

# ECB Watcher

**No rate cut before the summer?**

HCOB Economics

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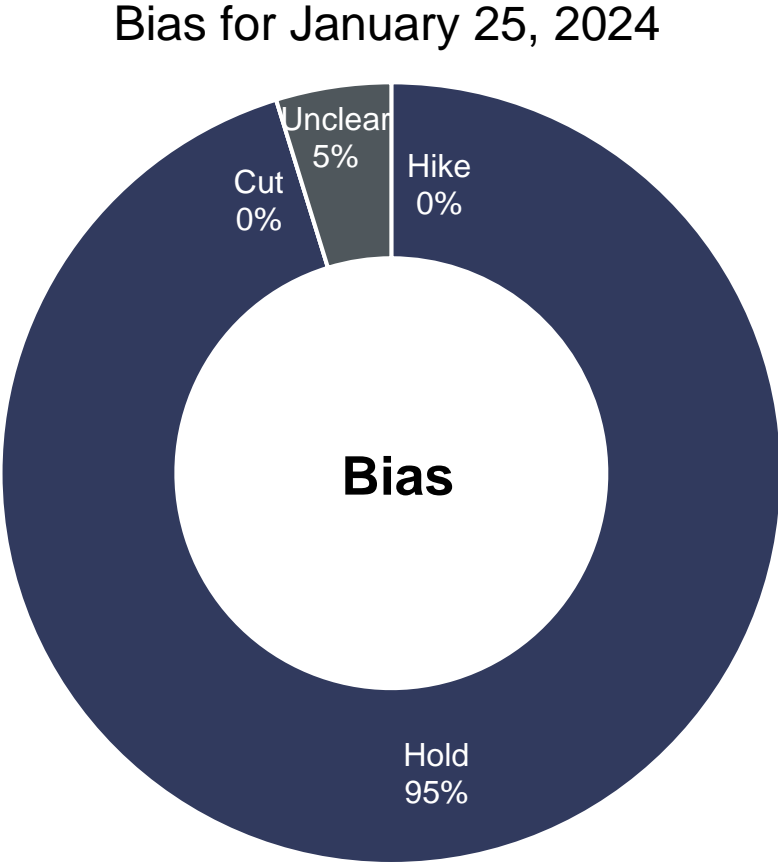
# Executive Summary: No rate cut before the summer? (I)

- At its next meeting on January 25, the ECB is likely to leave key interest rates unchanged. An overwhelming majority of 95% of ECB Governing Council members have signaled in their recent statements that interest rates will remain unchanged. Our analysis, which is based on a careful evaluation of speeches and interviews by Council members (see appendix "One person, one quote"), supports this assessment.
- The current level of key interest rates is 4.00% for the deposit facility and 4.50% for the main financing rate. Our forecast envisages a possible first rate cut in June 2024 and another in September of the same year.
- The financial markets are pricing in an initial interest rate cut in April. The efforts of the ECB Governing Council members to dampen this speculation are only partially successful. Christine Lagarde, the President of the ECB, recently commented on the question of a possible interest rate cut in the summer: "I would say that it is likely, but I have to be reserved." At the same time, Lagarde warned against excessive speculation and emphasized: "It does not help our fight against inflation if expectations are so high that they are far above what is likely to happen."
- Lagarde's statements offer various possible interpretations. Firstly, her statements should not be overrated, as they do not constitute binding "forward guidance" but are an interpretable expression of opinion in an interview. The second possibility is that the ECB may not take action until late summer or at the meeting on September 12, which could fit with Lagarde's comment.
- However, the exact timing of the first interest rate cut remains uncertain and depends above all on the further development of inflation and the economy. Wage developments will also be a key factor in this decision, as has been emphasized in many speeches. In particular, ECB Chief Economist Philip Lane emphasized: "The (wage) data for the first quarter will not be available until the end of April. We will have this important data by our meeting in June."

## Executive Summary: No rate cut before the summer? (II)

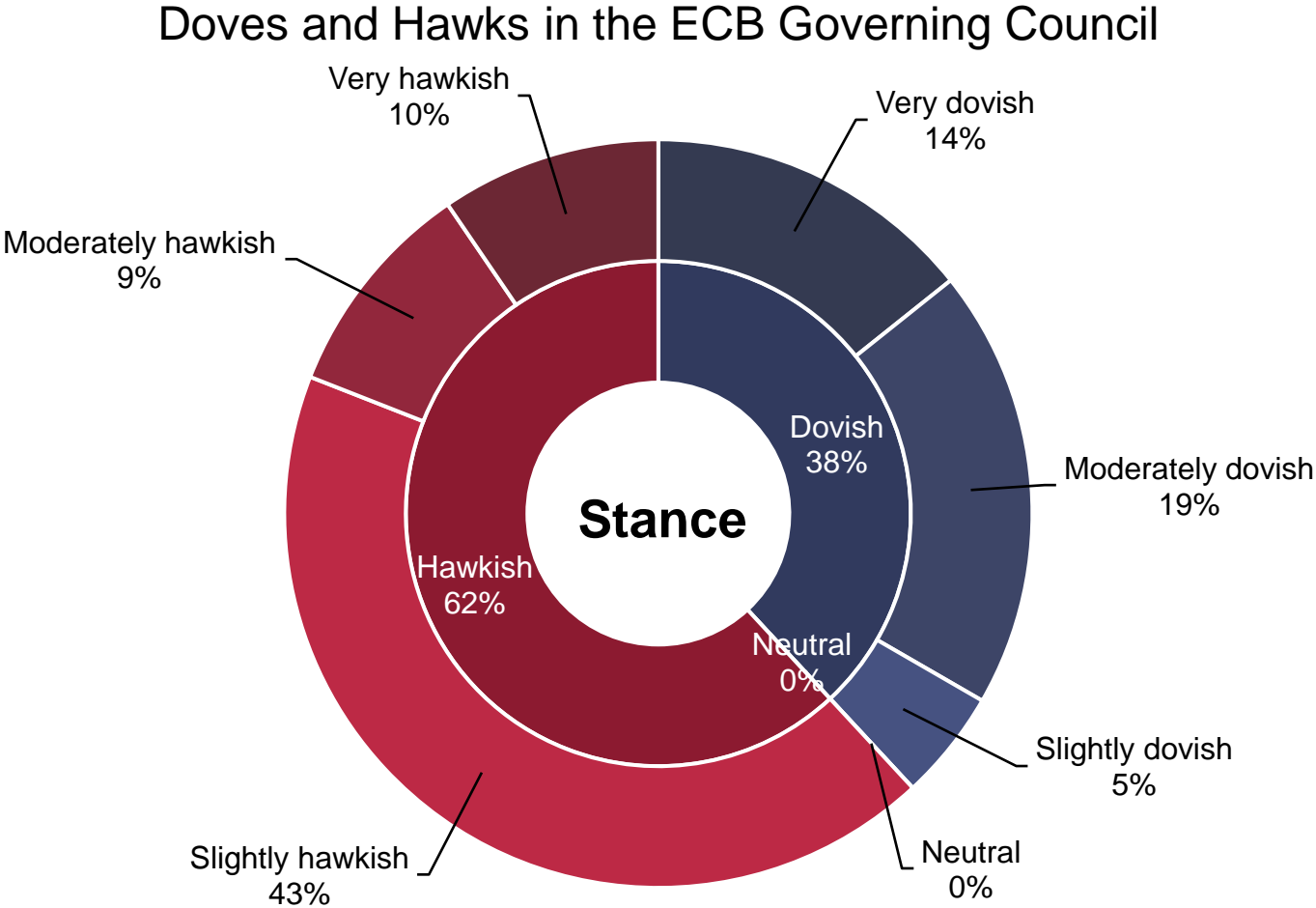
- The ECB members' speeches indicate that they remain cautious in their assessment of future inflation trends. In December 2023, the overall inflation rate in the eurozone rose to 2.9% YoY, compared to 2.4% in November. On the one hand, this increase can be attributed to the end of fiscal policy measures that were introduced in the previous year, for example in Germany due to higher energy prices, and were therefore foreseeable. On the other hand, there were also price-driving effects in January, such as the higher value-added tax and CO2 tax in Germany. There are also concerns that geopolitical risks such as the war in Ukraine and the conflict in the Middle East could lead to further oil price and food price shocks, which would delay disinflation.
- Our favorite quote is from Joachim Nagel (head of the Bundesbank): „It's highly likely that interest rates have reached their peak. To all those who have therefore gone straight to speculating about imminent rate cuts, let me say this: people have been known to back the wrong horse, so be careful.“

**A clear majority of the ECB Governing Council (with voting rights) is likely to be in favor of leaving key interest rates unchanged at the meeting on 25 January.**



Source: HCOB Economics  
Note: We take the following into account when assessing a Governing Council member's bias: Statements since the last Governing Council meeting, previous statements, general stance, group dynamics, and the current economic situation of the eurozone and the respective country that the member represents. Only members with a voting right are considered.

In our view, around two thirds of the Governing Council have a hawkish basic orientation, while the remaining third is dovish.



Source: HCOB Economics

Definition of „dovish“: certain tolerance when exceeding the inflation target.

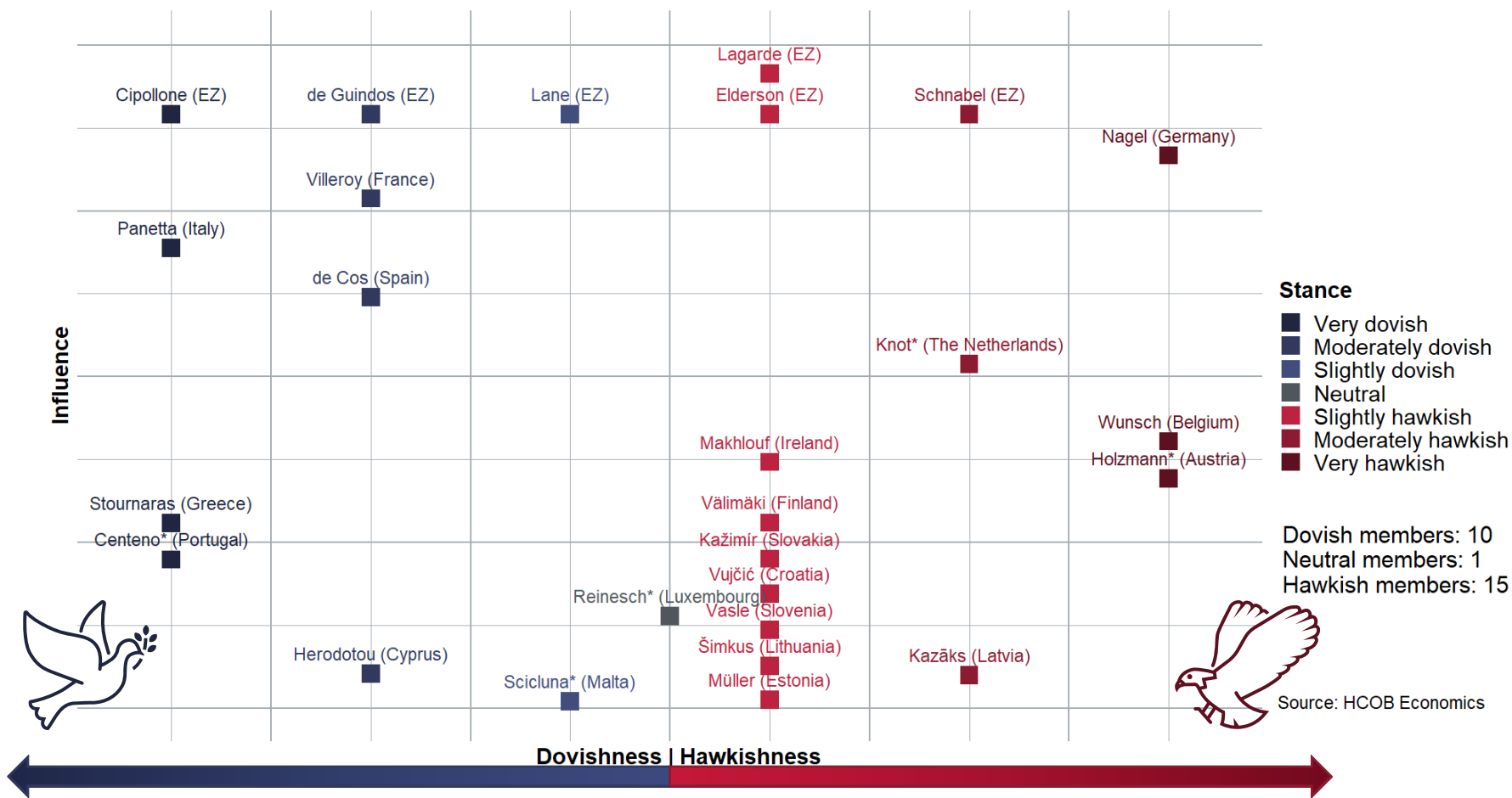
Definition of „hawkish“: very limited tolerance when exceeding the inflation target.

Note: With “stance” we mean a member’s general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each ECB Governing Council member is based on an subjective qualitative judgement from HCOB Economics. Only members with a voting right are considered.

# Overview of the ECB Governing Council: Most Council members have more or less clearly spoken out in favor of keeping key interest rates constant.

ECB Council Member	Position	Voting on Jan. 25, 2024	Bias for Jan. 25, 2024	General stance	Inflation (HICP, YoY)	GDP (share of EZ in %)
Christine Lagarde	ECB President	Yes	Hold	Slightly hawkish	2.9	100
Luis de Guindos	ECB Vice-President	Yes	Hold	Moderately dovish	2.9	100
Isabel Schnabel	ECB Board Member	Yes	Hold	Moderately hawkish	2.9	100
Piero Cipollone	ECB Board Member	Yes	Hold	Very dovish	2.9	100
Philip R. Lane	ECB Board Member	Yes	Hold	Slightly dovish	2.9	100
Frank Elderson	ECB Board Member	Yes	Unclear	Slightly hawkish	2.9	100
<b>NCB Official of</b>						
Joachim Nagel	Germany	Yes	Hold	Very hawkish	3.8	27
François Villeroy de Galhau	France	Yes	Hold	Moderately dovish	4.1	20.6
Fabio Panetta	Italy	Yes	Hold	Very dovish	0.5	15.1
Pablo Hernández de Cos	Spain	Yes	Hold	Moderately dovish	3.3	10.9
Klaas Knot	The Netherlands	No	Hold	Moderately hawkish	1	7
Pierre Wunsch	Belgium	Yes	Hold	Very hawkish	0.5	4
Gabriel Makhlouf	Ireland	Yes	Hold	Slightly hawkish	3.2	3.4
Robert Holzmann	Austria	No	Hold	Very hawkish	5.7	3.1
Tuomas Vähimäki	Finland	Yes	Hold	Slightly hawkish	1.3	1.9
Yannis Stournaras	Greece	Yes	Hold	Very dovish	3.7	1.8
Mário Centeno	Portugal	No	Hold	Very dovish	1.9	1.8
Peter Kažimír	Slovakia	Yes	Hold	Slightly hawkish	6.6	0.8
Boris Vujčić	Croatia	Yes	Hold	Slightly hawkish	5.4	0.5
Gaston Reinesch	Luxembourg	No	Unclear	Neutral	3.2	0.5
Boštjan Vasle	Slovenia	Yes	Hold	Slightly hawkish	3.8	0.4
Gediminas Šimkus	Lithuania	Yes	Hold	Slightly hawkish	1.6	0.4
Constantinos Herodotou	Cyprus	Yes	Hold	Moderately dovish	1.9	0.2
Mārtiņš Kazāks	Latvia	Yes	Hold	Moderately hawkish	0.9	0.2
Madis Müller	Estonia	Yes	Hold	Slightly hawkish	4.3	0.2
Edward Scicluna	Malta	No	Hold	Slightly dovish	3.7	0.1

# Influence and orientation: Among the less influential members of the Governing Council, the hawkish attitude prevails.

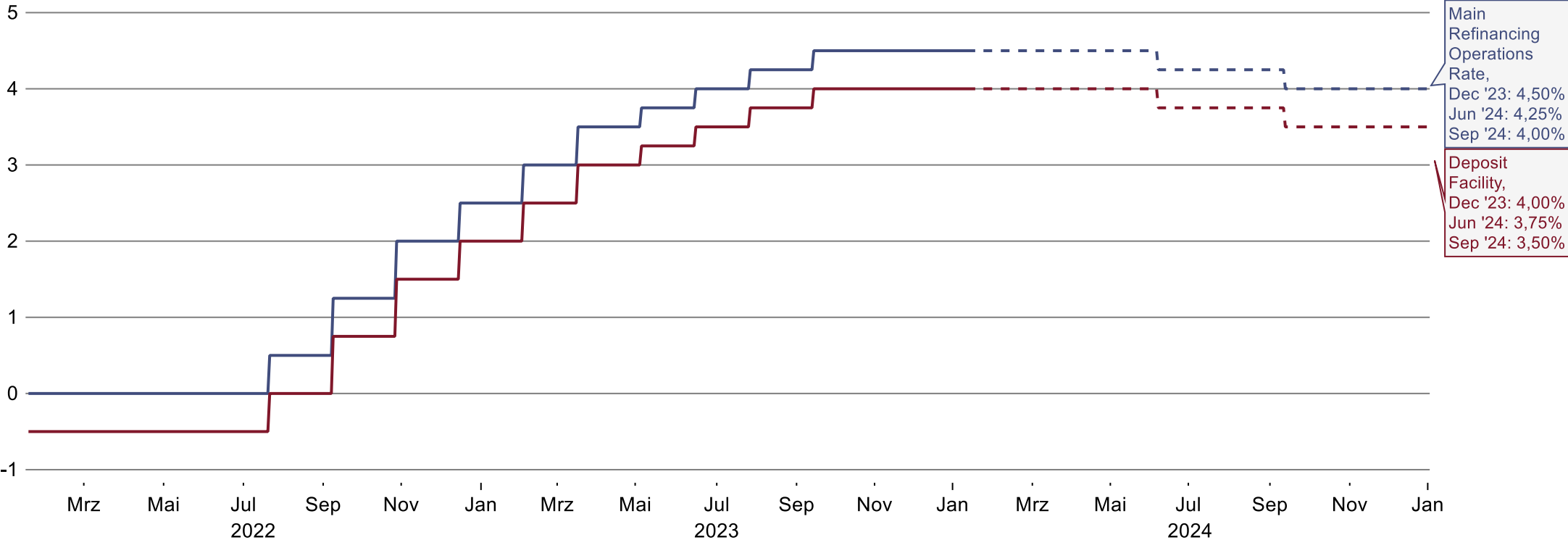


Note 1: Influence gauge is based on share of eurozone GDP. Governing Council members with no voting rights on January 25, 2024 are marked with a superscript star.

Note 2: With “stance” we mean a member’s general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each ECB Governing Council member is based on an subjective qualitative judgement from HCOB Economics.

# Interest rate forecast from HCOB Economics: We expect the first rate cut in June 2024 and another in September.

ECB policy rates and forecasts of HCOB Economics

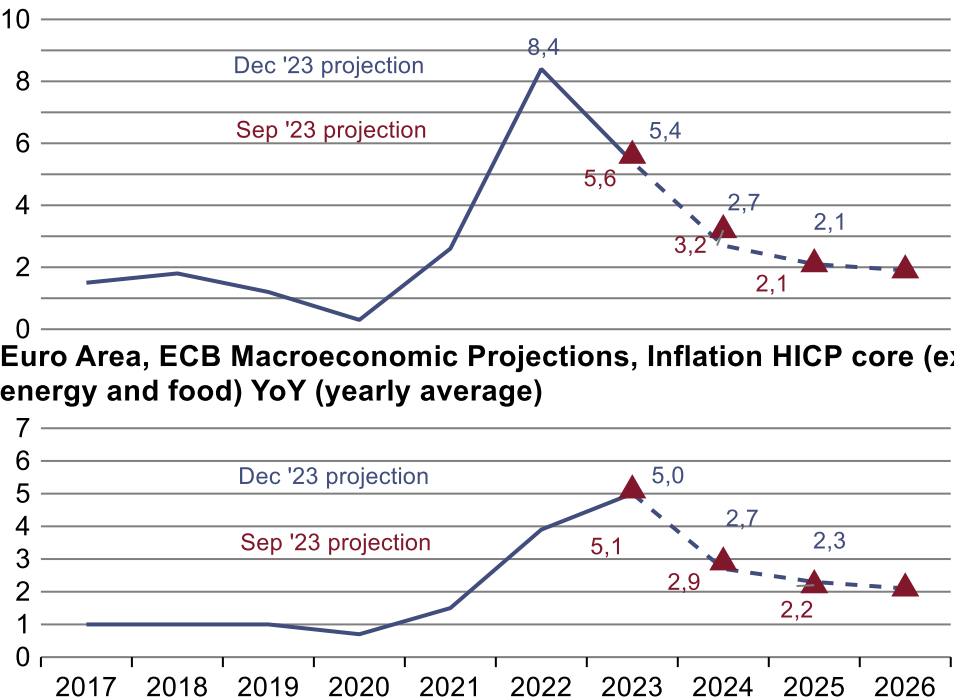


Source: Macrobond, HCOB Economics

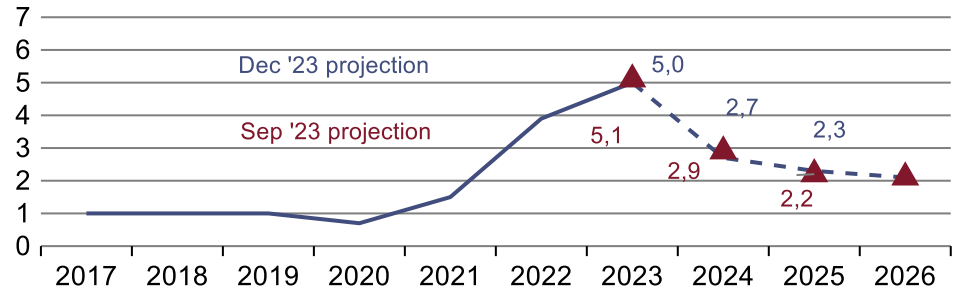


# ECB macroeconomic projections of December 2023 compared to the projections of September 2023.

Euro Area, ECB Macroeconomic Projections, Inflation HICP YoY (yearly average)

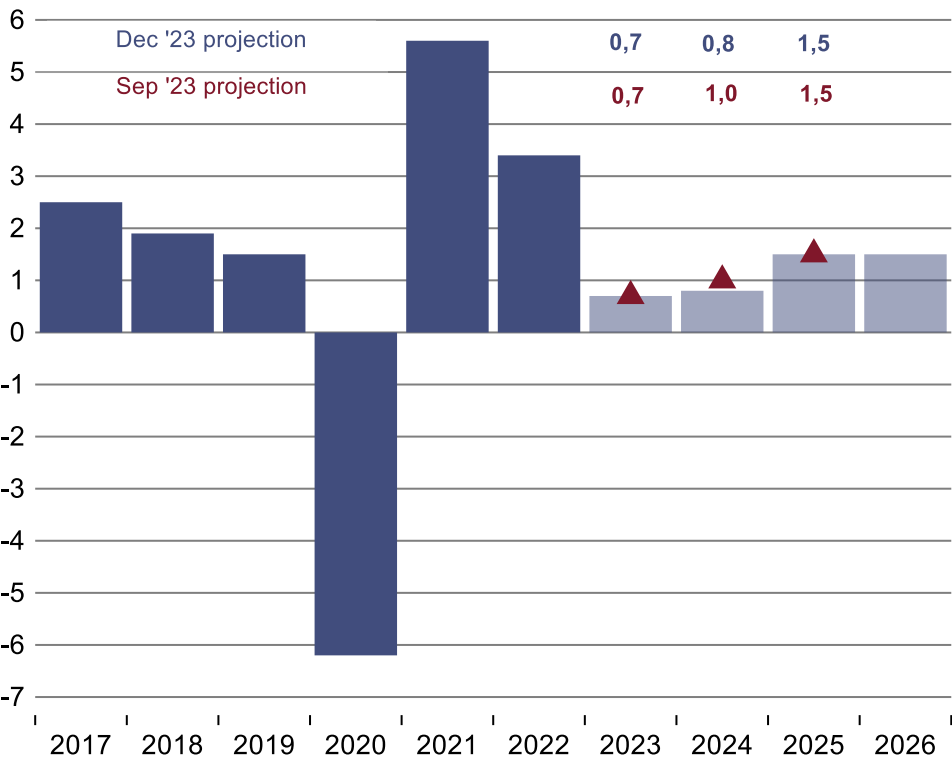


Euro Area, ECB Macroeconomic Projections, Inflation HICP core (ex energy and food) YoY (yearly average)



Source: Macrobond, HCOB Economics, ECB (European Central Bank)

Euro Area Staff Projections, GDP



Source: Macrobond, HCOB Economics, ECB (European Central Bank)

# Appendix

- „One person, one quote“

# „One person, one quote“: Zitate seit der letzten Ratssitzung vom 14.12.2023 (I)

- **Christine Lagarde (ECB President):** „I think that (the ECB policy) rates, barring any further shocks or unexpected data, will not continue to go up. And if we win our fight against inflation, and if we are certain that inflation will indeed be at 2%, at that point rates will start to go down.“
- **Luis de Guindos (ECB Vice-President):** „If sustained for a sufficiently long period of time, current interest rates will help bring inflation down to 2%. We are data-dependent. The data have been favourable but still not enough for us to change our monetary policy. It's therefore too early to talk about a cut in interest rates.“
- **Isabel Schnabel (ECB Board Member):** „Inflation has eased but underlying price pressures remain elevated. Policy rates need to be sufficiently restrictive for as long as necessary to ensure that inflation sustainably returns to 2%. A slowing economy is part of monetary policy transmission.“
- **Philip R. Lane (ECB Board Member):** „(...) there has been progress on inflation in recent months. (...) once the ECB begins lowering interest rates, this would not be by a single decision of a rate cut, there would most likely be a sequence of rate cuts.“
- **Joachim Nagel (NCB Official of Germany):** „It's highly likely that interest rates have reached their peak. To all those who have therefore gone straight to speculating about imminent rate cuts, let me say this: people have been known to back the wrong horse, so be careful.“
- **François Villeroy de Galhau (NCB Official of France):** „If I think in nominal terms, obviously, they (policy rates) shouldn't be higher than today, and barring major surprises – we look at the Middle East – our next move will be a cut, probably this year, I will not comment on the season.“

## „One person, one quote“: Zitate seit der letzten Ratssitzung vom 14.12.2023 (II)

- **Fabio Panetta (NCB Official of Italy):** „Monetary conditions should adjust but awaiting data first to confirm disinflation outlook.“
- **Pablo Hernández de Cos (NCB Official of Spain):** „The question of how long it will be necessary to maintain interest rates at the current level, before starting to gradually reduce them, will depend on future developments in the data, in a context in which the level of uncertainty remains elevated.“
- **Klaas Knot (NCB Official of the Netherlands):** „Based on current information, I don't see any urgent need for further interest rate hikes. We can be satisfied with the current monetary policy stance. But the wage data can go either way and then we may have to react accordingly. So, although quite unlikely, I wouldn't categorically rule out further interest rate hikes just yet.“
- **Pierre Wunsch (NCB Official of Belgium):** „The probability of a hike has gone down quite a lot (...) We are moving in the right direction on inflation and I am much more optimistic than a few months ago, but we still need to see good news on wages.“
- **Robert Holzmann (NCB Official of Austria):** „I wouldn't say we are at terminal rate but the chance has increased.“
- **Tuomas Vähimäki (NCB Official of Finland):** „Policy has evidently been effective in dampening the inflation pressures and anchoring inflation expectations. So, we are on the right track. (...) It's better to wait a bit longer than doing a premature exit from this restrictive (interest rate) level, and then perhaps to having to do a reversal.“
- **Yannis Stournaras (NCB Official of Greece):** „We need to see inflation sustainably below 3% by the middle of the year before cutting rates.“

## „One person, one quote“: Zitate seit der letzten Ratssitzung vom 14.12.2023 (III)

- **Mário Centeno (NCB Official of Portugal):** „The decision to keep nominal interest rates steady for the moment is appropriate and we will decide when to cut them sooner than we thought until recently.“
- **Peter Kažimír (NCB Official of Slovakia):** „For inflation to sustainably converge to our target, we must remain determined and keep the policy at current levels for as long as necessary to secure convergence towards the target.“
- **Boris Vujčić (NCB Official of Croatia):** „I feel the risks (are) really balanced at the moment, and I think we definitely (have) avoided the risk of not doing enough. Let's see how things will develop (...) over the next few months, but then I would say personally, I'm more relaxed about it that we're at the right point at the moment (...) in terms of the monetary policy stance.“
- **Boštjan Vasle (NCB Official of Slovenia):** „Current rates, given enough time, will significantly contribute to the timely return of inflation to the target level.“
- **Gediminas Šimkus (NCB Official of Lithuania):** „I think that the market expectations are too optimistic. For these expectations to come to life, the macroeconomic information would have to positively surprise us (...) But if there weren't any (positive) surprises, that expectation for early and quick cuts of interest rates could be way too optimistic.“
- **Constantinos Herodotou (NCB Official of Cyprus):** „The policy decisions so far, are providing the desired outcome. The past rate increases continue to be transmitted to the economy. (...) Any discussion of possible rate cuts would be premature. However, it is important to emphasise that inflation is now on the right decelerating path.“

## „One person, one quote“: Zitate seit der letzten Ratssitzung vom 14.12.2023 (IV)

- **Mārtiņš Kazāks (NCB Official of Latvia):** „Most likely it looks like the middle of next year (the ECB will make the first cut) – in June or July. But in the spring, at the current moment that’s too early. (The timing of easing) is really dependent on how the economy really behaves and what happens to the economy.“
- **Madis Müller (NCB Official of Estonia):** „There is no reason to consider either a further increase in interest rates or a reduction in interest rates in the near term.“
- **The following ECB Governing Council members made no public statement since the last meeting in December:**
  - Piero Cipollone (ECB Board Member)
  - Frank Elderson (ECB Board Member)
  - Gabriel Makhlouf (NCB Official of Ireland)
  - Gaston Reinesch (NCB Official of Luxembourg)
  - Edward Scicluna (NCB Official of Malta)

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