

Rates Spark: Wage data today unlikely to frontload ECB cuts

After a quiet Monday, markets are now looking forward to today's release of the ECB's indicator of negotiated wages. We expect wage growth to decline, but we do not foresee the data to support earlier rate cuts than June. Alternative data from Indeed points to a wide dispersion of wage growth between countries with risks tilted to the upside



We expect the ECB's indicator of wage growth to decline but see more upside than downside risks

Wage data from Indeed suggests risks tilted towards the upside

US markets were on holiday yesterday and together with an empty calendar in the eurozone made for a quiet day. The Stoxx Europe 600 had a shot at breaking the previous record from 2022 but seemed to lack a catalyst to make that happen. Euro rates traded mostly sideways, closing the day practically where they started.

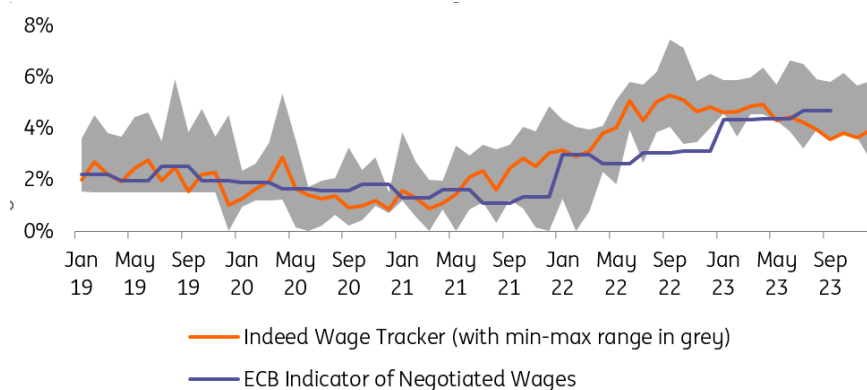
ECB negotiated wage data for fourth quarter 2023 out later today should bring back some action given that this data is high on the watchlist of the European Central Bank and will thus be able to move the short end of the curve around. During the monetary policy press conference in January, President Christine Lagarde emphasised that 40% of the workforce will have their terms and

conditions renewed by the first quarter and last week Lagarde said that wage growth is becoming an increasingly important driver of inflation dynamics. We believe the ECB will want to wait for the first quarter data before cutting rates, but the fourth quarter 2023 data should provide some comfort that we can expect rate cuts by summer.

The timelier wage data from Indeed also points to a decline, but the distribution of the data suggests more upside than downside risk. At country level, the wage growth remains dispersed in the range of 4-6%. Although this data covers a different aspect of the job market and does not have the same reliability as the ECB data, we think that market pricing risks are getting ahead of itself when it comes to early rate cuts. We think today's ECB data will have to show a bigger surprise on the low side to end the current drift higher in rates.

Markets currently price in a 45% probability of an ECB rate cut by April, which seems too ambitious in our view. We understand that forward curves are a probability-weighted average of outcomes and thus some pricing in of cuts for April is reasonable, but around a 50-50 chance stretches it. Wage growth is likely to come down further and should not hamper the disinflationary trend going forward. A sharp downturn, however, would be necessary to give the ECB a reason to frontload rate cuts – and this is not something other activity data is showing.

Wide dispersion of wage growth between countries



Source: ECB, Indeed

Tuesday's events and market view

Overall the calendar remains light. Besides the eurozone wage growth data, the US Leading Index is a release to watch. Consensus points towards a decline of -0.3%, but the previous reading of -0.1% was a positive surprise so who knows whether the index could recover to positive territory.

In terms of today's supply, a syndication of a 10y European Union bond is estimated to raise around €7bn. Regular auction supply sees Germany selling €5bn of 2y Schatz, Finland selling €1.5bn in 5y and 10y and Italy selling a 4y CCTEU and 8y BTP (of maximum €3bn). The UK conducts a £1.75bn 40y Gilt auction.

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