# Economist's Weekly Market View

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## ECB ready to take a pause on rate cuts

The ECB's Governing Council meeting for June saw the central bank lower interest rates for a fourth consecutive time this year. The Deposit rate was lowered by 25bps to 2.00%, while the re-financing rate – which underpins tracker mortgage rates - was decreased to 2.15%. This marked the eighth 25bps rate cut since the ECB started its easing cycle in June 2024. The decision to cut had a "broad consensus" but was not unanimous, with one Governing Council member dissenting on the rate reduction. Meanwhile the somewhat hawkish tone to President Lagarde's press conference raises the prospect that the ECB may now take a pause at current rates.

The Governing Council's decision to lower rates was informed by the latest set of detailed macro staff forecasts. In terms of the outlook for headline inflation, the June forecasts saw downward revisions. This is mainly due to lower assumptions for energy prices and a stronger euro. The ECB expects inflation to average 2.0% (was 2.3%) this year and 1.6% (was 1.9%) in 2026. For 2027, it sees inflation averaging 2.0% (no change). While the inflationary outlook is more benign, the factors which have dragged down inflation could also quickly unwind in the coming months. In that context, still high core inflation – expected to average 2.4% in 2025 – should give policymakers pause for thought, with ECB rates now well within the 'neutral range'.

should give policymakers pause for thought, with ECB rates now well within the 'neutral range'. Nonetheless, the ECB also commented that it views the risk to its economic outlook as remaining tilted to the downside. President Lagarde stated that the outlook is "more uncertain than usual" against the backdrop of elevated trade tensions and geopolitical risks. Indeed, given the heightened uncertainty regarding trade policies, the ECB also published alternative scenarios. In the 'further escalation of trade tensions' scenario, GDP and inflation are projected to be weaker, which would provide scope for further rate cuts. However, in a 'trade resolution scenario', growth and inflation would be slightly stronger, negating the need for further rate cuts.

Given the heightened trade uncertainty at present, this may be the last cut for some time from the ECB. President Lagarde remarked on several occasions that the central bank is in a "good position" regarding its current interest rate levels to "face uncertainty" over the coming months.
In terms of market expectations, futures contracts indicate that investors expected ECB will be around 7-10bps higher in the aftermath of Thursday's policy announcement. Current pricing suggests traders do not now expect another rate cut until December, with the Deposit rate ending the year at 1.75%.

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