

Snap | 10 May 2024

## Minutes of ECB's April meeting confirm rate cut intentions for June

The just-released minutes of the European Central Bank's April meeting confirm that the Bank will start cutting rates at the June meeting, barring any major surprises over the next four weeks



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

ECB President Christine Lagarde had been somewhat more cautious in her communication at the April meeting but today's minutes are very clear: the Bank intends to cut rates at the June meeting. The just-released minutes of last month's meeting confirm both an increased confidence that inflation is on track back to 2% as well as a clear acknowledgement of the potential risks. As a result, any rate-cutting cycle will be slow and muted. However, for now, it is very obvious. If the June staff projections confirm that inflation is on track to drop below 2% in the second half of 2025, a rate cut is a done deal.

Here are some of the most relevant phrases from the minutes:

- **Preparing the June cut.** "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 was converging to target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction."
- **The US matters.** "Spillovers from the United States through a sustained exchange rate effect would likely slow the disinflationary process in the euro area."

- **New confidence in own forecasting qualities.** “With regard to the euro area economy, members widely agreed that latest information broadly vindicated the growth and inflation outlooks entailed in the March 2024 staff projections. This indicated that the forecasting ability of the quarterly projection exercises had been restored.”
- **It's all about wages.** “There was broad agreement that services inflation and the role of wages remained key issues for the inflation outlook.”
- **ECB code language for a June rate cut.** “It was seen as plausible that the Governing Council would be in a position to start easing monetary policy restriction at the June meeting if additional evidence received by then confirmed the medium-term inflation outlook embedded in the March projections.”
- **Some ECB members didn't want to wait.** “A few members felt sufficiently confident that the three elements of the Governing Council's reaction function gave grounds for a reduction in the policy rates already at the present meeting.”

## Can there be divergence between the ECB and Fed?

While the ECB acknowledged that US inflation and the Federal Reserve's decisions matter, at least for the exchange rate, we think that the ECB is still not paying enough attention to underlying developments in the US. In fact, we get a lot of questions about whether the ECB really could start cutting rates before the Fed. Sure, it can, at least in theory. In reality, however, ECB monetary policy has broadly followed that of the Fed over the last 25 years, albeit with different time lags and with the exception of the years following the euro crisis. On the rare occasions it hasn't, it's later been seen as a misstep. Think of the rate cuts in 1999 when the Fed had already started hiking. Or the even more infamous rate hike in 2008 to prevent feared second-round effects from higher German wages; the Fed was already fighting the financial crisis with aggressive rate cuts. And then there was 2011, when the ECB under President Jean-Claude Trichet hiked rates, assuming the euro crisis was over, while the Fed kept theirs at record lows to support the economy. Six months later, the new ECB President Mario Draghi had to undo it all and started cutting as the eurozone economy was mired in recession.

Over the last two years, inflation developments in both the US and the eurozone have been very similar. Recently, energy prices and transportation costs have come down, while both the US and the eurozone are experiencing strong labour markets and worker shortages. It is exactly these strong markets which seem to be fuelling the risk of reflation. So when the ECB almost certainly cuts rates in June, with the Fed most likely waiting until September, it'd be the first time since the start of the monetary union that the ECB would be in the lead. There's nothing wrong with that, of course. But given that US inflation has also led eurozone inflation over the past few years, the Europeans would be well-advised not to categorically reject tentative signs of reflation across the pond. It's not about copying the US but rather understanding the inflation mechanisms over there.

## Rate cut in June looks like done deal but room for more remains very limited

Despite initial signs of possible reflation in the eurozone, a rate cut at the European Central Bank's June meeting still looks like a done deal. The fact that some ECB members already wanted to cut at the April meeting, as well as the communication by almost all ECB speakers since the April meeting, make it almost impossible for the ECB not to cut. However, looking beyond June, the path for the Bank is anything but clear. The risk of reflation has clearly increased. Not only has US inflation been a good leading indicator for eurozone inflation over the last two years and is

currently on an upward trend again, but there are also other factors closer to home pointing to new inflationary risks. The cyclical rebound in economic activity as well as higher oil prices and a weaker euro exchange rate could easily push the ECB's own inflation projections for 2025 above 2% again. A longer substantial rate cut cycle will only materialise if inflation quickly returns to 2%. Any signs of reflation and also stronger economic activity would limit the ECB's room for manoeuvre.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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 <http://www.ing.com>.