

ECB holds rates at 2% for third time in a row

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The decision was in line with economists' expectations and comes after ECB president Christine Lagarde has repeatedly said that monetary policy in the currency area was "in a good place".

"The economy has continued to grow despite the challenging global environment," Lagarde said after the rates decision, adding that the labour market was "robust" and private sector balance sheets "solid". She also described the outlook for inflation as "broadly unchanged".

Data from Eurostat yesterday showed Eurozone GDP surpassed expectations to grow 0.2 per cent in the third quarter, after French output expanded at the fastest pace since 2023.

But the German economy continued a years-long run of lacklustre growth

Lagarde attributed some of the Eurozone's momentum in the third quarter to higher investments in digital services, as many companies in the bloc "stepped up efforts to modernise their IT infrastructure and integrate artificial intelligence into their operations".

The EU's trade deal with the US, the Gaza ceasefire and progress in relations between Washington and Beijing had "mitigated some of the downside risks to economic growth", Lagarde told journalists.

The ECB president repeated her "good place" mantra and said policymakers would do "whatever is needed to stay in a good place".

Traders' expectations of future interest rate cuts were broadly unchanged following the rate decision, with swaps markets estimating a roughly 40 per cent probability of another quarter-point rate reduction by June 2026.

Karsten Junius, chief economist at private bank J Safra Sarasin, said it was "surprising" that the ECB's monetary policy statement did not mention "existing downside risks to inflation".

He added that the lack of "dovish signals" suggested "a rate cut in December had become less likely", noting the central bank's own forecast pointed to an inflation rate of less than 2 per cent next year.

The ECB announcement came a day after the US Federal Reserve cut US interest rates by a quarter point but warned that a further reduction this year was not a "foregone conclusion".

Annual inflation in the Eurozone, which climbed to 2.2 per cent in September, is expected to have fallen slightly to 2.1 per cent this month, according to analysts polled by LSEG. A flash inflation estimate for October will be released by Eurostat today.

The ECB's previous rate cuts, which began in June last year, have pushed borrowing costs to their lowest level since December 2022.

The euro was largely unchanged at \$1.157 after the decision, but was down 0.3 per cent on the day against a broadly stronger dollar.