# ECB July 2026: Post-Mortem: not even Trump can stop a hike

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Research

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## Deal or no deal, a hike it is

- **Today's ECB Governing Council meeting was the archetypical hold with hawkish undertones that set the stage for a hike at the September meeting.** Really, only a full-blown love affair between President Trump and Iran's Supreme Leader Khameini can stop the ECB from raising rates in September. No kidding.
- **Now, given that our central bank overlords having turned their backs on painfully obvious forward guidance,** these days it does require an ECB-watcher with some skill to read the tealeaves and interpret the horoscope – pardon, deduce the policy signal.
- **The way I read the Governing Council statement is that the ECB will look through a return to the Memorandum of Understanding between the US and Iran and still hike rates in September by a quarter of a percent**. This was implied by the Governing Council statement, which no longer contained the language that the ECB is to monitor the war. Instead, the monitoring part now only refers to the energy shock. Which, the ECB warned us multiple times today, has yet to fully play out. Furthermore, during the presser Lagarde alluded to the ECB discounting a new deal, quipping "once burned, twice shy."
- **Furthermore, a few trigger-happy Governing Council members had suggested a hike today.** Though they ended up curbing their enthusiasm and support a hold unanimously. I am sure their support today hinges on the understanding that a September hike is highly likely.
- **While markets have moved on and price in a third hike this year and odds of a fourth hike, I'm not convinced yet**. The ECB has awakened to the fact that the Eurozone labor market is weakening further. As measured by the precipitous decline in vacancies, but also low hiring intentions according to business surveys. Hence, the ECB can be reasonably confident that the energy price shock will not set off a wage-price spiral.
- **Turning to the sundry stuff, changes in the monetary policy statement were minor.** The ECB was a bit more upbeat on the economy, underscoring that growth is bottoming out. Obviously, the return to war has taken the shine of inflation softening through the second quarter. In any case, the balance of risks remains the same: to the upside for inflation, to the downside for growth.
- **Finally, money marketeers can eat their heart out.** Out of the blue, a journo asked Lagarde if an increase in reserve requirements was brought up at the meeting. Apparently not, but Lagarde warned us peons that "that doesn't mean that it will not be discussed." Seems like a shove in for returning required reserves to two percent of the deposit base.

- **As your humble ECB-watcher, I will redo the numbers to check if a third hike is likely.** And I will gauge the effects of an increase in reserve requirements.