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GLOBAL ECONOMICS

**FLASH REPORT**

October 26, 2023

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# ECB: Unsurprising Hold with Unchanged Guidance

The ECB did not surprise anyone in today's policy announcement. This is somewhat surprising in a way, as policymakers around the globe have often startled markets during the current tightening cycle; maybe it's just late/end-cycle dynamics. This is not a thrilling-write-up, unfortunately. All settings, be it policy rates or balance sheet reduction policy, were left unchanged, and outside of minor inconsequential adjustments (and no discussion of forecasts), the decision statement is practically identical to September's.

All economists surveyed by Bloomberg were on board with a rate hold, and the 3bps that markets had priced in for today represented a widely-shared view among traders that there would be no increase. According to Lagarde, the decision to hold rates was unanimous. After getting a 'win' at the September decision with a 25bps hike to 4.00%, the hawks in the Governing Council agreed with the doves that they should at least watch data a bit longer.

The main unknown going into today's announcement was whether the ECB would announce a change to its PEPP reinvestments timetable, or even adjust minimum reserve requirements. But, the ECB still intends to continue the full reinvestment of proceeds from maturing assets under its PEPP "until at least the end of 2024." At the post-statement presser, Lagarde even went as far as saying that PEPP parameters and minimum reserve requirements were not discussed at this meeting and did not elaborate on when these items may be addressed. The 'status quo' maintenance was the highlight for markets, welcomed by a rally in European debt (more below).

Usually, with a carbon copy statement, Lagarde and de Guindos's press conference tends to deliver key quotes that shake markets up. Again, no fireworks here aside from Lagarde noting PEPP/MRR was not discussed. The ECB President highlighted the weakening of the services sector, with a slowdown in job creation in this industry, a decline in measures of underlying inflation, and increasing funding costs for banks among a series of headwinds or evidence that shows their policy tightening is being "transmitted forcefully". She also said that external tightening (read run-up in US/global yields) is not due to the Eurozone's economic fundamentals but it does spill over and has a tightening impact that needs to be taken into account.

Today's ECB decision was a placeholder. External developments like geopolitical risks or the steep climb in yields (or periphery-core widening) of the past few months may have stayed the bank's hand from tinkering with some settings or even letting something more hawkish slip-out in the press conference. On PEPP and reserves, the ECB may also be waiting for the discussion on its framework review to pick up, which is a late-2023/early-2024 matter.

Overall, inflation and economic data have evolved in line with what the ECB had projected in September (if not worse, in some cases). But it's only been six weeks since they rolled out these forecasts. The Governing Council can't be too confident that the current stance is adequate, leaving the door open to more hikes (though barely ajar), but the economy also looks fairly weak and piling on with faster/sooner QT or measures that tighten bank lending further would not have been appropriate.

A huge collection of data between now and the December 14th meeting awaits: Q3 GDP, Oct/Nov CPI, two ECB consumer surveys, and one PMI release among others. We expect the ECB to begin lowering rates in late-Q2, to end 2024 with a 3.25% deposit rate (75bps in cuts).

Market reaction (vs pre-statement, 10ET/15UK at writing):

- The ECB's statement came out at 8.15ET/13.15UK, followed by US data (namely Q3 GDP) at 8.30ET/13/30UK, and then Lagarde's presser starting at 8.45ET/13.45ET, so it's a tricky read of the reaction in markets, which when set against the moves in US markets looks relatively muted.
- Briefly, European government bonds and short-term rates markets rallied, and the EUR held vs the USD but weakened versus the GBP. The bulk of these moves took place after the release of US GDP, jobless claims, and durable goods data.
- EURUSD is practically unchanged at 1.0535/40 and EURGBP is down about 0.2% to 0.8700. German 2s are down 5/6bps and 10s are down about 4bps, compared to USTs down 6/7bps and 5bps, respectively. The spread between German and Italian 10-yr yields narrowed slightly, by 2/3bps to just around 200bps. Market pricing for the December meeting is practically unchanged around 3bps, but end-2024 ECB rates are seen 7bps lower on the day, to 68bps or somewhat about two and a two-thirds cuts from the current peak.