



# PREVIEW: ECB Policy Announcement due Thursday 6th June 2024

- **ECB policy announcement due Thursday 6th June; rate decision at 13:15BST/08:15EDT, press conference from 13:45BST/08:45EDT**
- **ECB is expected to deliver its first rate cut since September 2019**
- **Focus will be on any clues of easing intentions beyond June**

**OVERVIEW:** The ECB is expected to lower the deposit rate from 4.00% to 3.75% for the first time since September 2019, with markets assigning a 94% chance to this outcome. With a rate reduction so widely expected, focus will be on hints over future rate cuts, with markets not fully pricing in another move until December. Changes to staff projections are likely to be minimal.

**PRIOR MEETING:** As expected, the ECB opted to stand pat on rates once again. The policy statement reaffirmed guidance that rates will be kept sufficiently restrictive for sufficiently long. Furthermore, policymakers will continue to follow a data-dependent and meeting-by-meeting approach and will not pre-commit to a particular rate path. That being said, and what was a new inclusion for the statement, it was noted that if the Governing Council was to gain further confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. In the follow-up press conference, when questioned about a potential rate cut in June, Lagarde reiterated that the ECB will have a lot more data by the time of the June meeting. In terms of the unanimity of the announcement, Lagarde stated that "a few" dissenters felt "sufficiently confident" about altering policy at the meeting, however, they ultimately rallied around the consensus. This could potentially be in-fitting with source reporting in the wake of the previous meeting which suggested some policymakers floated the idea of a second cut in July to win over a small group still pushing for an April start.

**RECENT ECONOMIC DEVELOPMENTS:** In terms of developments since the prior meeting, inflation in May rose to 2.6% from 2.4% with the super-core measure increasing to 2.9% from 2.7% with some of the increases related to base effects. The ECB's consumer expectations survey for April saw the 12-month inflation forecast nudge lower to 2.9% from 3.0%. For market gauges, the 5y5y forward has ticked marginally higher from 2.35% to 2.36%. Elsewhere, Q1 Eurozone wages rose to 4.69% from 4.45% with the release followed up by an ECB blog stating that "wage growth reflects multi-year adjustment and wage pressures look set to decelerate in 2024". From a growth perspective, Q1 GDP came in at 0.3% Q/Q vs. prev. 0.0%, whilst more timely survey data showed the EZ-composite PMI moved further into expansionary territory (52.3 vs. prev. 51.7) thanks to a pick up in the manufacturing sector. The accompanying report noted "considering the PMI numbers in our GDP nowcast, the Eurozone will probably grow at a rate of 0.3% during the second quarter, putting aside the spectre of recession". Elsewhere, the EZ unemployment rate sits at a historic low of 6.4%.

**RECENT COMMUNICATIONS:** Rhetoric since the April meeting has seen President **Lagarde** remark that the ECB will cut rates soon, barring any major surprises, whilst she is "really confident" that they have inflation under control. Chief Economist **Lane** noted that keeping rates overly restrictive for too long could push inflation below target in the medium-term which would require corrective action. Furthermore, he notes that the ECB thinks inflation over the coming months will bounce around at the current level and then will see another phase of disinflation bringing them back to the target later next year. Thought-leader **Schnabel** of Germany remarked that some elements of inflation are proving persistent and would caution against moving too fast on rates. At the hawkish end of the spectrum, Austria's **Holzmann** has tried to make the case for pausing the July meeting, whilst Netherland's **Knot** has stated that projection round meetings will be the key for interest rate decisions. For the doves, Italy's **Panetta** commented that the ECB must weigh risk of monetary policy becoming too tight, adding that timely and small rate cuts would counter weak demand, whilst Greece's **Stournaras** is of the view that three rate cuts are more likely this year.

**RATES:** Expectations are for the ECB to lower the deposit rate for the first time since September 2019. Analysts are unanimous in their view that the deposit rate will be lowered from 4.0% to 3.75% with markets assigning a roughly 94% chance of such an outcome. With a 25bps cut so widely expected, the fight on the GC between the hawks and doves will be what comes thereafter with the former likely to make the case for pausing on rates in July given potential emerging upside risks to inflation, whilst the latter is set to argue that keeping policy too tight could push inflation below target. As such, any tweaks to the policy statement, hinting at further action will be of note to the market. Accordingly, focus for the



release will be on how pricing beyond June evolves with the next rate cut thereafter not fully priced until December (total of 56bps of cuts seen by year-end). However, ING cautions that given the data dependency of the Bank, this debate is unlikely to be resolved in June.

**MACRO PROJECTIONS:** For the accompanying macro projections, ING notes that since the prior forecast round in March, oil prices have risen (from roughly USD 75/bbl at the time), which would be pro-inflationary. However, offsetting this, is the more hawkish market curve which sees around 113bps of cuts by the end of 2025 vs. around 150bps in March. Overall, the bank expects "a slight upward revision of growth and inflation for this year but no changes to the profile and the timing of inflation dropping below 2%". That being said, economists at the Bank note "the risks of inflation remaining sticky and not being entirely under control are increasing".

#### *March staff projections*

#### HICP INFLATION:

2024: 2.3% (exp. 2.4%) 2025: 2.0% (exp. 2.1%) 2026: 1.9% (exp. 2.0%)

#### HICP CORE INFLATION (EX-ENERGY & FOOD):

2024: 2.6% 2025: 2.1% 2026: 2.0%

#### GDP:

2024: 0.6% (exp. 0.7%) 2025: 1.5% (exp. 1.4%) 2026: 1.6% (exp. 1.4%)

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