

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 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.

Author

Carsten Brzeski

Global Head of Macro

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.