ECB Focus

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Preview: Dear 'Stine

Dear 'Stine, I wrote but you still ain't callin'
I sent my bonds, my stocks and my EUR to the bottom
I waited for clarifications this autumn, I must not've got 'em
There probably was a problem at the post office or somethin'[1]



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- **The ECB's communication has remained marginal since the September meeting. Despite several speeches by board members, the ECB has decided to remain as non-committal as possible, making markets' expectations (and economists' forecasts) more uncertain.**
- **We do not expect the ECB to hike in October; we expect it to hike in December to 2.75% and in March 2027 to 3.00%, as we explained in our previous paper.**
- **The ECB will very likely remain non-committal, in a data-dependent, meeting-by-meeting mode. In this context, the market action could be highly uncertain, as it was at the September press conference. However, the recent pricing seems more reasonable than it used to be.**
- **The topic of France will likely be discussed during the Q&A. We expect Christine Lagarde to be ready to answer questions in a way that will avoid rattling markets.**
- **There could also be questions around Lagarde's eventual departure, as the press has reported that her new job could be announced as early as November. On that front, we have to admit that we – like everyone else – would like to hear more details about the future of the ECB's leadership.**

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No hike in October

Remember when we met in September? You said if I'd write you, you would write back

We do not expect the ECB to hike its rates at this meeting. Several ECB members have highlighted the need to be gradual in the monetary tightening. Besides, changing the pace of hikes (one per quarter since June) could convey a sense of urgency and trigger a market overreaction.

And more pragmatically, the market is currently pricing a less than 10% chance of a hike. If the ECB were uncomfortable with this, it would have communicated more proactively over the past few days.

No pre-commitment

See, everything you say is real, and I respect you 'cause you tell it

As confirmed in the latest update of our scenario, we expect the ECB to hike twice more: in December 2026 and in March 2027. However, we expect the ECB to remain in a data-dependent, meeting-by-meeting mode, and consequently not to provide guidance about its future hikes.

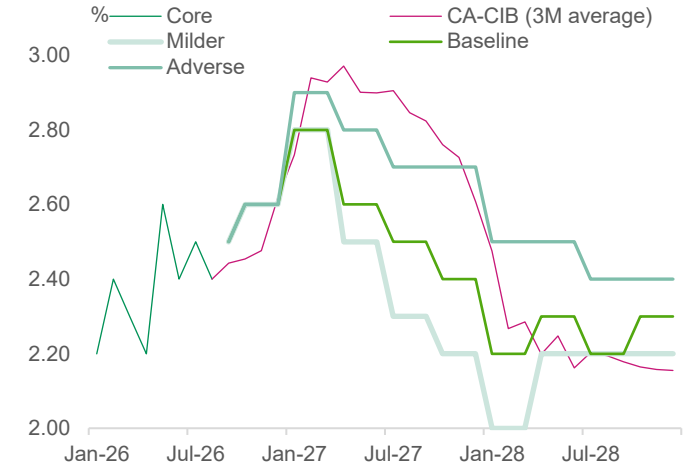
Lagarde could have to discuss the current market pricing vs the ECB's expectations. Markets are pricing a terminal rate at 3.25%, and in this context, the risk is that a pure meeting-by-meeting approach could encourage markets to price an even more hawkish ECB (exactly what happened during the September press conference).

At the same time, there is no reason for the ECB to exit its meeting-by-meeting approach, which could trigger volatility, again. On top of this, the fact that the

[1] *Of course, Eminem's live performance with Elton John at the 43rd Grammy Awards is a memorable version, and Skylar Gery's cover at Coachella 2018 was incredible, but somehow, we still prefer the original studio version, which samples Dido's "Thank You".*

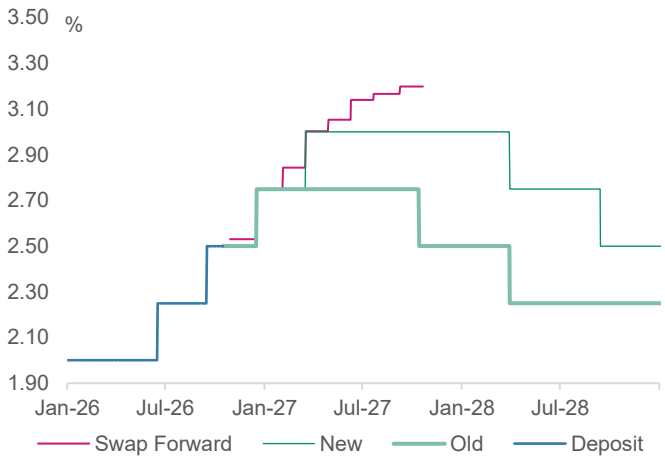
September central scenario for core inflation appears outdated and that the ECB will not update its Macroeconomic projections before December prevents the ECB from relying on these projections at this meeting.

Our current forecasts are close to the ECB's adverse scenario for core inflation



Source: ECB, Crédit Agricole CIB

In our new scenario, we expect two more hikes, in December and in March 2027



Source: ECB, Bloomberg, Crédit Agricole CIB

France

Dear Mrs-I'm-Too-Good-to-Call-or-Close-the-Spread

The question of France will likely be raised during the Q&A session. On that front, we expect Christine Lagarde to keep the same wording several members of the Governing Council have used over the past few weeks:

- France does not currently need any kind of support
- The ECB has tools to address unwarranted tightening of its monetary stance and stands ready to use them if needed
- France must improve its public finances

Overall, we share this analysis.

In our view, the key risk for the ECB is to trigger worries regarding the ECB's ability (or willingness) to step in. Currently, the ambiguity of a possible intervention is probably beneficial to limit extreme volatility on the market. If the ECB is too clear about the terms of its interventions or if, in contrast, it commits too explicitly about a potential intervention, it could trigger unwarranted market volatility.

However, we believe that the ECB is aware of this risk and that the communication will be finely crafted.

The ECB's leadership

But your picture on my wall, it reminds me that it's not so bad, it's not so bad.

On 9 November, the Eurogroup is supposed to discuss and possibly select a successor for Isabel Schnabel, who will leave the ECB in January 2027.

There have been several reports that Christine Lagarde could also leave the ECB at the beginning of 2027 – namely to join the World Economic Forum. Lagarde can decide to leave the ECB whenever she decides to; however, it is true that the process is not the same if several people are being replaced at the same time (like in 2019) or if the replacements are decided job by job.

If this Reuters report is true, then Lagarde might announce her departure as early as at this press conference – even if we are not sure that this is the best place to do it.

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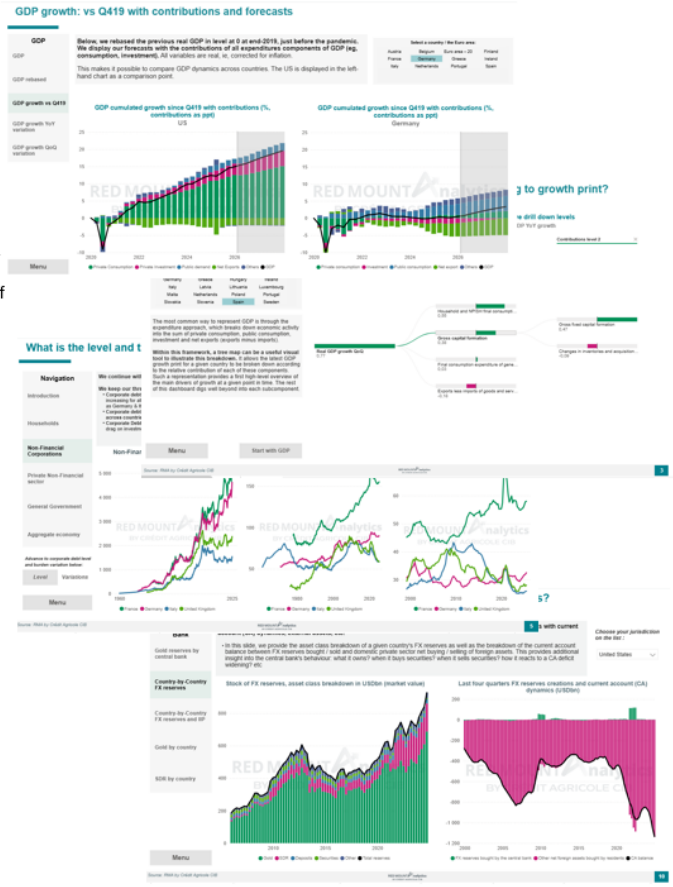
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Only one topic for now, to be extended. France came to the brink of a crisis in 2024 – see how and why. This section will be expanded in the future as other countries come under the spotlight.



Source: RMA by Crédit Agricole CIB

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