



ECB's dovish hold sets the stage for June cut

While markets were largely unmoved by the ECB's monetary policy statement last Thursday, the tone of the statement and President Lagarde's press conference was very much a dovish one. This subtle shift in tone is an important scene setter as the ECB nears a likely first cut in June. Market interest rate expectations were little moved following the press conference, while the subsequent weakness in the Euro largely reflects broad-based dollar strengthening on the back of strong US inflation data and rising geopolitical tensions, with the Euro holding ground against other major currencies.

Lagarde had stated after the March meeting that the ECB will have a "little" data in April, but will have "a lot more" in June and "it matters because we are data dependent". Since that March meeting the data continue to bolster the case for rate cuts. Eurozone inflation has undershot expectations, with the hitherto German engine of the Eurozone economy now experiencing persistent disinflation, as its economy remains exceptionally weak. Moreover, wage growth, a persistent (and vocal) concern for ECB policymakers, now appears to be back on a downward trajectory. Latest wage data from recruiter Indeed, shows average annual wage growth slowing to 3.7% in March from 3.9% in February, signalling an easing in still sticky services inflation in the near term. The ECB noted yesterday that while "domestic inflation remains high, wages and unit profits grew less strongly than anticipated" in Q4'2023 and recent data point to a "further moderation in wage growth". It was also noteworthy during the press conference that President Lagarde stated that the Governing Council is "not going to wait until everything goes back to 2%" before they ease interest rates.

In this context, President Lagarde meeting statement contained a new additional sentence to reflect these developments and set the scene for a June cut. The ECB stated that if its updated assessment of the inflation outlook (which will happen in June) gives it further confidence that underlying inflation is converging to its 2% target, it would be "appropriate to reduce the current level of monetary policy restrictions". The ECB also re-emphasised that it will follow a data-dependent approach in making future monetary policy decisions and maintained flexibility by stating it is not "pre-committing to a particular rate path".



Markets are now pricing in c.80 basis points worth of cuts in 2024, but a first 25bps cut is not fully priced in until July, which looks a little conservative based on current macro developments and weakening inflation data across the Eurozone.

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