GS FX Morning Notes: Nearing the End of the Road for the ECB

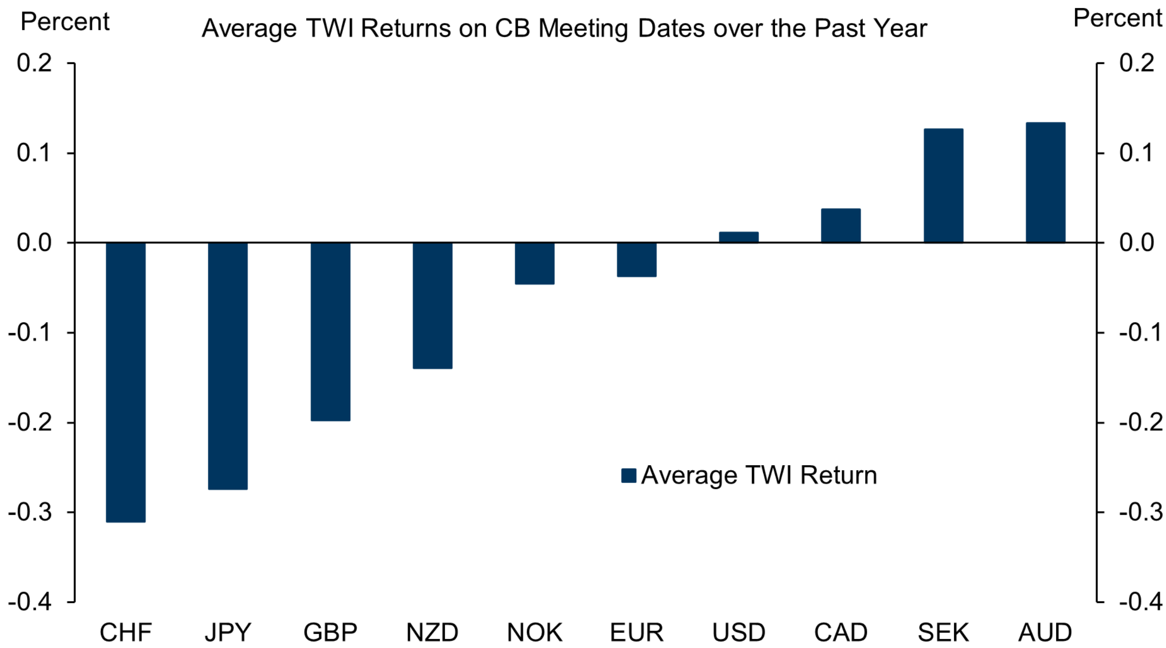
Research | Economics |

Coming up today:

ECB. The ECB is widely expected to deliver a seventh consecutive 25bp cut at today's meeting. Over the course of recent meetings, expectations have mostly been well aligned around a steady sequential path for cuts. This steady pace, alongside mostly limited forward guidance has seen more muted FX market reactions to ECB meetings over the past year than for any other G10 central bank (see chart below). A 25bp cut today would take the target policy rate to 2.0%, putting it within the 1.75%-2.25% neutral rate range set out by the ECB staff, and likely raising questions over a potential pause, skip, or end to the ECB's cutting path. Our economists expect the ECB to continue to provide limited forward guidance today though, alongside mostly unchanged language in the statement. Instead, the updated set of the staff's economic projections should be the key signal to watch today. Based on their assessment of the changing technical assumptions and incoming data underpinning the new projections, our economists expect a mixed set of revisions to core inflation – with a two-tenths upgrade to the 2025 forecast, but a two-tenth downgrade for 2026 – alongside downward revisions to headline inflation. After today's meeting, our economists expect one further 25bp cut to a terminal rate of 1.75%. Their base-case is for this is delivered at the July meeting, where rates market pricing remains very light (~25% probability of a cut priced), while the market attributes a higher weight to further easing in September.

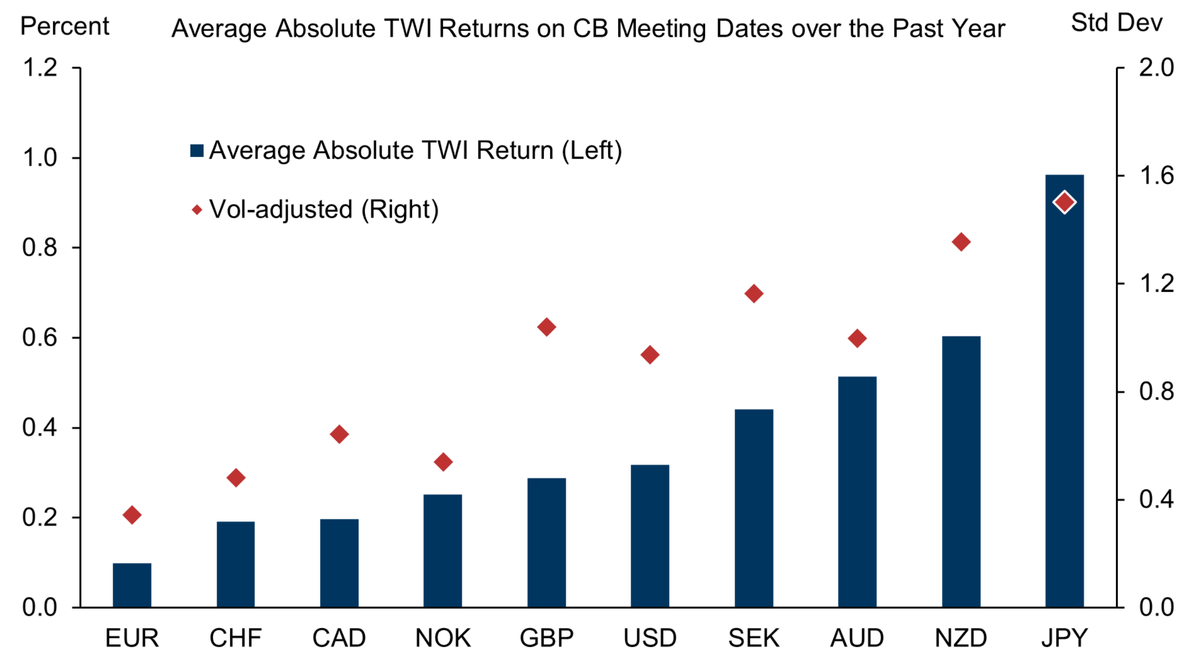
We think a meeting outcome today similar to our economists' expectations – in particular with slightly larger projection downgrades than consensus is expecting, on net – poses slight downside tactical risks for the Euro. On the whole though, we think there is good reasons to expect a continued trend in the series of low-vol ECB meetings for FX markets. More broadly, we do not see the path for ECB and other domestic Euro area factors as constituting a key headwind to our otherwise bullish outlook for the currency.

Charts of the Day: ECB meetings over the past year have tended to see slightly negative trade-weighted Euro returns on the day.



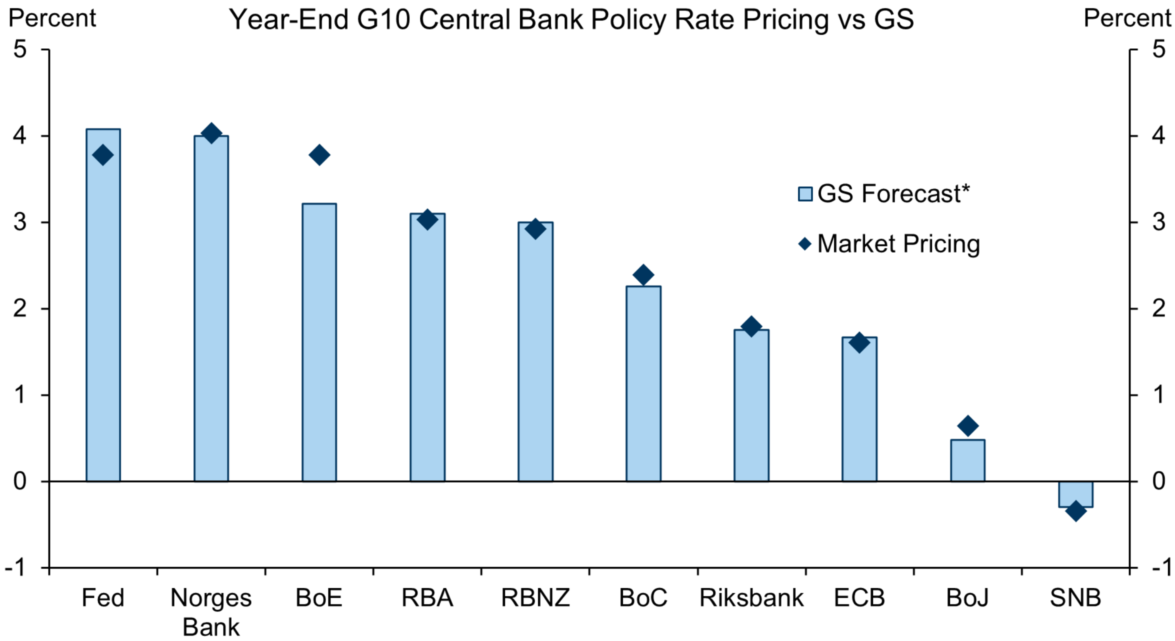
Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

In terms of absolute FX returns, the ECB screens as having delivered the lowest vol set of meetings over the past year.



Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Based on year-end rate market pricing, our modal forecast for ECB policy is around in-line with current pricing, while our BoE call has the clearest gap to pricing.



Note: GS forecast expressed as effective rather than target rate.
Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities