

ECB's March meeting minutes confirm diverging views on the timing of further cuts

The just-released minutes of the ECB's March meeting confirm increasingly diverging views on when to cut interest rates again. An easing bias with the openness to pause was the stance after the March meeting. However, last night's tariff announcements have clearly increased the chances of a rate cut in two weeks



We think that last night's events will be enough to prompt the ECB to cut its policy rate again by 25bp at its next meeting in April

The most important passage of the European Central Bank's latest minutes was the discussion on the monetary policy outlook. It is obvious that at the March meeting, the views on next steps had already started to diverge. The more dovish ECB members stressed the risk of inflation undershooting as a result of escalating trade tensions, but also a stronger euro. On the other hand, the more hawkish team focused on sticky services and domestic inflation as well as the fiscal policy U-turn in Germany, justifying a more cautious approach to further rate cuts. As a result, few members argued that they "could only support the proposal to reduce interest rates by a further 25 basis points if there was also a change in communication that avoided any indication of future cuts or of the future direction of travel."

Looking ahead, the crucial question will be whether last night's tariff announcements will convince the more hawkish team to agree to further rate cuts. The dovish team definitely seems to be on board. In short, if US tariffs on European goods are indeed implemented on 9 April, this darkens the near-term outlook for the eurozone economy. We see little upside risk to inflation, unless the EU reacts with harsh retaliatory measures – something we don't expect. Therefore, we think that last night's negative trade and confidence shock and little prospect of quick negotiations will bring enough hawks into the team to cut the policy rate again by 25bp at the ECB's April meeting.

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