

Snap | 11 April 2024

ECB officially opens the door to a June rate cut

No policy action, but the ECB officially opens the door to a June rate cut



The eurozone's wage growth drop is firming up expectations of a 25bp cut from the ECB next month

The European Central Bank just announced that it kept all policy interest rates unchanged. Inflationary pressures have further decreased, enabling the ECB to be very explicit about next steps: "if the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction." This is the first time the ECB has talked about rate cuts in its official policy announcement.

Even if the policy announcement does not explicitly mention June as the moment for a first rate cut, we think that today's meeting should mark the final stop before the cut. In fact, the ECB has gone through a very gradual transition of its communication since December, turning from hawkish to dovish. The faster-than-expected drop in headline inflation, as well as anaemic growth, have opened the door for some rate cuts. Not a full reversal of the rate hikes since July 2022, but rather a soft loosening of a still restrictive stance.

While some market participants had already started to see aggressive ECB rate cuts in the months ahead, yesterday's US inflation print will have been a good reminder to the central bank that reflation will always be a risk. In fact, still high services inflation and the recent surge in oil prices,

as well as wage developments in Germany, suggest that the risk of inflation reaccelerating is also a reality in the eurozone. More generally speaking, structural constraints to the supply side of the eurozone economy – e.g., the lack of skilled workers, capacity constraints due to underinvestment or energy and commodity dependencies – bear the risk that any recovery of economic activity leads to disproportionately higher inflation. Consequently, the room for manouver for the ECB to cut rates more significantly beyond the June meeting is limited.

Let's wait until the press conference starting at 2.45pm CET to hear whether ECB President Christine Lagarde will provide more insight into the timing and size of the first rate cut.

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