



PREVIEW: ECB Policy Announcement due Thursday 7th March 2024

- **ECB policy announcement due Thursday 7th March; rate decision at 13:15GMT/08:15EST, press conference from 13:45GMT/08:45EST**
- **Focus will be on how/if policymakers guide markets towards future rate cuts**
- **Attention will also be on accompanying macro projections and how inflation aligns with the ECB's mandate**

OVERVIEW: Expectations are for the ECB to once again stand pat on rates with the Governing Council very much in wait-and-see mode. Recent comments from ECB officials continue to point towards no imminent intention to lower rates with President Lagarde observing that the ECB is "not there yet" when it comes to inflation, whilst most officials wish to see the outcome of the April wage data (released after the April 11th meeting). In terms of a timeline for the first cut, markets price a June reduction at around 92%. With regards to the full year outlook, markets anticipate a total of 86bps of policy loosening, the median view of analysts looks for 100bps. For the accompanying macro projections, analysts at Danske Bank expect (for the first time in the hiking cycle) "staff projections to show that inflation will hit the 2% target in both 2025 and 2026".

PRIOR MEETING: As was widely expected, the ECB opted to stand pat on all three of its key rates. The initial policy statement passed with little in the way of fanfare, as the Governing Council said declining trends in underlying inflation had continued, and that past interest rate increases continue to transmit forcefully into financing conditions. At the subsequent press conference, President Lagarde noted that it was "premature" to talk about rate cuts, adding that the ECB will be data-dependent and not fixated on the calendar. On wages, Lagarde suggested that data was 'directionally good' and the Bank is not seeing any second-round effects. However, she followed up with a judgement that the ECB needed to be further along the disinflation process before it can be confident that inflation is moving back towards target sustainably.

RECENT ECONOMIC DEVELOPMENTS: In terms of developments since the prior meeting, headline HICP pulled back to 2.6% in February from 2.8%, whilst the core metric fell to 3.3% from 3.6%. Meanwhile, the ECB's Consumer Inflation Expectations survey for January showed an increase in the 1yr projection from 3.2% to 3.3% whilst the 3yr held steady at 2.5%. In terms of market gauges, the 5y5y inflation forward has ticked higher to 2.29% from 2.24% seen at the time of the prior meeting. From a growth perspective, Q4 GDP printed at 0% vs. the 0.1% contraction seen in the prior month. More timely survey data saw the EZ manufacturing PMI in February ticked lower to 46.5 from 46.6, services rose to 50.2 from 48.4, leaving the composite at 49.2 vs. prev. 47.9. In the labour market, the unemployment rate remains at the historic low of 6.4%.

RECENT COMMUNICATIONS: Since the prior meeting, President **Lagarde** has noted that the ECB is "not there yet" on inflation, whilst also stating that Q4 wage numbers were "encouraging". Thought-leader **Schnabel** of Germany has cautioned that lower borrowing costs risk a flare-up of inflation, adding that the last mile in bringing down inflation could be the most difficult one. Chief Economist **Lane** has observed that things are moving in the right direction in reducing inflation and the price trend is good. Lane stated that the next move in rates will be a cut, but the timing will depend on data. At the dovish end of the spectrum, Greece's **Stournaras** has conceded that the Bank will not cut rates in March and sees the first cut in June. From a hawkish perspective, Austria's **Holzmann** said a serious discussion at the ECB on rate reductions is unlikely before June, adding that the Bank will not move before the Fed. He has even gone as far as saying that markets should not count on rates being cut at all this year.

RATES: Expectations are for the ECB to once again stand pat on rates as policymakers await further progress on disinflation with markets assigning a 94% chance of such an outcome. Beyond the upcoming meeting, markets price a 92% chance of a cut in June with the first cut fully priced by July. In the analyst community, 46/73 surveyed by Reuters expect a reduction in June, 17 look for April and 10 expect a H2 reduction. June is seen as the most opportune moment by the market given that policymakers will have seen the April wage data by that point. If the ECB opts to steer markets towards rate cuts, ING is of the view that it could opt to include some language in its policy statement along the lines of "had a first discussion on preconditions for rate cuts" or "we decided to start this discussion at the next meeting". If the GC didn't want to be as explicit as this, they could send some form of messaging to the market via its macro projections (see below) With regards to the full year outlook, markets anticipate a total of 86bps of policy loosening, the median view of analysts looks for 100bps. On the balance sheet, the policy statement is expected to reiterate that "the Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024".



MACRO PROJECTIONS: For the accompanying macro projections, analysts at Danske Bank expect (for the first time in the hiking cycle) “staff projections to show that inflation will hit the 2% target in both 2025 and 2026”, with the 2024 HICP projection to be cut to 2.4% from 2.7% on account of “recent lower than expected inflation data, anchored inflation expectations, and lower energy futures”. From a growth perspective, Danske looks for the 2024 GDP forecast to be lowered to 0.6% from 0.8% with 2025 and 2026 both held at 1.5%.

Previous forecasts:

HICP INFLATION:

2023: 5.4% 2024: 2.7% 2025: 2.1% 2026: 1.9%

HICP CORE INFLATION (EX-ENERGY & FOOD):

2023: 5.0% 2024: 2.7% 2025: 2.3% 2026: 2.1%

GDP:

2023: 0.6% 2024: 0.8% 2025: 1.5% 2026: 1.5%

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