa.eu/press/press_conference/monetary-policy-statement/2025/html/ecb.is250605~f00a36ef2b.en.html

Key Inter-Meeting ECB Commentary

By Emil Lundh, July 22

July meeting and rate outlook: There doesn't seem to be much, if any, appetite amongst ECB Governing Council (GC) members for a rate cut in July, echoing the firm guidance that policy was in a "good place" at the June decision. On June 30, Vice President **de Guindos** said that *"rate policy is compatible with convergence toward our definition of price stability"*. On balance, GC members see the risk to policy rates as to the downside for the rest of this year, but that's already in line with market pricing and the implied rate curve embedded in the ECB's June macroeconomic projections. The MNI Policy Team's post-Sintra sources piece noted that officials are virtually unanimous that their June projections are so far being confirmed by incoming data, despite ongoing risks from global trade tensions, paving the way to a likely September cut, though some more cautious policymakers would prefer to wait until December.

- Since June, the likes of **Wunsch** and **Vujcic** have said that market pricing for another 25bp cut this cycle is reasonable, while **Villeroy**, **Stournaras**, **Kazaks**, **Centeno** and **Panetta** have more explicitly suggested further cuts may be warranted.
- **Nagel** has suggested that a *"steady hand"* is required for now, with the September decision a better time to reassess the outlook for economic activity and policy rates. This is a view seemingly shared by **Kazimir** and **Muller**.
- More hawkish viewpoints unsurprisingly came from **Schnabel** (July 11) and **Holzmann** (July 9, with the MNI Policy Team). Both members are well-known hawks, seeing little reason for further easing and suggesting policy rates are already within or close to accommodative territory.

US Trade Policies, Growth and Inflation Outlook: US President Trump's threat of a 30% tariff on EU goods from August 1 has added another layer of uncertainty to the outlook, but Reuters sources noted that it is not likely to *"derail plans for a pause in rate cuts"* at this Thursday's decision. However, tariffs remain a key focus, with Chief Economist **Lane** stating on June 16 that *"the final outcome in trade negotiations is by far the most relevant factor of uncertainty that we considered in our projections, which are the basis for our monetary policy decisions"*.

- President **Lagarde** noted that *"risks to the growth outlook remain tilted to the downside"* on June 23, a view likely shared by most of the Governing Council except **Schnabel** (July 11: *"It seems that the uncertainty is weighing less on economic activity than we thought, and on top of that, we're expecting a large fiscal impulse that will further support the economy. So overall, the risks to the growth outlook in the euro area are now more balanced"*).
- There remains broad confidence that inflation will settle at the 2% target in the medium term, but some GC members have expressed more concern about undershooting the target. On July 3, **Rehn** said that *"I'm quite concerned about inflation being below target for an extended period of time,..."* *"We have to make sure that will not become persistent and become embedded in inflation expectations."* On the other hand, **Nagel** on July 9 said that *"we need to be prepared for price developments to become more volatile....and a number of structural developments suggest that price pressures will remain elevated over the medium term"*
- Clear signs of additional, tariff-related, trade diversion from China to the EU are not yet clearly visible in the data, but remains on the radar of the likes of **Lane** and **Centeno**, even if **Schnabel** believe that this dynamic *"is expected to be limited"*.

Exchange Rate: The most interesting thread of discussions at the ECB's Sintra forum was on the **exchange rate**, after Vice President **de Guindos** surprisingly suggested a EURUSD exchange rate above 1.20 would be "*complicated*" for the Eurozone economy.

- While in interviews with MNI, **Centeno** and **Demarco** said euro appreciation could pose problems, other officials told MNI that de Guindos would have been better advised to stick to the mantra that the ECB does not target the exchange rate.
- Note that President **Lagarde** has also seemed quite relaxed about the exchange rate. In comments to ARD, she noted that "*the value of a currency euro, for instance, is going to depend a lot on the strength of our economy, and we have to make our economy stronger*".
- De Guindos** walked back his rhetoric to some extent on July 9. He said that "*it is important to have a closer look [at the exchange rate] without setting any particular reference level, but I hope it will stabilise to some extent, and it will not have an additional negative impact*".

For a full summary of ECB speak by date and policymaker, see our latest weekly publication [here](#).

mni Central Bank Watch - ECB

22 July 2025

MNI ECB Data Watch List											
Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
HICP	% y/y	2.0	2.2	🔴	2.4	🔴					-0.75
Core Inflation	% y/y	2.3	2.4	🔴	2.7	🔴					-1.35
Oil Prices	\$	68.7	74.7	🔴	74.6	🔴					-0.62
5y/5y Inflation Swap	%	2.10	2.13	🔴	2.02	🟢					1.55
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Eurozone PMI (Comp)	Index	50.6	50.9	🔴	49.6	🟢					0.71
Industrial Production	% y/y	3.7	0.8	🟡	-1.9	🟢					1.50
Business Climate Indicator	Index	-0.78	-0.72	🔴	-0.90	🟢					-0.31
Consumer Confidence	Index	-15.3	-14.5	🔴	-14.3	🔴					-0.66
Monetary Analysis		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Narrow Money (M1)	% y/y	5.1	3.4	🟢	1.5	🟢					1.62
Broad Money (M3)	% y/y	3.9	3.9	🟡	3.8	🟢					0.92
Loans to Non-Fin Corps	% y/y	2.4	2.2	🟢	1.0	🟢					0.89
Loans to Households	% y/y	1.9	1.4	🟢	0.5	🟢					1.37
Consumer / Labour Market		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Retail Sales	% y/y	1.8	2.0	🔴	1.9	🔴					0.68
Unemployment Rate	%	6.3	6.3	🟡	6.2	🟢					0.35
Labour Costs (Quarterly)	% y/y	3.4	5.1	🔴	5.0	🔴					-1.50
Employment (Quarterly)	% y/y	0.7	1.0	🔴	1.4	🔴					-1.36
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Equity Market	Index	5297	5248	🟢	4896	🟢					1.18
Bund Yield	%	2.62	2.74	🔴	2.37	🟢					0.82
10y BTP Spreads	%	84.0	112.9	🔴	115.5	🔴					2.02
EUR TWI	Index	127.72	121.85	🟢	120.00	🟢					1.84

Source: MNI, Bloomberg

Analyst Expectations And Key Comments

- The 29 analysts reviewed below unanimously expect the ECB to pause this week with a 2% deposit rate.
- A strong majority then look for a 25bp rate cut in September to 1.75% along with the refreshed economic projections, although a non-trivial 5 of 29 expect 2% to be the bottom for the cycle.
- The median terminal is seen at 1.75%: 10 look for 1.50%, 13 for 1.75% and 5 for 2.00%.

Summary of Analyst Views

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Institution	Next cut	Terminal (depo)	Rate path/comments
Median	Sept	1.75%	
ABN Amro	Sept	1.50%	See two more cuts but risks tilted to earlier end
Barclays	Sept	1.50%	Sept & Dec cuts on average US tariff rate of ~15% and risks of medium-term inflation undershoot
BofA	Sept	1.50%	Will be harder for ECB to claim in good position with new forecasts in September
CBA	Sept	1.50%	US-led trade war to weigh on already soft Eurozone economy
Citi	Sept	1.50%	Assume data/news to worsen again, eyeing 1.5% by year-end
Deutsche Bank	Sept	1.50%	Risks around long-held view of 1.5% terminal have been building
Morgan Stanley	Sept	1.50%	Additional cuts in Sep and Dec to 1.5% and then hold until end-2026
MUFG	Sept	1.50%	Would expect fewer cuts if more benign trade outcome with tariff rate at 10%
Nomura	Sept	1.50%	ECB won't pre-emptively cut on tariff threats, still see Sep and Dec cuts
SEB	Sept	1.50%	Sept before a final cut in December
Commerzbank	Sept	1.75%	Continued economic weakness argues for further monetary easing
Daiwa	Sept	1.75%**	Scrutinizing comments for hints of another cut or holding at 2% for this cycle
Danske	Sept	1.75%	Eyeing final cut in September as ECB members emphasise good position
Goldman Sachs	Sept	1.75%	Could see 2% terminal if favourable agreement reached or sub 1.75% if 30% tariff rate
ING	Sept	1.75%	Little reason for pre-emptive rate cut ahead of Aug 1 tariff deadline
JP Morgan	Sept	1.75%	ECB has been surprisingly relaxed about some downside risks to growth
Natixis	Sept	1.75%	Looking beyond September cut, 20% probability of subsequent cut in December
Nord/LB	Sept		Uncertain situation requires prudence and patience
RBC	Sept	1.75%	View of next cut very much tariff-dependent - a benign resolution could see ECB defer cuts
Société Générale	Sept	1.75%	Negative growth impact from tariffs in focus if asymmetric deal, otherwise more cautious on cuts
TD Securities	Sept	1.75%*	Final cut in September before 25bp hikes in Jun and Sep 2026
UBS	Sept	1.75%	Tariff uncertainty feels final cut pushed out to September. 2x25bp hikes in Sep/Dec 2026
UniCredit	Sept	1.75%	Don't expect any directional message from Lagarde
Wells Fargo	Sept	1.75%	One final cut in September as part of data-dependent approach
Berenberg	x	2.00%	Another cut could be more likely if euro continues to appreciate to Sep 11 meeting
HSBC	x	2.00%	ECB reserving action for significant economic shocks
Nordea	x	2.00%	Likely to re-emphasise that policy in good place, could signal high bar to further cuts
Rabobank	x	2.00%	Still believe ECB has reached end of cutting cycle but trade uncertainty remains a key risk
Santander	x	2.00%	Sticking with 2% terminal baseline call but could one be or two more cuts if higher tariffs

Source: Analyst previews and MNI. * denotes view from Jul 4-10 Bloomberg survey. ** denotes previously stated view

Note: Sorted by terminal view and then next rate cut

Analyst views of what to expect at this meeting (sorted by size of upcoming meeting cut before alphabetical order):

ABN Amro: See Two More Cuts But Risks Tilted To Earlier End To Cuts

- Having signalled a July pause at the June meeting, the emphasis this month “will be on any signs for future rate cuts.”
- “We expect two more 25bp rate cuts by the ECB during the rest of the year taking the deposit rate to a terminal rate of 1.5% from 2% now. With the ECB clearly approaching the end of the rate cut cycle, risks to our view are tilted to an earlier end to rate cuts.”

Barclays: On Hold But Keeping Options Open, Two More Cuts To Come This Year

- The GC is expected to keep options open in July, as incoming data aligns with the June baseline, and differing views within the Council likely make it more prudent to wait for September’s updated forecasts and greater clarity on trade policy before considering any policy adjustment.
- “We still expect two 25bp cuts (in September and December) to a terminal rate of 1.5%, driven by average US tariffs on EU imports of c.15% and risks of medium-term inflation undershooting.”
- “Looking ahead, near-term growth will hinge on the outcome of EU-US trade negotiations. On 12 July, President Trump announced a 30% tariff on imports from the EU, effective 1 August. While we expect negotiations to continue ahead of the deadline – still with scope for a provisional agreement – we now think it more likely than not that the effective average tariff rate faced by EU goods exports to the US will exceed the c.10% assumed in the ECB’s June projection baseline.”
- “This could include higher reciprocal tariff rate and additional sector-specific duties, notably on pharmaceuticals. Should talks fail to yield an outcome acceptable to the EU, we would expect the EU to retaliate, albeit in a more measured and delayed fashion. Higher tariffs and a potential escalation in trade tensions – particularly if the EU retaliates – are likely to weaken the pace of economic recovery, weighing on EA exports and dampening both business investment and private consumption.”
- “We expect the ECB to continue viewing risks to the growth outlook as tilted to the downside.”
- “We expect the ECB to assess recent price developments as broadly consistent with its June projections.”

Berenberg: ECB To Keep Some Powder Dry In Case Of Emergency

- The ECB is expected to maintain the deposit rate at 2.0%, with no further cuts anticipated unless trade disputes escalate or the euro appreciates significantly.
- A stronger euro, which has gained 12% against the dollar this year, poses disinflationary risks and could lead to further rate cuts if it continues to appreciate.
- The ECB is monitoring the US-EU trade dispute, with potential tariffs posing risks to the eurozone economy; a clearer picture is expected by the September 11 meeting.
- The ECB aims to avoid further rate cuts below 2% in 2025 to prevent inflationary risks, relying on fiscal spending and reduced uncertainty to support the eurozone economy later this year.

BofA: Perfect Cover To Wait Until September Forecast Round For Further Decisions

- “We expect no change in policy rates and only fine-tuning in communication.”
- “Lagarde will have to acknowledge how recent developments have heightened the risks already flagged in the June meeting. But she will insist on the ECB being in a good position to navigate the uncertain conditions coming up. She is likely to remain firm on deciding meeting-by-meeting and not pre-committing.”
- “Most developments since June would suggest more disinflation ahead, with increased risks of a persistent inflation undershoot. However, the lack of urgency shown in June, together with no major surprises in either activity or inflation data, a bit more frontloaded German fiscal stimulus and renewed uncertainty, all provide the perfect cover for the next forecasting exercise being the right time to take further decisions.”
- “Come September it will be harder for them to claim they are in a good position. The new set of forecasts will struggle to keep 2027 inflation at 2%, while we doubt trade developments will be better than what is already assumed in ECB forecasts.”
- “Absent major surprises in real rates or the currency, we still have strong conviction in the ECB cutting then and again in December.”

CBA: On Hold In July But Two More Cuts To Come

- We expect the ECB to leave the deposit rate at 2% in the July meeting after Lagarde said last month that monetary policy was “well positioned”.

- “However, we expect the ECB to deliver two more cuts later this year because the US led trade war will weigh on the already soft Eurozone economy”.

Citi: No Pressure To Steer Policy In Any Direction At This Meeting

- The ECB is “under no pressure to steer policy in any direction and a pause” at the July meeting.
- “Growth and inflation data have been broadly in line with ECB’s expectations and no new forecasts are produced in July.”
- “However, we still believe a cut in September as probable, as the current projections assume at least one such cut. If the data/news worsen again, as remains our baseline expectation, then the ECB may still have to cut rates twice by year-end. 1.50% remains our base case as trough rate.”

Commerzbank: One More Cut This Year, Weaker Inflation and Stagnating Eurozone Economy

- Commerzbank expect the ECB to pause this week after eight consecutive cuts, with many now believing that policy is likely in a neutral range, but “we generally expect another rate cut this year.”
- “Inflation in the eurozone will continue to fall in the coming months ... inflation is likely to fall significantly below the ECB’s 2% target. Lower energy prices compared with last year should be the main factor here.”
- “The upward trend in service prices has slowed, which is likely to continue in the coming months.”
- “US tariffs are also likely to divert Asian goods to Europe, which will also dampen inflation.”
- “Continuing weakness of the eurozone economy also argues in favor of further monetary easing ... the eurozone economy is likely to have a stagnated second quarter. We do not expect a significant recovery in the third quarter.”
- “In addition, there is still a great deal of uncertainty surrounding the economic environment”, e.g., Middle East conflict and trade dispute with the US.
- “This suggests that the ECB Governing Council is likely to wait until September.”

Daiwa: Watching Lagarde For Hints Of Another Cut

- “While the euro appreciated to a more than 3.5-year high at the end of June (\$1.18), some 6% above the assumption used in the ECB’s macroeconomic projections in June, it has subsequently fallen back slightly to reduce somewhat the risk of a material undershooting of the ECB’s inflation target over coming years.”
- “So, the Governing Council appears well placed to wait and take stock of economic developments, including the outcome of EU-US trade negotiations.”
- “As such, we wouldn’t expect to see any meaningful amendments to the Governing Council’s forward guidance in the coming week, maintaining that future policy decisions will remain ‘data-dependent’ and taken on a ‘meeting-by-meeting approach’.”
- “And while we expect Lagarde to remain non-committal in the press conference, to reflect a likely range of views on the Governing Council, her comments will be closely scrutinized for any hints of whether the ECB might still cut the deposit rate further to 1.75% in due course, or whether 2.00% will be the terminal rate for this cycle.”

Danske: Lagarde To Reiterate Data Dependence And Leave Door Open For September Cut

- “We expect the ECB to leave the deposit unchanged at 2.00% on Thursday 24 July in line with consensus and market pricing.”
- “We expect Lagarde to reiterate the data dependent approach and leave the door open for September, without giving firm signals as data has been limited.”
- “We expect a final 25bp cut to 1.75% in September due to a weakening services sector, slowing wage growth and elevated trade uncertainty though risks lean towards no cut as ECB members emphasize their “good position” and downplay inflation undershooting concerns.”

Deutsche Bank: Risks Against Long-Held 1.5% Terminal Have Been Building

- “The ECB has no incentive to change its explicit or implicit messaging in July. Keeping all options open and maintaining the current zero-guidance, meeting-by-meeting, data-dependent approach to policy is consistent with the ECB’s new ‘agile’ monetary policy strategy.”
- “Since June, the risks around the ECB terminal rate have arguably opened up. Whether the ECB cuts rates further, and when, will depend on whether the expected inflation undershoot deepens and lengthens or not.”

- “Whether the undershoot does this depends upon two key questions: Is the net impact of US trade policy and European fiscal easing positive or negative for inflation? And is euro exchange rate appreciation disinflationary or not?”
- “The risks against our long-held 1.50% baseline have been building.”
- Discussing three scenarios for the terminal rate: “We see non-negligible risks that the ECB easing cycle stops at 1.75% or even 2.00%, but a strong exogenous FX appreciation and/or a clear trade diversion and/or a worse-than-expected EU-US trade deal could deepen the inflation undershoot and encourage the ECB to ease to 1.50%. The reality is, macro uncertainty is elevated, monetary policy could follow multiple paths going forward and there is no guarantee that the terminal rate will necessarily be reached in 2025.

Goldman Sachs: Lagarde To Reiterate Policy In A Good Place Amidst Trade Policy Developments

- “The incoming data have been broadly consistent with the June ECB staff projections for resilient growth and further disinflation. That said, the ongoing trade tensions pose significant downside risks to the staff forecasts.”
- “We therefore look for unchanged rates and limited shifts in communication at next week’s meeting. In particular, the Governing Council is likely to note that the incoming data confirm the June projections and that it maintains its data-dependent policy approach.”
- “We expect President Lagarde to reiterate in the press conference that policy is in a good place but that the Council is ready to respond to changes in the economic outlook, emphasising the importance of the incoming data and trade policy developments.”
- “We maintain our forecast for a final cut to 1.75% in September given the re-intensification of EU-US trade frictions, our forecast for weak near-term growth (at home and abroad) and subdued inflation. While the ECB might hold rates at 2% if a favourable trade agreement is reached, we would expect further cuts beyond 1.75% under a 30% tariff rate than in our baseline.”

HSBC: ECB On Hold Whilst Reserving Action For Significant Economic Shocks

- The ECB is unlikely to change its deposit rate of 2.0% at the July 24 meeting, aligning with its strategy to reserve action for significant economic shocks.
- “There shouldn’t be any change in July, with no need to head back from the beach (if you left early).”
- Recent euro appreciation and potential US tariffs on EU goods could lower inflation forecasts, but the ECB is expected to wait until September to assess their impact.
- Policymakers are cautious about overreacting to currency volatility, focusing instead on domestic risks like sticky services inflation and corporate margin pressures.
- The ECB’s current stance reflects confidence in the eurozone’s resilience, supported by fiscal policy and stable consumption trends.

ING: On Hold After A Heated Debate

- A wait-and-see approach is still the “most probable course of action” for the ECB this week.
- “With the next potential tariff escalation not expected until 1 August, there’s little reason for a pre-emptive rate cut now.”
- “The ECB’s policy is to act on measures only once they’re in effect, not when they’re merely announced. These days, it is a wise decision.”
- “At the same time, the strengthening of the euro since the last meeting has not been strong enough to justify a rate cut next week. This is why, despite higher uncertainty and probably only after a heated debate, we expect the ECB to stay on hold.”

JPMorgan: One Last Cut In September, ECB Relaxed About Downside Risks To Growth

- The ECB is almost certain to keep rates on hold at next week’s policy meeting.
- “That was signaled at the last meeting for July, confirmed by comments from various Governing Council members and not challenged by the data. [...] The currency is stronger than the 1.13 assumed in the June staff projections, but not by that much.”
- “Importantly, the original 90-day tariff pause deadline did not lead to a materialization of downside risks but to a postponement of the deadline. Admittedly, the threatened baseline tariff was raised together with threats of higher and new sector tariffs. But it remains unclear where those threats will settle.”
- “On guidance, we suspect the ECB will revert back to the data-dependent and meeting-by-meeting approach. That was present in June as well, at least in the policy statement, but was superseded by a

surprisingly explicit signal from Lagarde that a pause is likely in July. With new staff projections due in September, we suspect the ECB will avoid a similar pre-commitment.”

- “The ECB may still feel in a “good place”, but it will know that the threatened tariffs are significantly higher than the 10% baseline assumed by the staff in June and that its staff saw the “severe” tariff scenario producing lower inflation.”
- “The harder question is whether the ECB will cut at all this year. The June staff projections had core inflation a tick below target (at 1.9%o/y) for both 2026 and 2027, despite one further cut factored into the projections. That would argue for delivering at least that move, unless upside risks emerge. Upside risks from the fiscal front look limited.”
- “In our view, another rate cut would be appropriate in September, but the ECB has been surprisingly relaxed about some downside risks to growth, the disinflationary bias in the June staff projections and the recent strengthening of the currency. Only some members have expressed concern about the latter. Hence, how incoming information plays out will be key.”

Morgan Stanley: Shifting To Quarterly Pace To Cuts

- “The rate normalization phase is over and any cut from here would need to clear a higher bar than before.”
- “The most immediate consequence is likely a shift around the timing of future changes to the monetary policy stance. Barring major shocks or data surprises, we see the ECB only changing rates at quarterly projections meetings. On this basis, the July meeting should see a pause, as we have already flagged for quite some time. We see two more rate cuts this year, one in September and one in December.”
- “The ECB's June projections see solid growth in 2026-27. Headline inflation is moving back to target in 2027 after a temporary undershoot in 2026. Recent data prints show core inflation a touch lower in 2Q25 than the ECB forecast. And the appreciation of the euro is a downside risk for headline up to 2027.”
- “We still think the probability of further easing is underpriced by the market and we hold bullish duration structures. The uncertainty around the September meeting is the highest we have seen in a very long time: we construct an ECB uncertainty index and analyse the relationship that market uncertainty has with surprises at the next but one meeting.”
- EUR/USD: “We think that comments at the Sintra conference have led investors to overestimate the amount of ECB pushback to EUR strength we'll see. EUR/USD is in a tactical correction lower to 1.15 but we expect it to rebound further, aided by investor disappointment at the lack of pushback at this meeting – and perhaps even the September one.”

MUFG: Landing Ground For US Trade Deal Looks Small With Plenty Of Risk

- “As we approach Trump's current 1 August deadline for a deal, the landing ground for a deal still looks small and there is plenty of risk that things could go south. That was a key factor behind our call for the ECB to cut into marginally accommodative territory (i.e. to 1.50%).”
- “If a relatively benign trade outcome is ultimately reached (i.e. one that sees the US tariff rate settle at 10%) then we'd likely scale back that call for further cuts.”
- “We still think there's scope for some further easing regardless of the outcome of trade talks. There will be a slew of key data releases between now and the next meeting in September, including on Q2 GDP (which is set to slow sharply) and compensation per employee (which is likely to show pay growth easing).”
- “Against that background we believe that policymakers will find it harder to argue that the disinflation process is contained to a simple energy/FX story if headline rates start to undershoot again, as is likely in the July/August figures.”
- “We also highlight that while there is substantial German fiscal stimulus coming down the track, the picture is very different in the euro area's second largest economy (see here for our take on the 2026 French budget announcement).”

Natixis: Expecting Final Cut in September, 20% Probability Of Another Cut In December

- “Given the upcoming data by September, we believe that the ECB will have enough information to proceed with a new and final rate cut in next September.”
- “Our call is slightly ahead of market expectations in terms of timing, which fully price in a rate cut only by the end of the year.”
- “In turn, we attach a probability of 20% to the adverse scenario paving the way to another 25bp policy rate cut at the December meeting should the 30% US tariffs be applied, and the European retaliatory measures be not proportioned.”

Nomura: Tariff Threat Will Not Lead ECB To Cut Pre-Emptively

- “We do not believe the threat of 30% tariffs will complicate the ECB’s July decision. The ECB has been clear in its recent communication: it wants further clarity on tariffs and their impact on the real economy.”
- The ECB is likely to be unwilling to pre-emptively cut at the July meeting, we think, and would prefer to wait until September, when it will potentially have further clarity on the level of tariffs and have additional HICP inflation and activity (GDP growth, PMIs), as well as new forecasts.”
- They expect the ECB cut rates twice more in September and December, to a 1.5% deposit rate.

Nordea: High Bar To Cut Signals From Lagarde Could Further Dent Rate Cut Expectations

- “After a string of rate cuts, the ECB is set to remain firmly on hold next week. Risks of lower rates have not gone away, but the pricing of further rate cuts has receded and we continue to see no further cuts from the central bank.”
- “The communication is likely to follow that of the June meeting, emphasising that at the current levels of interest rates, the ECB is in a good place and well positioned to navigate uncertain conditions.”
- “A message of the ECB being clearly on hold should not come as any surprise. Any signals from Lagarde that the bar for another cut is high, as Schnabel has communicated, could dent interest rate expectations further.”

Nord/LB: Uncertain Situation Requires Prudence And Patience

- “We assume that next week the Governing Council of the ECB will not make any adjustments to the three key interest rates for the first time after seven interest rate cuts in a row.”
- “The Governing Council is likely to justify this decision primarily with a high degree of uncertainty and the need to reassess the situation in September. At the late summer meeting, the monetary authorities will again have new staff projections at their disposal, which will provide new information regarding both economic development and inflation expectations.”
- “There are many indications of an ECB interest rate pause in the coming week. We would also be in favour of this “siesta” if the central bankers from the river Main were to step on the brakes a little after seven consecutive downward monetary policy adjustments. In our opinion, the uncertain situation on the current fringe, which continues to be decisively shaped by the trade disputes between Europe and the USA, requires above all prudence and patience.”
- “Against this background, we consider a reassessment of the geopolitical and economic conditions, as postulated by Bundesbank President Nagel, among others, to be a sensible approach.”

Rabobank: Expecting Little New Guidance From Lagarde

- “The ECB believes that policy rates are “in a good position.” This does not rule out further rate cuts, but the bar for additional easing is very high. It requires a material deterioration of the outlook.”
- “We don’t expect this, and we believe that the ECB has reached the end of the current cutting cycle. That said, uncertainty about trade policies remains a key risk to our forecast.”
- “Pending the ongoing EU-US trade negotiations, there is no reason for the ECB to move on rates. For that same reason, we expect little new guidance from President Lagarde this month as policymakers await the outcome of trade talks, and new economic projections in September.”

RBC: Risk Of Front Rates Rally On This Meeting

- We “do not expect the July ECB meeting to be eventful and think the ECB will try to say as little of importance as possible.”
- “With such high uncertainty ahead of the US-EU tariffs being implemented it would not make sense for the ECB to make a strong statement about future policy when it could be proven inappropriate a matter of weeks or even days later.”
- “The ECB views the current policy rate as being at neutral and president Lagarde made clear at the June meeting that the ECB now sees policy as “well-positioned” and the ECB seems confident inflation should settle at 2% in the medium-term. Some hawkish members have even suggested that policy could already be below neutral. We think that it would be exceptionally challenging for the doves to push through a rate cut at this July meeting.”
- “We continue to expect a rate cut at the September meeting, but that is very much tariff-dependent and if there is a benign resolution to the trade negotiations, we think the ECB will probably continue to defer a decision on further cuts.”

- “Surely, President Lagarde will be asked about the impact of a 30% tariff, and we expect her to be present a strongly pessimistic outlook. Reuters has reported that the ECB views a 30% tariff as worse than even its most pessimistic scenario presented in the June staff forecasts in which euro area GDP growth is 0.4pp lower in 2025 and 2026 than the baseline. We, therefore, think the risks to the market at this meeting are towards a rally in front-end rates as the tone towards growth risks shifts notably more negative. Yet, we expect this discussion to remain very much conditional on the eventual outcome and would therefore caution against reading too much into these comments until it is clear what tariffs the EU faces.”

Santander: ECB To Leave Door Open To Further Easing To Maintain Flexibility

- The ECB won't cut rates in July but “it will leave the door open to cutting further later in the year, depending on the final terms of the trade deal with the US.”
- “But, with the market only pricing in a total of 25bp cuts to be delivered by December, the market would need to expect final US-EU tariffs clearly below 20% to stop pricing in further cuts. Conversely, a dovish ECB next Thursday could trigger a slight repricing in front-end rates, increasing the chances of a move in September...or even further subsequent easings.”
- On tariffs, “with the old 9 July deadline being moved to 1 August now, the ECB will not know the final terms of the trade deal at this meeting. This implies another two weeks –at least- of tariffs at 10% (i.e. presumably less punitive than after the deadline)”
- With Trump threatening to impose 30% tariffs “the worst-case scenario has changed: from 50% with a very low probability, to 30% but with an higher probability – especially as we approach the new deadline.”
- “Net-net, we think the ECB will see the situation as still keeping the downside risks to growth high (and possibly increasing); it might be reflected in a slightly more cautious tone in the macro assessment.”
- Santander stick with a baseline case for a terminal of 2% - i.e. no further cuts - but if the tariff level ends up worse than ECB's baseline scenario there could add one or even two further cuts.

Scotia: ECB's Best Course Of Action Is To Hold For Now

- Since the last ECB meeting, “GDP growth exceeded expectations at 0.6% q/q SA nonannualized (0.4% consensus) and core inflation has held firm at 2.3% y/y.”
- “The policy rate lies within the ECB's estimated 1.75–2.25% neutral rate range.”
- “As defence spending plans across Europe ramp up and trade tensions with the US pose uncertain risks to inflation, the ECB's best course of action for now is to hold.”

SEB: Risks Biased To A Hawkish Initial Reaction But SEB Still More Dovish Than Market

- “Recent comments by GC members confirm expectations of a pause at the 24 July meeting, with several members suggesting that the ECB should wait for more data before considering further policy rate cuts.”
- “We think the ECB is unlikely to facilitate more dovish market expectations at this juncture; if anything, risks may be skewed towards a slightly hawkish initial market reaction in July.”
- “We expect the next rate cut in September, followed by a final rate cut in December, but it may take a while for markets to discount such a dovish scenario.”
- Specifically: “We think markets will be slow to accommodate sub-1.75% DFR pricing, even if our forecast of the DFR bottoming at 1.50% proved to be correct. If inflation in the coming months comes in line with our expectations, we nevertheless think that it will be over time reflected in GC comments, which should facilitate markets gradually pricing in a higher likelihood of the DFR bottoming out below 1.75%.”
- “We think the ECB is quite comfortable with markets pricing in a high likelihood of another rate cut before the end of this year. However, as we think President Lagarde will aim to avoid fuelling any additional rate cut expectations, we see risks biased for a hawkish rather than a dovish initial market interpretation of the July meeting message.”

SocGen: ECB In No Mood For Adjusting Into Summer Break

- “As we head for the summer break, the ECB is in no mood for adjusting its around-neutral policy stance.”
- “The June meeting made it clear that a holding pattern has been reached and that data will guide any future policy changes. This should imply quarterly policy discussions, with assessments of the incoming data and their impact on the forecasts.”
- “We retain September as the time for the next cut but see a risk that the data and tariffs (and counter tariffs) may not be clear-cut by then, clouding the outlook.”
- “While the current energy price and euro exchange rate outlook may risk aggravating the inflation undershoot next year, things are less clear with the tariffs.”

- “The parties seemed close to a 10% framework deal last week, with no EU retaliation, but there was not enough agreement on mitigation for some sectors, agriculture and cars in particular. Talks will continue and we still see hope for an interim deal by 1 August. Should it be an asymmetric deal, the ECB would likely focus on the downside risks to growth and inflation and be willing to cut rates again in September. However, if there are countermeasures by the EU, there could also be concerns over an inflationary impact, forcing the ECB to take a more cautious approach.”
- “More challenging may be the end of the year, when we see inflation dropping below 1.5% and staying thereabouts for most of 2026. Here we see risks that inflation expectations follow inflation lower, forcing the ECB to take action to anchor inflation expectations.”

TD Securities: Negotiations Landing On 15-20% Tariff Rate To Warrant Final Cut In September

- “Having signaled a pause at the previous meeting and all data since behaving as expected”, the ECB is expected to keep the deposit rate at 2%.”
- “Press conference will likely keep highlighting uncertainty and need to wait for tariff negotiations to conclude before deciding the next step. Similarly, the “meeting-by-meeting” language would be retained in the release.”
- “We see the negotiations landing on a 15-20% tariff rate, which being above the ECB's base case of 10% would warrant another 25bps cut in September. Without a final agreement, the Governing Council will continue their wait-and-see approach.”
- “We still expect that the ECB could remain non-committal on the path of rates. We still remain relatively neutral on the front end of the curve.”
- “We are unlikely to get much new information especially as we wait for the EU-US trade deal which will be the primary driver of ECB and FX in the near-term. Beyond the near-term USD bounce-back on stretched technicals, we do see scope for EUR to strengthen structurally as USD's safe haven status keeps getting chipped away and the gap between the US and the rest of the world keeps shrinking.”

UBS: No Longer Expecting July Cut

- UBS pushed back their call for a cut from July to September last week.
- “We think this will be the final cut of the easing cycle. Our call for a July cut was firmly anti-consensus since the ECB meeting on 5 June, but we had maintained our dovish expectation amid concerns that the US-EU trade negotiations might be overshadowed by new tensions around early/mid July, when previously declared moratoria expired.”
- “But we had been clear that our call for a July cut would no longer be tenable if either an US-EU trade agreement or an extension of the negotiations were to ensue. This now seems to be the case: Although President Trump announced on Saturday that the EU would face a 30% tariff as of 1 August, the EU on Sunday decided to continue negotiations until then and defer the activation of retaliatory measures (worth €21bn) which were due to kick in on 14 July; however, the EU will continue its work on additional counter measures (worth €72-95bn).”
- As a result, amidst the lack of clarity, “we expect the ECB to adopt a wait-and-see stance and keep rates on hold on 24 July, and then reassess the situation in the following meeting on 11 September, based on macro projections. We think the ECB will then deliver a final 25bps rate cut to 1.75%.”
- UBS then see two hikes in Sep and Dec 2026 to 2.25%. “In anticipation of rising inflation pressure when the defence/infrastructure stimulus gains momentum in 2026 and 2027 - and considering the delay in monetary policy transmission of 4-6 quarters - we think the ECB may not be able to keep rates at 1.75% for an extended period.”

UniCredit: Don't Expect Any Directional Message From Lagarde

- “The ECB will almost certainly leave interest rates unchanged” for first pause after seven consecutive cuts.
- “The central bank will now want to have more clarity on the trade outlook before it considers adjusting its policy further.”
- “With the European Commission engaged in high-stake negotiations with the Trump administration to avoid the imposition of a 30% tariff rate on EU exports to the US, such clarity is unlikely to emerge by next Thursday. Therefore, we do not expect any directional message by Ms. Lagarde, although the door will remain open for further action.”
- “We confirm our expectation for a final 25bp rate cut in September as downside risks to activity continue to prevail over upside risks to inflation.”

Wells Fargo: Continue To Expect Final Cut In September

- The ECB is expected to keep its deposit rate at 2.0% on Thursday “amid an uncertain global backdrop.”
- “June inflation data showed headline inflation at 2.0% year-over-year, with core inflation steady at 2.3%. However, services inflation edged up to 3.3%.”
- “Despite the pause, we believe the ECB is not yet done easing. Policymakers have emphasized a data-dependent approach, and we continue to expect a final 25 bps rate cut by September” to 1.75%.
- President Trump's threat of a 30% tariff on EU goods starting Aug. 1 adds uncertainty, but negotiations may lead to a scaled-back tariff rate.
- The ECB faces challenges from trade frictions, a stronger euro, and geopolitical tensions in Ukraine and the Middle East, which could impact its “good place” policy stance.

MNI Policy Team Insights

MNI ECB WATCH: ECB To Hold After A Year, Looking For Hints

By Santi Pinol (Jul 21, 2025)

ROME - The European Central Bank is set to hold interest rates for the first time since July 2024 this Thursday, after cutting for seven consecutive meetings to 2%.

Policymakers consider that the inflation path from the last round of projections in June is still valid, and with limited data since the last meeting, debate over an additional cut has been pushed back to September or even later in the year. (MNI SOURCES: ECB Projections Confirmed So Far, Sept Cut Likely)

Uncertainty around U.S. trade policy towards Europe remains elevated after the new Aug 1 deadline set by President Donald Trump to avoid 30% tariffs, and, while the ECB does not target the exchange rate, Vice President Luis de Guindos attracted attention at the Sintra forum by signalling USD1.20 could be a problematic level, though some of his colleagues later expressed surprise at his comments in private. (MNI INTERVIEW: ECB's Wunsch Sees Downside Growth, Price Risks)

2% COULD BE TERMINAL

While some policymakers now see a higher chance that the ECB will keep rates at 2% for the rest of the year than only a month ago, markets still price at least one more cut for 2025, and investors will parse the policy statement and President Christine Lagarde comments for hints as to whether this is more likely to come in September or December (MNI INTERVIEW: ECB Should Stay At 2% If Outlook Holds- Demarco)

MNI: Support Grows For Retaliation Against US - EU Officials

By David Thomas (Jul 17, 2025)

BRUSSELS - Support for European Union retaliation against U.S. tariffs is growing among member states and in the European Parliament, amid expectations that a likely trade deal by the Aug 1 deadline will disappoint the hopes of countries including France, officials told MNI.

With Germany, together with the Netherlands and Ireland, pushing strongly for a deal, officials expect to avoid the 30% tariffs threatened by U.S. President Donald Trump, but now they now see a likely baseline 15% levy, rather than the 10% they had previously hoped for. The U.S. is also likely to target France in particular with higher charges on products such as cognac and other spirits, and looks set to rebuff EU pleas for a “standstill” to rule out changes to any deal-in-principle until a later more comprehensive deal.

Washington seems to assume that German reluctance to retaliate will stop the EU from acting if necessary, officials said, adding that this calculation may prove to be inaccurate.

"I don't think there will be a way to stop retaliation if the deal goes as badly as this," one EU source close to the talks said. "The mood is shifting - radically."

RETALIATORY MEASURES

The European Commission has suspended one set of retaliatory measures targeting US\$20 billion in U.S. exports of products including soybeans, orange juice, poultry, beef, steel and aluminium, as well as Harley Davidson motorbikes, and has finalised a EUR72 billion package of measures aimed at aircraft, cars and agricultural goods if needed. There is also the prospect of enacting the EU's Anti-Coercion Instrument, which would apply charges to a wide range of U.S. services, though concerns over whether this would do excessive harm to Europe's economy mean there is widespread reluctance to see it deployed.

The EU hopes to negotiate exemptions for products such as cars, pharma and food, while talks for a more comprehensive deal continue past the Aug 1 deadline. These would come in return for the EU's granting some increased market access to the U.S. in areas such as agriculture/food, public procurement, digital and technical standards. (See MNI: EU Hopes For Mini-Deals With US Despite Tariff Threat)

The Commission will continue to resist Trump's push to ease regulatory burdens on U.S. companies operating in the EU, concessions which could be hard to sell to member states and the parliament, though officials noted that it could offer sweeteners. They pointed to the recent dilution of EU climate reporting obligations and to backtracking on the digital services tax.

"You can also change things without even saying that they are actually being negotiated. The Commission can do this kind of thing and still be able to say it resisted," an official noted.

MNI: EU Hopes For Mini-Deals With US Despite Tariff Threat

By David Thomas (Jul 14, 2025)

BRUSSELS - The European Union is considering turning its attention to securing a series of mini-trade deals with the U.S., including exemptions for cars, pharma and food, which would bypass a 30% tariff threatened by President Donald Trump while talks for a more comprehensive deal continue past the Aug 1 deadline, EU officials told MNI.

The exemptions would come in return for the EU's granting some increased market access to the U.S. in areas such as agriculture/food, public procurement, digital and technical standards, officials said, adding that maximalist threats by followed by selective concessions appear to be a typical Trump pattern.

Talks could continue beyond Aug 1 on the details of a more comprehensive agreement, including more EU redline areas, such as non-tariff barriers, digital and public procurement. Such an approach would be strongly supported by the EU's biggest economy Germany, which fears an almost existential threat to its industrial sector from 30% U.S. tariff warnings, as well as by the Netherlands and Ireland.

France, Spain, Sweden and Austria on the other hand want a tougher response, official said, with EU Trade Commissioner Maros Sefcovic saying that support for retaliation at Monday's trade ministers' meeting was the strongest he has ever seen. (See MNI: EU-US Deal Hinges On Rule Exemptions Vs Market Access)

EU officials said that U.S. Treasury Secretary Scott Bessent as well as senior U.S. trade officials had been privately supportive of an EU deal until Trump threatened more tariff action. An agreement in principle had been "very very close" but issues remained on sectors subject to Section 232 orders by Trump, such as steel, aluminium, and cars.

MNI INTERVIEW: German Gov Plans, Tariff Hopes Lift Sentiment

By Luke Heighton (Jul 18, 2025)

LONDON - German analysts' economic confidence has improved thanks to government spending plans and hopes of a trade deal with the U.S, but the public is less sure., a leading German economist told MNI.

"There is a genuine expression of optimism in this sentiment," Leibniz Centre for European Economic Research (ZEW) president Achim Wambach said, after July's Indicator of Economic Sentiment rose 5.2 points on the previous month, to 52.7 points - adding nearly 70 points from April's annual low.

While higher tariffs - such as the 30% currently proposed by U.S. President Donald Trump - would be a "serious blow" to the German economy, the biggest improvement came from the automobile, steel and chemical industries, all exporters, he said in an interview.

"I personally am more optimistic that we will get a good deal with Trump," Wambach added. "There is also a lot of hope that the new German government will deliver; that the additional investment truly will add to growth."

While Europe needs higher productivity, greater innovation, and above all a more closely integrated internal market if it is to become truly competitive on the global stage, Wambach said there was hope.

"For trade within Europe, according to an IMF study, there is the equivalent of more than 30% tariff for goods and more than 100% for services. So we need internal market reform. Fortunately, I think the message has arrived. And if you want to make the argument that you can do the necessary structural reforms only during a crisis, well - we are there."

BOOST TO GROWTH

Germany's planned EUR500 billion infrastructure fund could add around 0.5% per year to GDP, Wambach said, citing recent German Council of Economic Experts analysis. However there are concerns over how the money will be spent.

"We will definitely see price distortions, and the biggest worry, or debate, in Germany is that the government's money is just being spent on consumption, rather than investment," Wambach said. "Underground construction, for example, is already at near capacity, which is a problem when you are talking about laying fibre cables. So there will be price increases in some sectors."

Funds may also fail to flow through fully to urgently-needed state- and local projects, such as roads, bridges, and the electrical grid.

"A lot of that is run through private companies which operate on a profit and loss model. Some cities are in so much debt that they will probably use the additional funds to repay some of their debts, so it would not be fully invested in infrastructure."

Having signalled a willingness to boost defence spending to 3.5% of GDP by 2029, it would make sense for Germany to collaborate more closely with EU member states in both military procurement and strategy, Wambach said. (See MNI INTERVIEW: German Advisor Sees Possible Joint EU Debt Deal)

"But it will still be a case of equipping the German army, the French army, rather than a European army. And how dependent do you want to be on other European states? We will still have to buy a lot from the Americans."

SPENDING DISCIPLINE

After exempting a one-off spending boost from strict constitutional spending rules - the so-called "debt brake" - German governments should limit their attachment to new borrowing, he said.

"At some point, military spending has to be part of the general budget, and not being financed by debt. Otherwise government debt will only continue to increase to the point where we can't pay it back through growth, which will in turn increase pressure to cut other expenses."

The public mood remains negative despite recent rises in net wages, while small companies remain in crisis mode after two very bad years, Wambach said.

"Even those consumers who are relatively happy with their own circumstances think the economy is in trouble. If next year we see some more growth then the positive moods will also come back to consumption."

Changes to pensions and the care system, excessive bureaucracy and unnecessary costs remain significant hurdles to be overcome, Wambach said.

"These are hard problems. The government's intentions are good, therefore there is reason for optimism. Whether they can deliver these good intentions we will have to wait and see."

MNI INTERVIEW: ECB Should Not Cut Rates Again - OeNB's Holzmann

By Luke Heighton (Jul 9, 2025)

LONDON - The European Central Bank should leave interest rates untouched unless inflation falls much lower, Austrian National Bank governor Robert Holzmann told MNI.

"There is no reason at the moment why a further cut should take place - definitely not at the next meeting, and also for the rest of the year," Holzmann said. "Rates are currently 2% in nominal terms, which given my assessment of R* puts us at least at neutral, but quite likely in expansionary territory."

The ECB cut its deposit rate by 25bps to 2.00% last month, and while Holzmann said its base case scenario for inflation of 2.0% in 2025, 1.6% in 2026 and 2.0% in 2027 is a "good average one," deviations in both directions are likely, with the balance of risks tilted to the upside. (See MNI SOURCES: Projections Confirmed So Far, Sept Cut Likely)

"The projections are art and science; they have a scientific basis, but there are a lot of judgements also. The question always is how much of the judgement, the particular regarding the level of uncertainty, is there? I cannot imagine that, given the continuing disturbance of foreign trade, the effect will be to decrease prices."

Holzmann, whose term at the OeNB expires this summer, making July's Governing Council meeting his last, said that in the absence of new information the monetary policy setting can be expected to remain on hold this month, with any change "difficult to justify."

MEETING-BY-MEETING

He questioned whether the ECB's meeting-by-meeting, data-dependent approach to setting the policy stance is appropriate in an environment where U.S. trade policy shifts in particular mean incoming data can fluctuate.

"Under those circumstances it is even more important to have an idea of where R* is. If, of course, we have much lower inflation, then no-one would reject becoming more proactive. But were that the case then the proper channel is through interest rates, rather than asset purchases," he said.

The NATO commitment to spending up to 5% of GDP on defence and military infrastructure in coming years need not lead to higher eurozone inflation if the money is spent wisely and spare cross-border capacity utilised effectively, Holzmann said. (See MNI INTERVIEW: German Advisor Sees Possible Joint EU Debt Deal)

"Were effective collaboration to take place then I do think there is sufficient spare capacity to produce what Europe needs. It's also important to remember that investment in infrastructure also serves a civilian purpose, and again, my sense is that there is enough spare capacity in the construction sector for that to happen," he said, "But work needs to take place at the European as well as the national level, otherwise a lot of money will be spent to little economic effect, at the same time as there is a substantial increase in public debt."

EURO

Following remarks by ECB vice president Luis de Guindos that a euro exchange rate above USD1.20 would make Europe's monetary policy more complicated, Holzmänn countered that while a higher exchange rate makes things more difficult for exporters, it also offers cheaper inputs.

"It very much depends on how tariffs evolve, but if the euro is to appreciate then a slower pace is definitely preferable to a faster one," he said.

Whether or not trade diversion from China will add to disinflationary pressures in Europe is ultimately a political choice, Holzmänn said, noting that the EU has acted against price dumping in the past, "and in my view that would be appropriate again were such a situation to arise."

And while the Chinese yuan has lost value against the euro, it remains within historical ranges, Holzmänn said, with little sign of a currency war in the offing.

"I'm sure China will want to keep it low in order to support exports, and that will have an impact on the price of European imports and input costs. But at the moment I don't see any evidence that suggests there will be a very strong impulse to gain an advantage via aggressive devaluation of the yuan."

MNI INTERVIEW: Uncertainty 'New Normal' For ECB - Kazaks

By Les Commons (Jul 3, 2025)

SINTRA - The European Central Bank's success in delivering monetary policy goals has come despite a "new normal" of heightened uncertainty, and policymakers are well-positioned to respond to any shocks, Bank of Latvia Governor and ECB Governing Council member Martins Kazaks told MNI.

"The uncertainty remains high. More so due to geopolitical shifts, the risk of trade wars and all that kind of stuff, it's still there, and there is nothing normal about that in terms of recent history, in my view. But it is the new normal now," Kazaks said in an interview on the sidelines of the ECB's annual summer forum at Sintra in Portugal.

"But if I take a look at the monetary policy and the ECB, I can fully agree with President Lagarde saying that we are in a good place. We have delivered. We are at around 2% and I think we can, by and large, say that the high inflation episode has been resolved." (See MNI SOURCES: ECB Projections Confirmed So Far, Sept Cut Likely)

WELL PLACED

With inflation expectations under control, the central bank is in well placed to respond to any contingencies, Kazaks said.

"Inflation expectations remain anchored at around target, policy rates are around neutral territory. So the next thing is to ensure that inflation remains at around the target, and we are in a situation that we can deal with any shocks that will potentially hit us -- and we have quite a lot of flexibility on our hands," he said, noting the ECB was "in a good place."

Speaking the same week as the ECB published its assessment of the 2021 Strategy Review, Kazaks said its strategy was "very well fitted" to deal with the issues faced in recent years, adding that the assessment "just completed shows it been so."

"Overall, we've done a good job. We should remain data dependent, meeting by meeting, with full flexibility," Kazaks said.

TOOLKIT DISCUSSION

Though the messages from the strategy assessment were clear, Kazaks said there had been a discussion about the policy toolkit.

"Was there a bit more debate about the toolkit? Of course there was discussion about that, especially in terms of the non-standard measures, QE, negative rates etc," he said.

"There is clarity on the [inflation] target, there is clarity on the instruments, we have more experience with some of the instruments. But implicitly, we will keep our minds open and we will react flexibly in the spirit to do best as we can to deliver the target," Kazaks said.

He warned not to read too much into the nuances of language in the assessment, saying "the decisions that will need to be taken some time in the future will be very much dependent upon context." (See MNI INTERVIEW: ECB's Wunsch Sees Downside Growth, Price Risks)

COMMUNICATION

When asked whether financial markets understand the ECB, a topic which came up during debates on central bank communications in Sintra, Kazaks replied: "by and large, yes."

"And I think this is the result of joint work and joint discussions. And also I think it's important," he added.

MNI SOURCES: Projections Confirmed So Far, Sept Cut Likely

(Jul 3, 2025)

SINTRA - European Central Bank officials are virtually unanimous that their June projections are so far being confirmed by incoming data, despite ongoing risks from global trade tensions, paving the way to a likely September cut, though some more cautious policymakers would prefer to wait until December, Eurosystem sources told MNI.

"Given all the things going on in the world, the debate is quite bland. There is a lack of academic tension. Everyone by and large is on the same page as we are," one official said, referring to the atmosphere at the ECB's annual forum in Sintra, where policymakers concurred in seeing inflation under control barring surprises on July 9, when there is a deadline for a trade deal with the U.S., or from a much stronger appreciation of the euro against the dollar.

However, this broad agreement might not necessarily translate into shared policy action. While several officials told MNI that September is still the likely time for the next rate cut, following an almost-certain pause in July, some might prefer a delayed until December (See MNI INTERVIEW: ECB Should Stay At 2% If Outlook Holds- Demarco)

"I think the assumption is that we stand pat in July and then a likely cut in September. That could get pushed back to December, but it's fairly unlikely," another official said.

Fears over a possible diversion of Chinese goods away from the U.S. and into Europe have yet to be significantly confirmed, several officials told MNI, opening the way to a benign scenario and a more stable outlook. While risks from U.S. President Donald Trump's unpredictable trade policy of course continue, these are now better understood.

"I'm less concerned over price threats currently from tariffs, but that could change. A de-escalation of U.S.-China should prevent any large-scale dumping, though there is no doubt some China trade is looking for a more stable path," an official said.

Having reached the 2% inflation target and with signs of economic recovery, the ECB has some time to take stock, another official said, though warning that all these assumptions could be thrown away by events on July 9 if the U.S. imposes high tariffs. (See MNI INTERVIEW: ECB's Wunsch Sees Downside Growth, Price Risks)

"Anything other than a benign outcome -- and I count an-across-the-board 10% as benign, undesirable, but benign -- will challenge the growth assumptions," he added.

EXCHANGE RATE

Many Eurosystem officials were however surprised by comments in Sintra by ECB Vice President Luis de Guindos, who said that if the euro kept appreciating above USD1.20 it "would be much more complicated" for the eurozone. While, in interviews

with MNI, Bank of Portugal Governor Mario Centeno and acting Bank of Malta Governor Alexander Demarco said euro appreciation could pose problems, other officials told MNI that de Guindos would have been better advised to stick to the mantra that the ECB does not target the exchange rate. (See MNI INTERVIEW: Solid Q2 To Back 1 More Cut- ECB's Centeno)

The ECB will as always take note of how a strong euro could impact transmission of its monetary policy, and the higher it goes against the dollar, the more it will watch for impacts, one official said, noting that current levels aren't a reason for concern.

"I haven't got the exact level, but current levels are pretty much in line with the lifetime average for euro-dollar, so there's no real panic," he added.

June's ECB projections assumed a euro exchange rate of only USD1.11 in 2025, rising to USD1.13 for the remainder of the forecast period. The euro has appreciated by almost 14% against the dollar so far this year, and is already trading near USD1.18.

The projections also assumed a value for 2025 of 126.1 on the ECB's EER41 measure of the euro's nominal effective exchange rate, which came in at 130.3 on July 1.

An ECB spokesperson declined to comment.

MNI INTERVIEW: ECB's Wunsch Sees Downside Growth, Price Risks

By Les Commons (Jul 3, 2025)

SINTRA - Eurozone inflation is essentially at target and economic recovery is still expected in coming months, but there are downside risks to both growth and prices, Belgium's central bank governor Pierre Wunsch told MNI.

Speaking at the ECB's summer getaway at Sintra in Portugal this week, Wunsch said he was not uncomfortable with financial markets pricing another cut or two into the outlook for the eurozone.

"While not expressly calling for a cut myself, I can understand and see why further easing is priced in by financial markets. The risk is probably to the downside," Wunsch said, though he noted that with domestic sources of eurozone inflation above 2%, the current policy stance is probably already mildly supportive. (See MNI INTERVIEW: ECB Should Stay At 2% If Outlook Holds- Demarco)

The outlook for headline inflation is currently benign, he said, with projections showing the risk of a modest undershoot for a couple of quarters in early 2026. Wunsch, a critic of ECB modelling in the early years of the pandemic inflation surge, said projections for a year out were now looking far more accurate, though they were still a little cloudy at the end of the medium-term horizon.

OUTLOOK RISKS

The uncertain global outlook means risks to both growth and prices are to the downside, Wunsch said. He pointed also to slowing wage growth across much of the region, noting that earnings growth in France particularly was "very weak". (See MNI INTERVIEW: Solid Q2 To Back 1 More Cut- ECB's Centeno)

In light of the outcome of the ECB's assessment of its 2021 Strategy Review, Wunsch said it was right for the Governing Council to keep its current policy toolbox in place but that it should ensure robust debate over any future use.

"I was one of the critics of the overuse of QE in the past, but I have never said we should close the door on it. It must remain in the toolkit, but its future implementation should be considered carefully," Wunsch said.

"All the tools must remain, but we must be more considerate in their use if needed again," he said, adding that forward guidance in particular should only be considered as a last resort.

NEARLY DONE

Asked whether the ECB's assessment might have erred on the side of self-congratulation, Wunsch said inflation was back at target, but there was still some stickiness in domestic price levels.

"We have returned inflation to target and the economy has been resilient and showed at least modest growth across the economy. That is good news," he said. "The consensus is our job is nearly done, but it is not for me to declare victory."

MNI INTERVIEW: ECB Should Stay At 2% If Outlook Holds- Demarco

By Santi Pinol (Jul 2, 2025)

SINTRA - The European Central Bank should end its easing cycle with interest rates at 2% if its June projections are confirmed by incoming data, acting Bank of Malta Governor Alexander Demarco told MNI on Wednesday.

"I don't see big reasons to cut another time unless there are some changes. If we see that maybe inflation is going to turn out perhaps lower than expected then maybe another cut will be appropriate," Demarco said in an interview on the sidelines of the ECB Forum in Sintra.

June inflation data, the quick resolution of the conflict in Iran, and signs that there could be a trade deal between the U.S. and the EU before the July 9 deadline all tend to confirm the outlook in the ECB's latest projections, though things can still change very quickly, he said.

"I think you'll have to be still watchful. I don't see anything in the data that really would compel us, you know, to cut at least for a couple of meetings," he said, adding that he neither sees current monetary settings as restrictive nor the need to enter accommodative territory. (See MNI INTERVIEW: Solid Q2 To Back 1 More Cut- ECB's Centeno)

The ECB should "keep powder dry given the information we have at this moment," Demarco said, adding that the next round of projections in September will play an important role in determining policy, though a further reduction in the estimate for 2026 inflation will not necessarily translate into an automatic cut.

"Having a slight dip for a small period of time to 1.9% [inflation] is not the end of the world. I think we can tolerate it. It's not that you have to have 2% all the time. It's impossible," he said.

However, he added, there is "the usual elephant in the room," referring to the July 9 deadline for a tariff deal with the U.S. which could alter the inflation and economic baselines.

EXCHANGE RATE

The euro-U.S. dollar exchange rate, currently at USD1.18, has helped the ECB to reach its inflation target but is still below the average expected, Demarco said, referring to studies that put the equilibrium exchange rate in the range of USD1.20-1.25.

"That is not really a major concern. I mean, for example, in the country where I come from, usually exporters very much voice their concerns when they see the exchange rate appreciated, because a lot of their markets are also outside Europe. So, the exchange rate for that is important. So far, I have no issues, no complaints from that part", he said.

"Of course, it's something that we need to watch in the sense of how fast maybe it can go in one direction," he added, noting however that such a move was more likely to be the result of dollar depreciation than of euro strength.