

The ECB can cut rates before (or without) the Fed



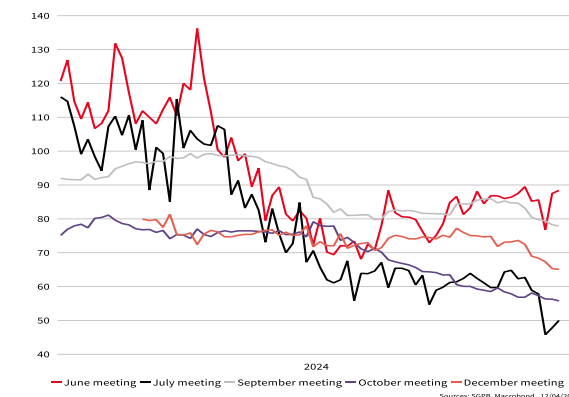
Yesterday's ECB meeting brought no big surprises. The Bank left rates unchanged but confirmed the conditions to cut rates were almost met. Ruling out last minute hitches, the first rate cut should come in June - whether or not the Fed cuts this summer. However, the ECB is likely to tread carefully, cutting rates just three times in 2024, to make sure inflation is on a sustainable move towards its target while the economy has avoided recession and the labour market remains tight. A weaker euro could also reduce the need for rate cuts.

Heading for a June cut. ECB president Christine Lagarde didn't want to pre-commit on the decision for the next meeting but made it clear a June cut was on the cards. This would depend on greater confidence that inflation is heading back to 2%, based on future data and the next ECB forecasts due out in June. Beyond June, the ECB would not pre-commit either. Ms. Lagarde repeated that the ECB will remain data-dependent. The Bank also stressed that "The Governing Council's future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary."

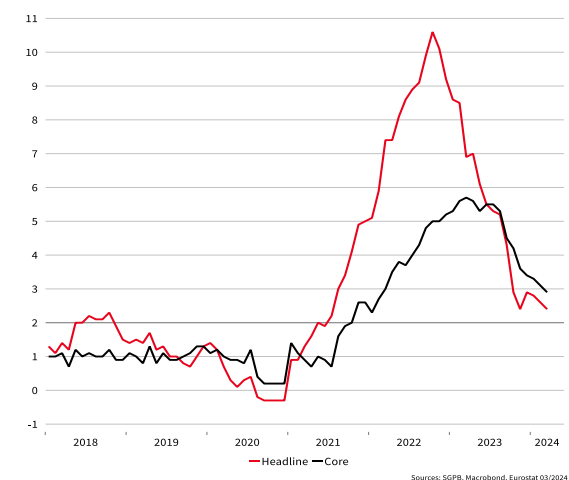
Three cuts in 2024. In our view, the ECB is set to cut rates no more than three times in 2024 - markets are pricing in three to four cuts. There are many arguments for a modest pace of rate cuts.

- **No recession.** Unlike previous cycles of rate cuts in 2001, 2008 and 2011, the euro area economy is not facing a sharp contraction. Leading indicators have pick up recently, pointing to a rebound in the second half of the year. So, in easing its monetary policy the ECB, like the Fed and the Bank of England, will not be seeking to avoid or mitigate a recession but rather to shift monetary policy back into a more normal gear now that inflation is slowing.
- **Caution on inflation.** The ECB will want to make sure the easing in inflation is well entrenched. However, looking at the United States (see our comment on US inflation below) or even Spain (where inflation has spiked from 1.9% year-on-year last June to 3.2% this March) may warrant caution. All the more so as some measures of underlying inflation have ticked up lately, including the super-core inflation rate which strips out non-cyclical price categories.
- **Weak productivity.** Wage growth may have slowed but it is still high, amid scant signs of improving productivity. This effectively drives up unit wage costs and hence medium-term risks to inflation. That said, the ECB notes that "companies are absorbing part of the increase in labour costs through their profit margins."
- **The euro question.** Besides economic, geopolitical and inflation considerations, the ECB also needs to take into account the euro exchange rate. Given recent uncertainty about the Fed's monetary policy, the ECB will want to avoid any overly sharp drop in the euro and hence it will want to cut rates at a moderate pace. That said, a modest fall in the euro would not necessarily be seen as bad news by the ECB, as it would be a back route to looser monetary conditions.

ECB - Probability of a 25bp cut at each meeting



Euro area - Inflation (year-over-year)



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All data taken from Bloomberg and Macrobond on the 22/03/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

Our Macro Comments

Events of the week



US inflation rebounded for the third month in a row in March, coming in at 3.5% yoy after 3.2% and against 3.4% expected by the consensus. Monthly inflation also remained strong, rising by 0.4% for the second month in a row. Core inflation remained at February's level of 3.8% yoy, whereas the market was expecting a slowdown to 3.7%. The main drivers of inflation continue to be the prices of services, driven by both housing and non-housing services (notably car and home insurance premiums). Conversely, the producer price index came in below expectations, rising by 0.2% over the month, compared with the 0.3% expected after February's 0.6% rise, pointing to a moderate rise in the PCE. Expectations of a Fed rate cut fell sharply over the week, with the probability of a rate cut in June dropping from around 50% to 22%, compared with 70% in March.



In contrast to the United States, inflation in China remains low and well below expectations, at 0.1% year-over-year in March against expectations of 0.4%, after a rebound to 0.7% linked to the Lunar New Year the previous month. Meanwhile, the producer price index remained in deflation (-2.8% year-on-year) for the 18th consecutive month. These data illustrate the weakness of domestic demand in China, while foreign trade data also disappointed (exports down 7.5% year-on-year in March).

The week in data

Country	Data	Actual	Last	Forecast
Germany	Industrial Production MoM FEB	2,10%	1,30%	0,30%
China	Inflation Rate YoY MAR	0,10%	0,70%	0,40%
China	Inflation Rate MoM MAR	-1,00%	1,00%	-0,50%
United States	Core Inflation Rate MoM MAR	0,40%	0,40%	0,30%
United States	Core Inflation Rate YoY MAR	3,80%	3,80%	3,70%
United States	Inflation Rate MoM MAR	0,40%	0,40%	0,30%
United States	Inflation Rate YoY MAR	3,50%	3,20%	3,40%
United States	PPI MoM MAR	0,20%	0,60%	0,30%
United States	Core PPI MoM MAR	0,20%	0,30%	0,20%
Italy	Industrial Production MoM FEB	0,10%	-1,40%	0,50%
United Kingdom	GDP MoM FEB	0,10%	0,30%	0,10%
United Kingdom	Industrial Production MoM FEB	1,10%	-0,30%	0,00%
Euro area	Deposit Facility Rate	4,00%	4,00%	4,00%
Euro area	ECB Interest Rate Decision	4,50%	4,50%	4,50%

Source : Macrobond, 12th Apr 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Monday	
Euro Area	Industrial Production FEB
United States	Retail Sales MAR
Tuesday	
China	GDP Growth Rate Q1
China	Industrial Production MAR
United Kingdom	Unemployment Rate FEB
United Kingdom	Average Earnings FEB
Euro Area	Balance of Trade FEB
United States	Industrial Production MAR
Wednesday	
Japan	Balance of Trade MAR
United Kingdom	Inflation Rate MAR
Friday	
Japan	Inflation Rate MAR
United Kingdom	Retail Sales MAR

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,91	3,91	1,91	2,90
USD SOFR O/N	5,31	5,32	5,31	4,30	4,80
JPY TONAR O/N	0,08	0,08	-0,02	-0,02	-0,01
GBP SONIA O/N	5,20	5,20	5,19	3,43	4,18
CHF O/N	1,39	1,41	1,66	0,80	0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,94	2,94	2,74	2,98	2,87
10Y Bund	2,42	2,40	2,20	2,44	2,35
10Y BTP	3,80	3,87	3,83	4,55	4,23
10Y JGB	0,78	0,77	0,61	0,41	0,45
10Y Bonos	3,23	3,27	3,16	3,51	3,40
10Y Swiss	0,67	0,71	0,80	1,57	1,18
10Y Gilt	4,13	4,07	3,88	3,66	3,55
10Y USTnote	4,55	4,36	4,04	3,88	3,41

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,09	3,04	2,98	3,12	3,44
EUR Corporate Baa	3,88	3,85	3,98	4,65	4,51
GBP Corporate Baa	4,73	4,63	4,59	4,59	4,64
USD Corporate Aaa	5,04	4,85	4,59	4,62	4,19
USD Corporate Baa	5,80	5,61	5,42	5,70	5,37
USD EM aggregate	7,22	7,14	7,24	7,52	7,24

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	90,59	1,5%	18,2%	5,4%	3,9%
Or, USD/oz	2 333	1,4%	15,2%	27,7%	15,8%
Copper, USD/metric ton	9 487	4,9%	13,1%	13,0%	7,7%
Platinum, USD/oz	981	6,4%	4,6%	-7,9%	-2,0%
Palladium, USD/oz	1 084	8,8%	8,8%	-39,4%	-25,1%
Silver, USD/oz	28,08	7,0%	22,3%	17,2%	11,7%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,09	0,7%	-0,8%	1,7%	-0,6%
EUR/CHF	0,98	0,0%	5,0%	-0,6%	-0,5%
USD/GBP	0,80	0,5%	1,4%	-4,1%	-0,7%
USD/JPY	152,80	0,7%	5,0%	16,8%	14,6%
USD/BRL	5,07	-0,1%	3,7%	-5,0%	2,8%
USD/CNY	7,23	0,0%	0,9%	4,9%	5,2%
USD/RUB	92,90	0,5%	3,3%	27,3%	12,6%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-1,0%	5,1%	13,3%	11,3%
Euro area	-1,3%	11,9%	29,7%	15,4%
Germany	-1,5%	8,4%	28,6%	15,2%
France	-1,3%	8,3%	22,0%	8,8%
United Kingdom	0,3%	4,0%	6,8%	1,7%
Switzerland	-1,0%	2,1%	7,1%	2,3%
United States	-1,0%	7,9%	34,4%	26,1%
Japan	1,3%	12,2%	45,0%	36,7%
Brazil	0,6%	-2,1%	20,4%	19,8%
Hong Kong	2,5%	6,5%	-13,4%	-15,6%
India	1,6%	4,7%	22,7%	24,3%
China	-1,8%	6,9%	-9,5%	-14,5%

Source: Bloomberg, on 12 April 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change. Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded..

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