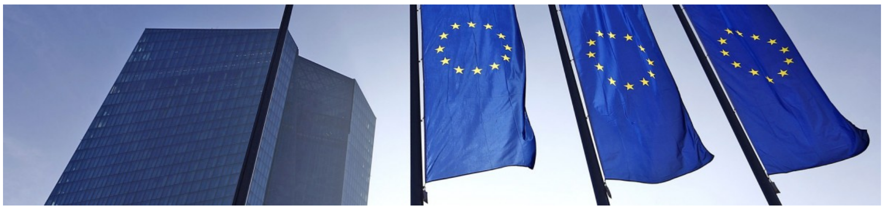
ECB hikes rates by 50bp

The European Central Bank has hiked interest rates by 50bp and made a quasi-announcement of a further 50bp hike in March, opening the door to either a pause or a slower pace in its hiking cycle



And they did it again. The ECB hiked interest rates by 50bp, bringing the deposit rate to 2.5% and the refinancing rate to 3%. But there was more, the ECB quasi pre-announced another rate hike next month by 50bp as well, opening the door to either a pause or a slower rate hike pace beyond March. The ECB also confirmed the December decision that the Asset Purchase Programme (APP) portfolio will decline by €15bn per month on average from the beginning of March until the end of June 2023.

Not done, yet

It took the ECB a while, but it seems to have got the hang of it: hiking interest rates. And as long as core inflation remains stubbornly high and core inflation forecasts remain above 2%, the ECB will continue hiking rates. The increasing probability that a recession will be avoided in the first half of the year also gives companies more pricing power, showing that selling price expectations remain elevated.

The celebrated fiscal stimulus, which has eased recession fears, is an additional concern for the ECB as it could transform a supply-side inflation issue into demand-side inflation. These are two factors that could extend inflationary pressures in the eurozone, albeit at a lower level than we see at the moment. As a consequence, we expect the ECB not only to continue hiking into late spring but also to keep interest rates high for longer than markets have currently pencilled in. Whether the ECB agrees with this view or not might become clearer at the press conference, starting at 2.45pm CET.

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