

Rates Spark: Markets won't get much guidance from the ECB

The European Central Bank's cut today is largely priced in and eventually the central bank is seen cutting rates to accommodative territory by year-end. Even if the ECB wanted to cautiously push back against overly dovish expectations, the uncertain backdrop provided by trade tensions will make it very difficult



Markets widely expect the European Central Bank to cut rates by 25bp today and into more accommodative territory by year-end

The market already sees the ECB in accommodative territory by year-end

EUR markets are close to fully discounting a 25bp rate cut today after Trump's "liberation day" sealed the case for further European Central Bank easing in the eyes of investors. But if the ECB needed any further convincing, this week's bank lending survey pointed to tighter credit standards and weaker loan demand from firms in the first quarter, even ahead of the trade turmoil. The prospects of increased fiscal spending out of Germany and the EU are just too far in the distance to have any bearing on ECB expectations over the next months or even quarters.

The main focus will be on any guidance that will accompany the ECB's policy action. The market is leaning heavily into the idea that the ECB will bring the deposit facility down to 1.75% in the fourth

quarter, with even a decent chance of further moves into more accommodative territory. Euribor Futures now discount a total of 86bp of easing by early 2026.

To dampen overly dovish market expectations the ECB could tweak its language to indicate that it is now moving into the ranges of neutral rate estimates, but we do not think that the very uncertain backdrop would justify taking a stronger stance. Rather the ECB will likely aim to keep all options on the table.

While the growth impact of tariffs appears well understood, the impact on inflation is far from certain. In Bloomberg's survey of economists ahead of the meeting, 26% of respondents expected higher inflation in the near term. The view was split on whether the ECB would over or undershoot its inflation target in the medium term.

Obviously, much will depend on the evolution of the trade spat and whether we will see relief or more meaningful retaliation. As such, the pricing of the ECB beyond this meeting will depend more on such headlines than what the ECB will tell us today.

Today's events and market view

The ECB meeting takes centre stage today, but the highly uncertain backdrop will likely mean a very non-committal ECB communication alongside the anticipated 25bp cut to bring the deposit facility rate down to 2.25%.

In the US, the jobless claims data is expected to show only a slight uptick. The only scheduled speaker from the Fed is board member Barr.

In primary markets, France will auction a new 5y benchmark along taps of existing 3y and 8y lines, in total for up to €12bn. France will also sell up to €2bn in inflation linked bonds.

The US Treasury will sell new 5y TIPs for US\$25bn.

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