

ECB Review

Accentuate the positive

- ECB decided to leave its key policy rates unchanged with the deposit facility rate at 2.00% as widely expected by markets and consensus.
- Lagarde accentuated the positive factors of the economy such as low unemployment while downplaying the role of the inflation undershooting and strengthened euro.
- We maintain our call that the ECB will leave the deposit rate unchanged at 2.00% throughout both 2026 and 2027.

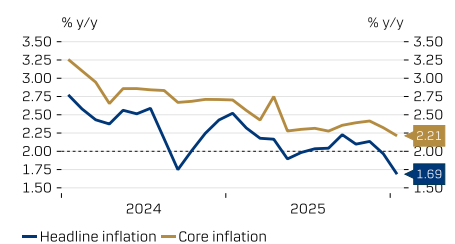
The ECB left the deposit rate unchanged at 2.00% as expected by both markets and analysts. The press release was short with the guidance paragraph similar to December. Interestingly, it was the positive aspects of the economy like low unemployment, solid private balance sheets and increased public spending that was accentuated despite inflation declining to 1.7% in January.

During the press conference Lagarde further emphasised the positive aspects, with limited reference to negative factors like tariffs. On inflation she focused on energy base effects and one-offs as the reason for lower inflation in January while stressing stable underlying indicators and most medium-term inflation expectations at 2%. She noted that the ECB has projected inflation below 2% in 2026 for a long time and that the 1.7% observed in January was consistent with the September staff projections despite coming in lower than the December projections. **Hence, there still seems to be a clear bias towards holding the deposit rate steady despite inflation being below the 2% target.**

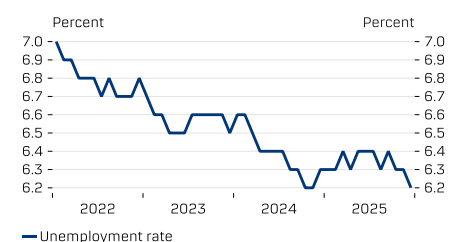
Regarding the exchange rate, Lagarde stated that the ECB does not target specific rates but acknowledges its significance for inflation. The governing council discussed the exchange rate moves particularly against the USD and observed that the appreciation has occurred since March, and that no recent developments have raised concerns. The impact of the higher EUR/USD is already factored into the baseline projections. **Hence, Lagarde clearly downplayed the euro strengthening and gave a very neutral answer as we had expected.**

Lagarde also mentioned that the ECB is taking steps on reframing repo lines with the hopes of an announcement within the next few days. More specifically, she mentioned that the ECB is in the progress on reframing repo lines. Specifically opening up access and making them more attractive to other national central banks outside the euro area and Europe.

We maintain our call that the ECB will leave the deposit rate unchanged at 2.00% throughout both 2026 and 2027. Higher than expected growth and lower unemployment reduces the need for cuts in 2026 despite inflation falling below target. With inflation also projected below target in 2027 we do not expect ECB to hike rates. On the strategy side, we maintain our long-held payer bias in the short end of the EUR swap curve given the positive growth outlook, tight labour markets and the outlook of an increase in public spending in e.g. Germany.

Chart 1: Inflation is below target


Source: Eurostat, Macrobond

Chart 2: Unemployment declined further


Source: Eurostat, Bloomberg, Macrobond

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Ad hoc

Date of first publication

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