

FLASH REPORT

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ECB: Unexciting Hold, With No Moves on the Horizon

- The ECB left all its policy settings unchanged as widely expected by markets and economists, keeping to a neutral stance that points to its key deposit facility rate remaining at 2.00% for the foreseeable future. According to Pres Lagarde, the decision to hold rates was unanimous, with the ECB “in a good place.” Markets showed no significant reaction to today’s communications.
- The usual uncertainty about the outlook remains, “owing particularly to ongoing trade disputes and geopolitical tensions”, although the ECB highlighted various “sources of resilience.”
- GDP data for 3Q released this morning overshot expectations (and was highlighted by Lagarde), with the Eurozone expanding by 0.2% quarter-over-quarter, mainly on the back of strong growth in France on firm exports and investment.

The ECB left all its policy settings unchanged as widely expected by markets and economists, keeping to a neutral stance that points to its key deposit facility rate remaining at 2.00% for the foreseeable future. Minimal forward guidance was left unchanged as officials will keep to a “data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance.” According to Pres Lagarde, the decision to hold rates was unanimous, with the ECB “in a good place.” Markets were little changed in reaction to the statement and Lagarde’s presser, with European asset prices tracing global market moves. Markets are pricing in marginal cut odds up until around mid-2026, with about toss-up odds of a 25bps move priced in.

Today’s decision was generally a non-event, as was President Lagarde’s press conference. While some doves in the Governing Council may push for a rate cut in December, we do not think there will be enough new information by then (nor in 1Q) for more easing to be under serious consideration. Were growth and inflation conditions to broadly evolve as laid out in the ECB’s September forecast round, the ECB is in for a lengthy rate pause that may only be broken by a large negative or positive shock, or if economic underperformance points to the need for a lower neutral rate.

The usual uncertainty about the outlook remains, “owing particularly to ongoing trade disputes and geopolitical tensions”, although the ECB highlighted various “sources of resilience”, somewhat mirrored by this morning’s stronger-than-expected GDP data (see below). The ECB noted that growth is continuing despite a challenging global environment, thanks to robust labour markets, solid private sector balance sheets, and past monetary easing in the Eurozone—which has totalled 200 bps since June 2024. The E.U.-U.S. ‘trade deal’ (15% tariffs are still high), the Middle East ceasefire (shaky), and this morning’s China-U.S. trade pact (47% tariffs and shaky) played into the ECB’s modest optimism according to Lagarde.

Neither the ECB nor Lagarde lay out the strongest of cases for economic resilience, but while we think the odds of underperforming forecasts (e.g. due to ongoing French political uncertainty or higher or broader—pharmaceutical—U.S. tariffs) are greater than outperformance odds, it’s not enough to motivate more easing. Regarding the inflation outlook, it is “broadly unchanged” according to the statement, with marginal undershoots over the forecast horizon that won’t trouble the ECB—as was highlighted in the September projections round and decision.

GDP data for 3Q released this morning overshot expectations (and was highlighted by Lagarde), with the Eurozone expanding by 0.2% quarter-over-quarter (vs 0.1% Bloomberg median) thanks to a strong performance from France (0.5% vs 0.2% expected) and the Netherlands (0.4% vs 0.2% expected) while Germany met expectations with no growth for

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the quarter after a 0.2% contraction in 2Q and Italy slightly disappointed, also registering no growth against forecasts for a small 0.1% rise. Eurostat does not provide data on the expenditure components for Eurozone GDP in today's preliminary release, but France's INSEE highlighted a jump in pharmaceutical and aerospace exports and a rebound in investment. Inflation data also published today saw Spanish figures unexpectedly accelerating to 3.2% from 3.0% year-over-year, while the deceleration in German inflation to 2.3% from 2.4% was slightly above the median forecast of 2.2%. Overall, today's data firmed up expectations for the ECB to stay put.

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