# Mizuho Market Comment

**10 September, 2024**

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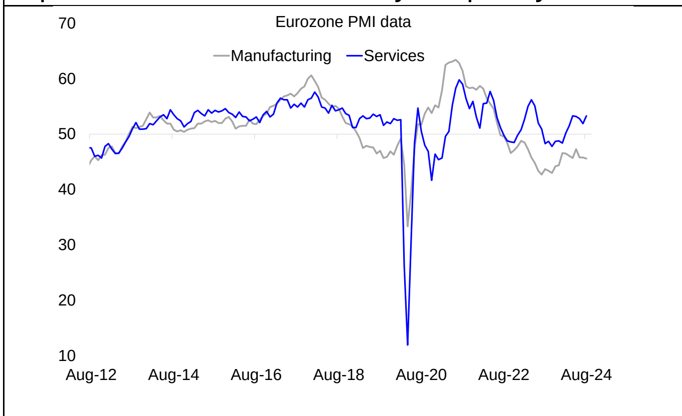
## ECB Preview: 25bp cut in September. Faster pace of cuts in Q4-24

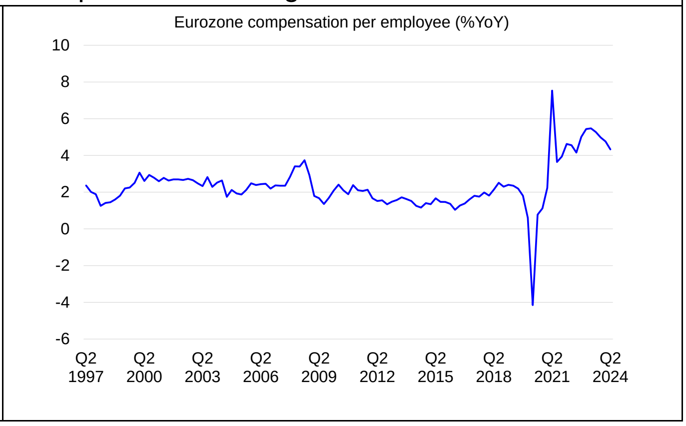
- **A 25bp cut is almost universally** expected at Thursday's ECB meeting**.**
- Lagarde likely cautious on the next move but **we see further 25bp cuts in both October and December**
- The bias for the new growth and inflation forecasts is to the downside
- **EUR will struggle in the near term** given our relative policy outlook

**25bp cut, meeting by meeting approach, risks to the forecasts on the downside**
The market has been pricing in a 25bp move from the ECB since early August, with very little volatility. We concur and see the policy decision as the least interesting part of Thursday's meeting. In the press conference, we expect that President Lagarde will make minimal commitments on future policy moves, although we expect she will be happy to indicate that the bias for the policy rate is lower, with the usual caveat – as long as the data come in line with the ECB's expectations. We expect the following sentence will remain in the statement: "*We will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction*". Whilst Lagarde may concede that policy is restrictive, we expect her to continue to eschew an estimate of the neutral rate, which means there will be no estimate of how tight policy is. In our view, eurozone financial conditions remain relatively tight. The ECB will produce new forecasts at the upcoming meeting. Downward revisions are likely but should be small.

Uptick in services PMI is likely temporary




Compensation easing but still elevated

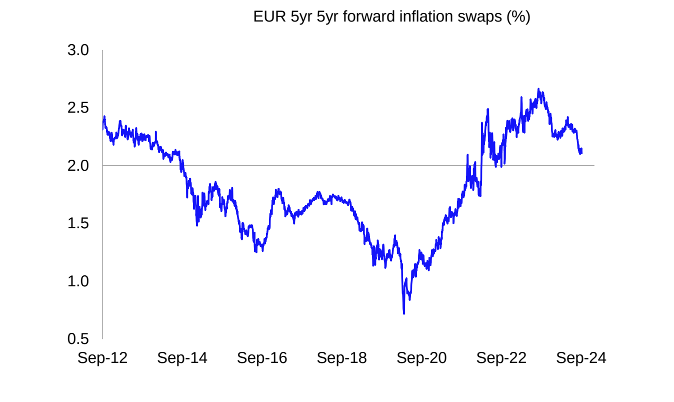


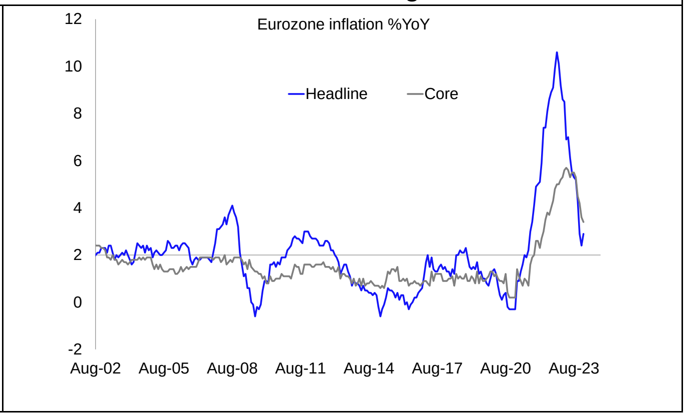

Source: Bloomberg, ECB

**Data looks to be offering doves more support**
The economic data in the eurozone have been on the soft side in recent weeks. Q2 GDP was revised marginally lower and we see few reasons to expect much of a rebound in H2. The uptick in the PMI in August looks very much driven by the jump in French services, which in turn was driven by the Olympics. We expect a reversal in coming months. On the price front there has been a slew of good news too. The ECB's measure of negotiated wages slowed in Q2 and compensation per employee, the ECB's favourite measure of wage pressure, also eased in Q2 (4.3%YoY vs 4.8%YoY in Q1). Headline inflation in the eurozone is back close to 2.0%.

Whilst central banks are mainly focused on domestically-driven inflation, especially wages, they cannot ignore other developments. These have mainly been on the dovish side. Energy prices have fallen. Brent crude is down 10% over the past month and gas prices have reversed the bulk of the gains since the last meeting and are now almost flat vs the last forecast run in June. With the US on the cusp of an easing cycle a softening euro looks like less of an inflation risk in coming months. Industrial metals prices are also lower in recent months, reflecting weakening global growth prospects. The outlook for China remains sluggish, especially the housing market, and the US labour market is softening. Against this backdrop long-term inflation expectations have declined and are back close to 2.0%.

| Inflation expectations at the lowest since 2022… | …as inflation come back to target |
|---|---|




Source: Bloomberg

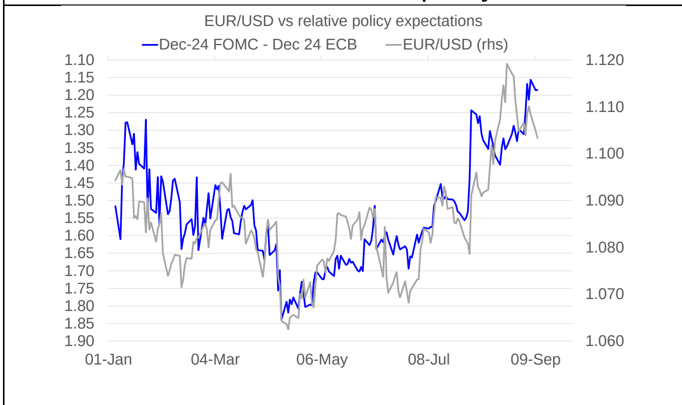
**Policy outlook – ECB to accelerate pace of cuts in Q4**

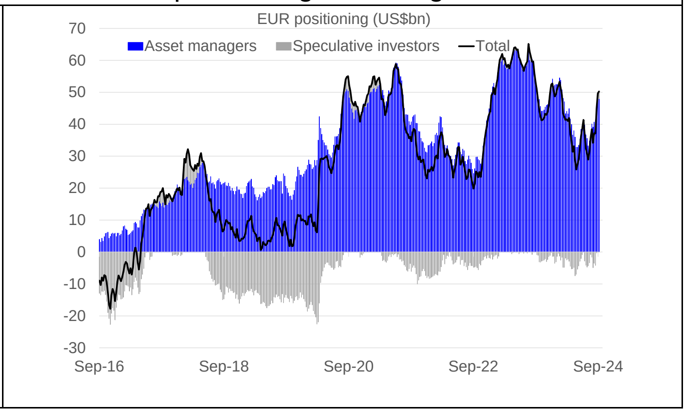
We currently see the ECB cutting in 25bp in September and 25bp in both of the policy meetings in Q4. Easing inflation expectations, growing downside growth risks both at home and overseas, signs that labour hoarding is mostly in the rear view mirror (which implies the rock solid labour market will start to become more responsive to persistently weak activity levels) and the start of the US easing cycle, which seems likely to come faster than other G10 central banks to date, all imply a bias to speed up the pace of easing, at least in the near term. Autumn is approaching and member states are planning budgets for 2025. A mildly contractionary fiscal stance across the region is likely next year, which will add to the challenges ahead.

**Short-run downside beckons for EUR**

Over the balance of the year, we expect both the Fed and the ECB to ease 25bp at each of the 3 remaining meetings this year. For the ECB this is a little faster than priced by the market and for the Fed it is a little slower. The market focus in recent weeks has been very much on the Fed, with the ECB outlook not generating much attention. We see scope for EUR/USD to soften a little in the near term, especially as positioning has moved so significantly against the US dollar in recent weeks, with EUR/USD 1.09, the 50% retracement of the April-Sep gain, the initial target.

| EUR/USD has tracked relative policy well YTD… | …while EUR positioning is looking a little stretched |
|---|---|




Source: Bloomberg

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