ECB Watcher

ECB aims for June for interest rate change

HCOB Economics
April 5, 2024

Dr. Cyrus de la Rubia / Nils Müller

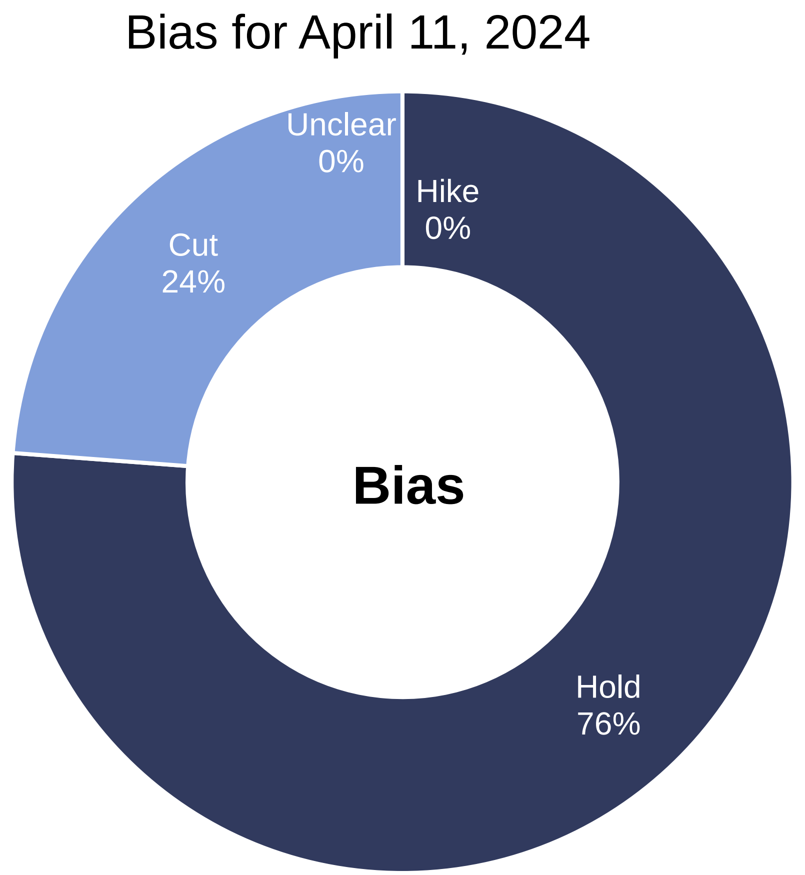
Executive Summary: ECB aims for June for interest rate change (I)

- At the upcoming meeting on April 11, the ECB is expected to leave the key interest rates unchanged. This is indicated by about three-quarters of the ECB Council. The remaining quarter may advocate for an interest rate cut at the next meeting. To arrive at this conclusion, we have once again analyzed numerous speeches and interviews of ECB Council members (see Annex “One person, one quote”).
- For a long time, April was considered by the futures markets as a possible timing for the first interest rate cut by the ECB. Now, however, April seems to be definitively ruled out as an option for the initial rate reduction. Instead, June is increasingly coming into focus for the ECB Council. The majority of the Council, in their speeches, have more or less clearly indicated that they prefer to wait until June at least to make new decisions.
- We expect the ECB to cut the key interest rates, currently at 4.00% (deposit facility rate) and 4.50% (main refinancing rate), by 25 basis points each in June. This maintains our forecast unchanged since early December 2023.
- The ECB Vice President Luis de Guindos aptly summarized the current consensus of the ECB: “The evolution of wages is key and most of the wage bargaining agreements will have been concluded in the first months of this year. We will have more information in June. […] In June we will also have our new projections and we will be ready to discuss this.” Similar statements were also made by other members of the ECB Council, including ECB President Christine Lagarde, Spanish Central Bank Governor Pablo Hernández de Cos, and Dutch Central Bank Governor Klaas Knot.
- It is noteworthy that ECB members have recently been relatively open about the topic of interest rate cuts, whereas they remained silent on it a few months ago. The reason for this newfound openness is the current low inflation figures. In March, the inflation rate in the Eurozone stood at 2.4% YoY, significantly below the expectation of 2.6% YoY. However, one should not interpret the statements of ECB members as binding “Forward Guidance”, and as they continue to emphasize, the ECB will remain cautious and data-dependent.

Executive Summary: ECB aims for June for interest rate change (II)

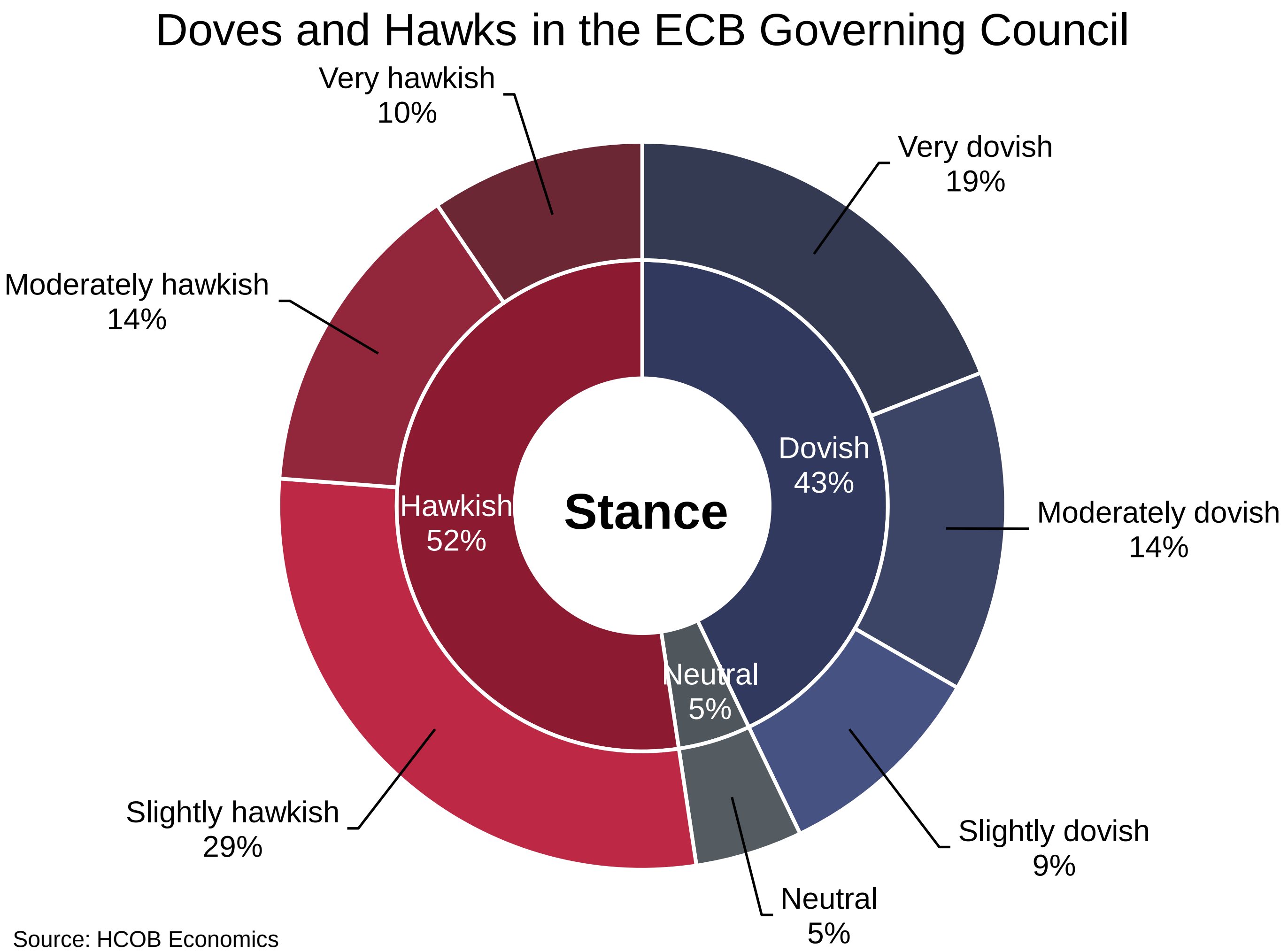
- However, those in the ECB Council who advocate for lowering the key interest rates in April are typically the more “dovish” members, meaning those who have a higher tolerance for deviation from the inflation target of 2%. The fact that a quarter of the Council has advocated for an interest rate cut in April can be interpreted as an indicator of an impending shift in European monetary policy. Nevertheless, it remains to be seen how the discussions within the ECB Council will evolve and how the economic conditions will change in the coming months.
- Several ECB Governing Council members emphasized that the ECB’s decisions are independent of those of the US Federal Reserve. Olli Rehn, the Finnish representative on the ECB Governing Council, pointed out: “There have been voices in the debate that the ECB could not cut interest rates before the Fed, the Federal Reserve. Rumors of this are greatly exaggerated: the ECB is not the Fed’s ‘13th Federal District’, i.e. one regional central bank.” With this statement, he dismissed speculations about whether the ECB would dare to initiate the interest rate change before the Fed, which will convene one week later than the ECB in June.
- Our favorite quote comes from the French central bank chief, François Villeroy de Galhau: „Since we are talking about landings, let’s continue with the aeronautical imagery: autopilot – or long-term guidance – should only be used during stable phases of the flight; our economy is a long way from that. But using instruments to steer through the more difficult phases does not mean not giving any indications to passengers, for example on the landing in progress; they appreciate the information.“

A clear majority of the ECB Governing Council (with voting rights) is likely to favor leaving the key interest rates unchanged at the meeting on April 11.



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.

At the upcoming meeting, there will be roughly equal numbers of Governing Council members (with voting rights) representing hawkish and dovish stance.



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 in this figure.

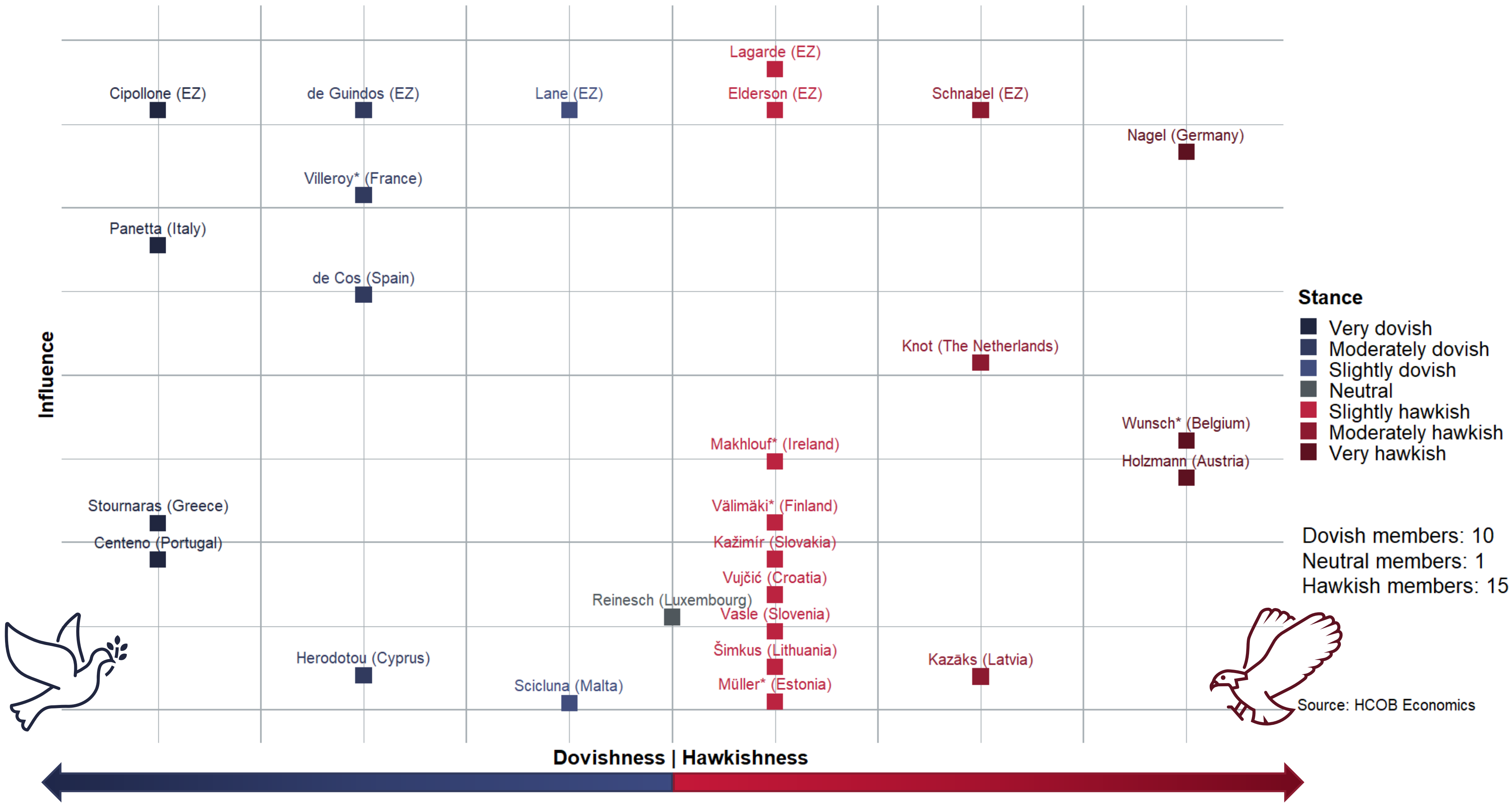
Hamburg Commercial Bank

Overview of the ECB Governing Council: A minority of the Council may advocate for a reduction in the key interest rates at the next meeting.

ECB Council Member	Position	Voting on Apr. 11, 2024	Bias for Apr. 11, 2024	General stance	Inflation (HICP, YoY)	GDP (share of EZ in %)
Christine Lagarde	ECB President	Yes	Hold	Slightly hawkish	2,4	100
Luis de Guindos	ECB Vice-President	Yes	Hold	Moderately dovish	2,4	100
Isabel Schnabel	ECB Board Member	Yes	Hold	Moderately hawkish	2,4	100
Piero Cipollone	ECB Board Member	Yes	Cut	Very dovish	2,4	100
Philip R. Lane	ECB Board Member	Yes	Hold	Slightly dovish	2,4	100
Frank Elderson	ECB Board Member	Yes	Hold	Slightly hawkish	2,4	100
	NCB Official of					
Joachim Nagel	Germany	Yes	Hold	Very hawkish	2,3	27
François Villeroy de Galhau	France	No	Cut	Moderately dovish	2,4	20,6
Fabio Panetta	Italy	Yes	Cut	Very dovish	1,3	15,2
Pablo Hernández de Cos	Spain	Yes	Hold	Moderately dovish	3,2	11
Klaas Knot	The Netherlands	Yes	Hold	Moderately hawkish	3,1	7
Pierre Wunsch	Belgium	No	Hold	Very hawkish	3,8	4
Gabriel Makhlouf	Ireland	No	Hold	Slightly hawkish	1,7	3,3
Robert Holzmann	Austria	Yes	Hold	Very hawkish	4,2	3,1
Olli Rehn	Finland	No	Hold	Slightly hawkish	0,7	1,8
Yannis Stournaras	Greece	Yes	Cut	Very dovish	3,4	1,8
Mário Centeno	Portugal	Yes	Cut	Very dovish	2,6	1,8
Peter Kažimír	Slovakia	Yes	Hold	Slightly hawkish	2,5	0,8
Boris Vujčić	Croatia	Yes	Hold	Slightly hawkish	4,9	0,5
Gaston Reinesch	Luxembourg	Yes	Hold	Neutral	3,2	0,5
Boštjan Vasle	Slovenia	Yes	Hold	Slightly hawkish	3,4	0,4
Gediminas Šimkus	Lithuania	Yes	Hold	Slightly hawkish	0,3	0,4
Constantinos Herodotou	Cyprus	Yes	Hold	Moderately dovish	1,6	0,2
Mārtiņš Kazāks	Latvia	Yes	Hold	Moderately hawkish	1	0,2
Madis Müller	Estonia	No	Hold	Slightly hawkish	4,1	0,2
Edward Scicluna	Malta	Yes	Cut	Slightly dovish	2,7	0,1

Hamburg Commercial Bank

Influence and stance: The members advocating for a potential interest rate cut in April belong to the ‘dovish’ fraction within the ECB Governing Council.

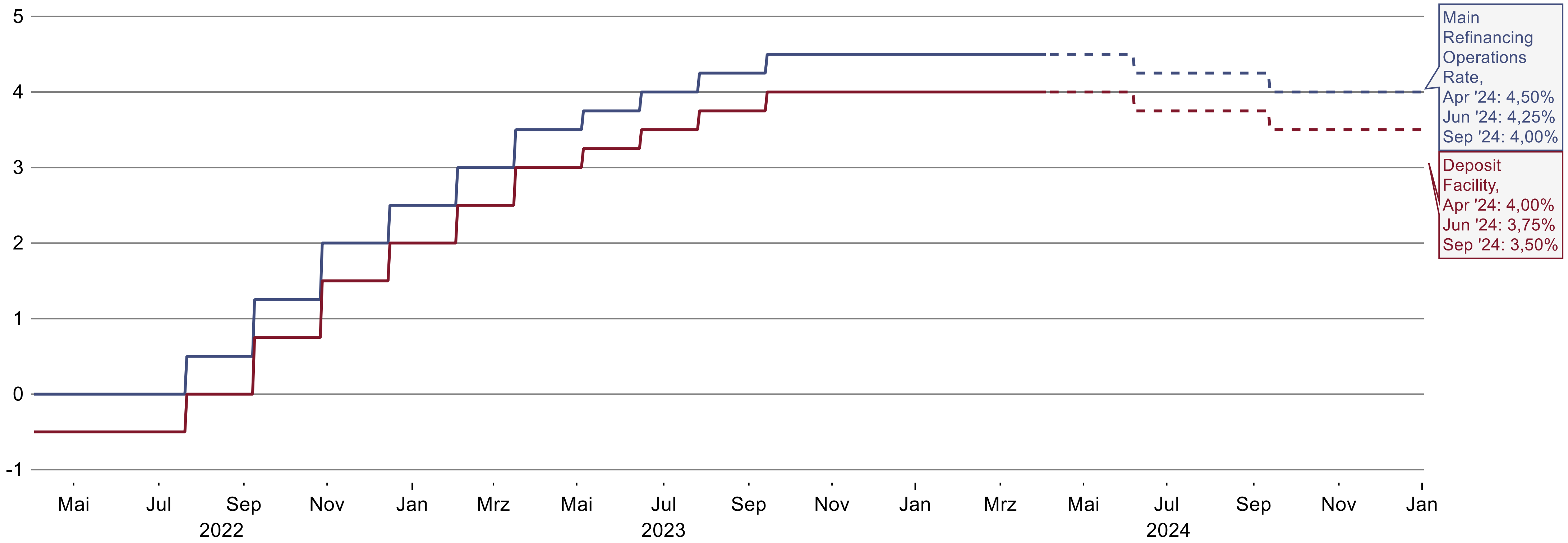


Note 1: Influence gauge is based on share of eurozone GDP. Governing Council members with no voting rights on April 11, 2024 are marked with a superscript star.

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 by HCOB Economics: We anticipate the first interest rate cut in June 2024, followed by another in September.

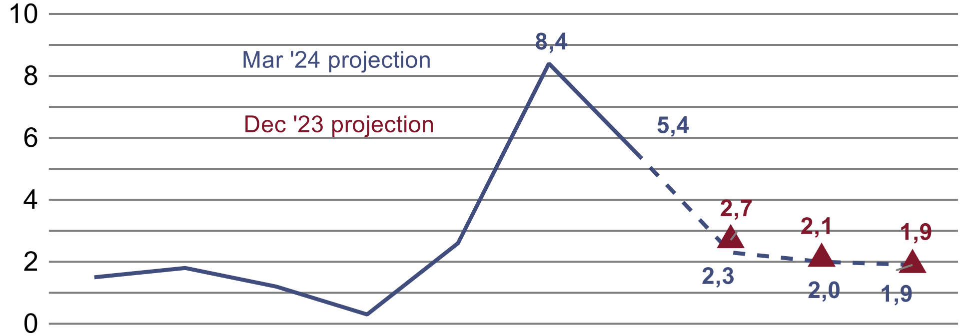
ECB policy rates and forecasts of HCOB Economics



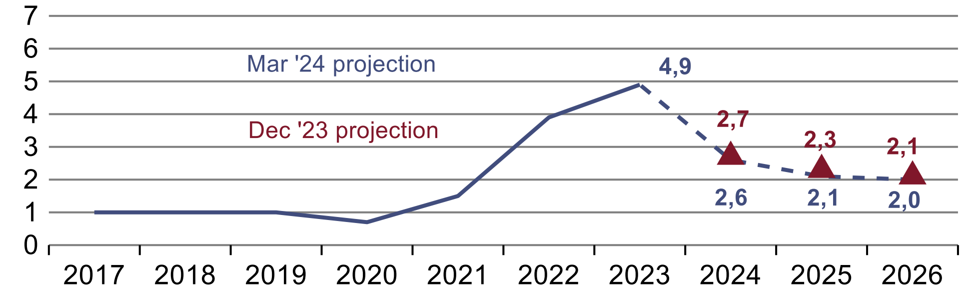
Source: Macrobond, HCOB Economics

Comparison of the ECB’s macroeconomic projections from December 2023 to those from March 2024. New projections will not be released until June 6.

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

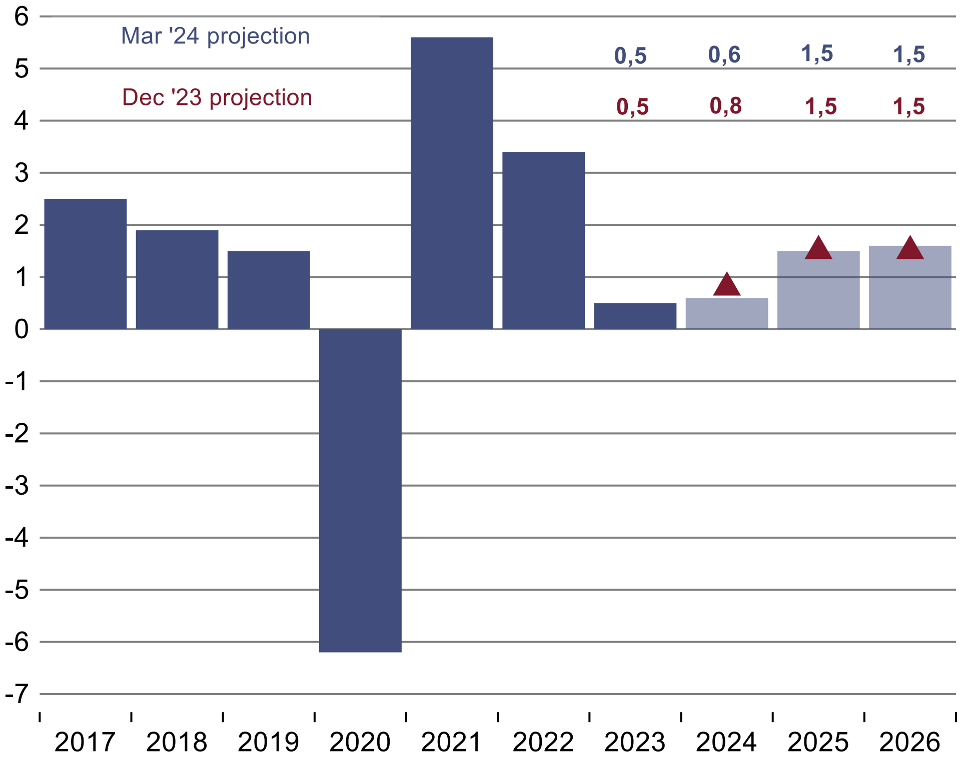


Euro Area, ECB Macroeconomic Projections, Inflation HICP core (ex energy and food) YoY (yearly average)



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

Euro Area Staff Projections, GDP



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

Annex

- “One person, one quote”

“One person, one quote”: Quotes since the last meeting on March 7, 2024 (I)

- **Christine Lagarde (ECB President):** “Given the delays with which these data become available, we cannot wait until we have all the relevant information. To do so could risk being too late in adjusting policy. But in the coming months, we expect to have two important pieces of evidence [data on wages and ECB staff projections in June] that could raise our confidence level sufficiently for a first policy move.”

- **Luis de Guindos (ECB Vice-President):** “The evolution of wages is key and most of the wage bargaining agreements will have been concluded in the first months of this year. We will have more information in June. […] In June we will also have our new projections and we will be ready to discuss this. We are not date-dependent – we are data-dependent.”

- **Isabel Schnabel (ECB Board Member):** “[…] the recent rise in real long-term rates [r*] may be partly due to financial market participants interpreting the policy tightening, as well as recent central bank communication, as a shift in policymakers’ beliefs about the level of r*. In other words, the impact of monetary policy actions and communication may be stronger than conventionally assumed.”

- **Philip R. Lane (ECB Board Member):** “[…] in the next year and the year after inflation should stabilise around our 2% target. I think this is a good baseline and essentially what we decided is in these weeks from that meeting, we need to keep on checking this assessment. And what I would say is if this assessment is confirmed, then we will start looking more closely at reversing some of the rate increases we’ve made.”

- **Piero Cipollone (ECB Board Member):** “If we hold them [rates] for too long, we might put the recovery at risk and delay the associated cyclical rebound in productivity growth. This would be economically costly and induce risks for the sustained convergence of inflation to our target.”

“One person, one quote”: Quotes since the last meeting on March 7, 2024 (II)

- **Joachim Nagel (NCB Official of Germany):** “The probability that we will lower key interest rates before the summer break has recently increased. But for us to make this decision, we need to be sure enough that inflation will indeed continue to fall rapidly. The economic data that will be received in the near future will play a key role in this.”

- **François Villeroy de Galhau (NCB Official of France):** “It seems very likely to me that there will be a first rate cut in the spring, I remind you that in Europe, as elsewhere, spring is a season that lasts from April until June 21.”

- **Fabio Panetta (NCB Official of Italy):** “As I noted in a speech last February, inflation in the euro area is falling rapidly and continues to approach the 2% target, making it possible for a rate cut.”

- **Pablo Hernández de Cos (NCB Official of Spain):** “If one takes into consideration the reduction in inflation in recent months (the underlying inflation as well), the weakness of growth in the euro area, the strength of the transmission of monetary policy, and if our macroeconomic forecasts are fulfilled in the coming months, it is normal for us to start reducing rates soon and June could be a good date to start.”

- **Klaas Knot (NCB Official of the Netherlands):** “I have personally pencilled in June for a first rate cut. Where do we take it from there? We are data dependent, so I would focus on those meetings in which we have new projections, in September and December. But if incoming data tells us we can do more, the interim meetings should also be available.”

“One person, one quote”: Quotes since the last meeting on March 7, 2024 (III)

- **Pierre Wunsch (NCB Official of Belgium):** “[…] service inflation and wage developments are still running at levels that are ultimately not compatible with our objective. But of course in our projections we have these going down so we are not going to wait until we see wage development at 3% before we cut rates. I guess we’ll do it before and that’s why I say it’s important we need to take a bet.”

- **Gabriel Makhlouf (NCB Official of Ireland):** “My current view is that the picture should be sufficiently clearer when the Governing Council meets in June (as we will have a lot more information – particularly on wage dynamics – available in our deliberations) to give us sufficient confidence to make monetary less restrictive.”

- **Robert Holzmann (NCB Official of Austria):** “Europe could cut interest rates before the U.S. […] From today’s perspective, I’d say: interest rate cuts are likely to come. When will depend largely on what wage and price developments look like by June.”

- **Olli Rehn (NCB Official of Finland):** “My view is that close to summer is the time to start easing the foot off the monetary policy brake. If inflation is sustainably stabilising at 2%, and no adverse shocks like an energy crisis materialise, I believe we have the preconditions to cut rates several times as the year progresses.”

- **Yannis Stournaras (NCB Official of Greece):** “We need to start cutting rates soon so that our monetary policy does not become too restrictive. It is appropriate to do two rate cuts before the summer break, and four moves throughout the year seem reasonable. Insofar, I concur with the markets’ expectations.”

“One person, one quote”: Quotes since the last meeting on March 7, 2024 (IV)

- **Mário Centeno (NCB Official of Portugal):** “ […] we have to analyse the wage data, and when we meet at the beginning of April we can make decisions. But decisions are only made when we have all this information and there is still some time to get there, so I will not anticipate any decision, not even my own decision because I will have to look at all the data that we will also receive by then.”

- **Peter Kažimír (NCB Official of Slovakia):** “We will learn a bit more in April, but only in June, with new forecast at hand, will the level of confidence reach the threshold. […] The current picture clearly favours staying calm for the coming weeks and delivering the first-rate cut in summer.”

- **Boris Vujčić (NCB Official of Croatia):** “If there’s a significantly faster slowdown of the economy, that would then of course have consequences for interest-rate policy. Given where we are right now, probably not affecting the timing of the first cut, but it could have an effect on the pace. […] It would be best to have a gradual adjustment of monetary policy, which means a series of 25bp cuts. At which pace, we’ll have to see later on.”

- **Gaston Reinesch (NCB Official of Luxembourg):** “Provided the incoming data will confirm, in the light of the June 2024 Eurosystem staff macroeconomic projections, the current prospect of inflation returning timely to its 2% medium-term target, it is not at all groundless to anticipate a first rate reduction towards the end of the second quarter of 2024.”

- **Boštjan Vasle (NCB Official of Slovenia):** “We estimate that the current level of interest rates, if maintained long enough, will significantly contribute to the timely return of inflation to the target level. Our further steps will continue to depend on the current situation, i.e. on economic and financial data, the movement of core inflation and the effectiveness of our measures.”

“One person, one quote”: Quotes since the last meeting on March 7, 2024 (V)

- **Gediminas Šimkus (NCB Official of Lithuania):** “June is the possible month for a rate cut. […] I go to each meeting open-minded. I can’t rule out a possibility of a cut in April but the likelihood is low.”

- **Mārtiņš Kazāks (NCB Official of Latvia):** “If I take a look at the current market pricing, for the last month or so, I’m quite comfortable with that. [Moving at meetings at which new forecasts are published is] more straightforward.”

- **Madis Müller (NCB Official of Estonia):** “In a nutshell, the euro area economy is still stagnating, but there are increasing signs of increased economic activity and a return to optimism.”

- **Edward Scicluna (NCB Official of Malta):** “Now that the economy is helping with lower demand, we shouldn’t overburden activity any longer. […] Even though everyone is talking about ‘June, June, June,’ April does indeed become a possibility.”

- **The following ECB Governing Council members made no public statement since the last meeting in March:**
  - Frank Elderson (ECB Board Member)
  - Constantinos Herodotou (NCB Official of Cyprus)

Contact persons

Editing and shipment

Economics

Dr. Cyrus de la Rubia
Chief Economist
Tel: +49 160 90180792
cyrus.delarubia@hcob-bank.com

Dr. Tariq Chaudhry
Economist
Tel: +49 171 9159096
tariq.chaudhry@hcob-bank.com

Jonas Feldhusen
Junior Economist
Tel: +49 151 22942945
jonas.feldhusen@hcob-bank.com

Christian Eggers
Senior FX Trader
Tel: +49 171 8493460
christian.eggers@hcob-bank.com

Norman Liebke
Economist
Tel: +49 171 5466753
norman.liebke@hcob-bank.com

Nils Müller
Junior Economist
Tel: +49 171 3534492
nils.mueller@hcob-bank.com

Editorial deadline for this issue: April 5, 2024
You can find the glossary for our publications on the Hamburg Commercial Bank's website at: http://www.hcob-bank.de/publikationen_glossar

Gerhart-Hauptmann-Platz 50
20095 Hamburg
Phone 040-3333-0

Further contact persons

Institutional & Liability Sales

Thomas Benthien
Tel: +49 151 14833046

Corporate Treasury Sales

Fritz Bedbur
Tel: +49 151 14651131

Boris Gettkowski
Tel: +49 175 2281619

Syndicate & Credit Solutions

Tim Boltzen
Tel: +49 151 15244845

Disclaimer

- The market information contained in this presentation is for informational purposes only.
- It can not substitute own market research or separate legal-, tax- and financial advice and information. This information is a marketing communication by the meaning of Section 63 Paragraph 6 German Securities Trading Act [“Wertpapierhandelsgesetz”, “WpHG”] and Article 24 Paragraph 3 of the Directive 65/2014/EU. This information does not contain ‘information recommending or suggesting in investment strategy’ or ‘investment recommendations’ (“investment research”) by the meaning of Section 2 Paragraph 9 Point 5 WpHG or Article 3 Paragraph 1 Point 34 and Point 35 of the Regulation (EU) No. 596/2014. Therefore, this information is not prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. This presentation does not constitute an offer to buy or sell certain assets.
- Hamburg Commercial Bank AG points out that the herein published market information is only meant for investors with own economical experience, who are able to evaluate the risks and chances of the herein discussed market / markets and who are themselves able to conduct research through a variety of sources. The statements and data contained in this presentation are based on either thorough research by Hamburg Commercial Bank AG or on sources that are considered reliable but cannot be verified. Hamburg Commercial Bank AG regards the sources used as reliable but can not assess their reliability with absolute certainty. Single pieces of information could only be assessed regarding their plausibility; an assessment regarding their accuracy has not been made. Furthermore, this presentation contains estimates and predictions based upon numerous assumptions and subjective evaluations made by Hamburg Commercial Bank AG as well as outside sources. This information is only meant to provide non-binding perceptions of markets and products as of the time this presentation was issued. Hamburg Commercial Bank AG and its respective employees thoroughly conducted work on this presentation but can not guarantee completeness, actuality and accuracy of the provided information and predictions.
- This document may only be distributed in compliance with the legal regulations in the respective countries and persons obtaining possession of this document should inform themselves about and comply with the applicable local regulations.
- This document does not contain all material information needed for economic decisions and the information and predictions provided can vary from those made by other sources / market participants. Hamburg Commercial Bank AG as well as their organizational bodies and employees can not be held responsible for losses resulting from the use of this presentation, its contents or for losses which in any way are connected to this presentation.
- Hamburg Commercial Bank AG points out that it is not allowed to disseminate this presentation or any of its contents. Damages to Hamburg Commercial Bank AG resulting from the unauthorised dissemination of this presentation or any of its contents have to be compensated for by the disseminator. The disseminator has to keep Hamburg Commercial Bank AG free from all claims arising from the unauthorised dissemination of this presentation or any of its contents and all legal cost in connection with those claims. This particularly applies to a dissemination of this presentation to U.S. Persons or persons situated in United Kingdom.