

## ECB Cheat Sheet: Start and stop

We look at different scenarios ahead of this Thursday's ECB announcement. With expectations firmly centred on a 25bp rate cut, most of the focus will be on comments on inflation and future easing. A "hawkish cut" may provide some support to the eurozone yields, but the next big move in EUR/USD should still be caused by US macro developments

### Scenario analysis: How to position for Lagarde's alternatives

	Inflation outlook	Growth outlook	Interest rates	Other monetary tools		
Current stance	Inflation is expected to decline gradually	Economic activity weak in coming months, but should pick up over time	Depo at 4.00%. Data-dependent approach to future decisions	PEPP reinvestments slow in 2H before stopping end 2024	EUR/USD (1.086)	10Y Bund (2.55%)
Dovish	Risk of undershooting target in 2025 and beyond	Risks tilted to the downside, evidence of rebound activity still scarce	25bp cut. Rates may be lowered at consecutive meetings (July)	ECB has all tools at its disposal	1.073	2.45%
Moderately dovish	Playing down latest data, confidence on target to be met in 2025	Risks tilted to the downside, although some improvement in leading indicators	25bp cut. Forward guidance for at least one more cut this year	Portfolio run-off is independent of rates decisions	1.080	2.50%
Moderately hawkish ING base-case	Latest data suggest lingering risks to prices, disinflation to be only gradual	Signs that growth outlook has started to improve, risks more balanced	25bp cut. Any further easing will only be gradual. No guidance	Portfolio run-off is independent of rates decisions	1.090	2.60%
Hawkish	Lingering upside risks like wage pressure warrant caution on infl.	Balance of risks for growth is moving to the upside	No cut. A rate cut later this year depends on incoming inflation	Balance sheet normalization could still be sped up if needed	1.100	2.75%

Source: ING

This note is part of our ECB June previews. Our economics team preview can be found [here](#)

## Rates: Room for repricing higher, but US remains key

In rates markets, a cut by the European Central Bank on Thursday is already fully baked into the curve, with forward pricing nearly 25bp. But it's the outlook beyond June that is still open, despite communication from officials having started to move out the curve. A back-to-back cut in July is deemed unlikely, with markets attaching only a roughly 10% chance to that scenario. A second cut is almost fully priced by October, but it's a third cut this year that is hanging in the balance.

However, the pricing further out the curve is also influenced by drivers from abroad. Weaker US

data as well as sliding oil prices have also helped push rates lower in the eurozone. While EUR markets have been leaning towards a three-cut scenario for this year again, the domestic data on negotiated wages and the latest CPI print over the past weeks would argue for a more hawkish line at the upcoming meeting.

Therefore, there is room for markets to reprice higher – but in the end, we believe that they will still oscillate around the two or three-cuts scenario for now unless we get more evidence from the data. This will also spill out into the longer end of the curve, but here the factors from abroad should be felt even more with the US jobs data looming large. This will then determine whether we can get above 2.6% more lastingly in the 10Y Bund yield on a hawkish ECB.

## More questions than answers for FX

The ECB's forward guidance experience (i.e., signalling a June rate cut) may be short-lived. As outlined in our baseline scenario, we expect the ECB to scale back its guidance endeavour and swing back towards data dependency after stronger-than-expected wages and inflation figures.

EUR/USD has been trapped in a relatively tight range, and still relies more on cues from US macro than eurozone developments for the next big move. If some lack of guidance by the ECB can be read as a hawkish signal and give some support to the euro short term, the fact that the ECB has moved before the Federal Reserve – and despite higher inflation and wages – should make markets quite comfortable with jumping back into pricing in two more cuts in 2024 (after the June move).

Markets have been more reticent to price in easing in the US of late – but if we are right with our call for a first Fed cut in September, then the dollar should have a bad summer. While the euro (along with CAD and GBP) may lag other pro-cyclical G10 currencies in a USD decline, EUR/USD should still be able to make it to 1.10 in the coming months.

## Author

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Benjamin Schroeder

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).