

Flash note
21/12/2023

Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

ECB largely united on seeing rate cuts later than market bets

Dear client, let me summarize, in one go and in an orderly manner, the statements of the main advisors of the ECB about what is going to happen with official interest rates. This way this way, you will not have to carry out the arduous task of searching one by one for the statements of the ECB members.

- **ECB's de Guindos:** "It's too early to talk about rate cuts". "Rates need to remain high for an extended period of time in order to bring inflation back towards the 2% target". "The focus remains on inflation".
- **ECB's Kazaks:** "It is not the right time to talk about rate cuts". "Maybe in 2H24". "Rates need to stay at current level for some time".
- **ECB's Simkus:** "Investors may have got ahead of themselves in anticipating interest-rate cuts". "The expectations of early and fast interest-rate cuts may be too optimistic".
- **ECB's Muller:** "Market bets on H1 rate cuts premature". "It is too early for the bank to cut interest rates".
- **ECB's Wunsch:** "Investors might be overly hopeful about the ECB's rate cut plans for March or April". "Wage slowdown key to timing of policy shift". "Continued pressure on prices due to wage growth in the Eurozone". "There is a possibility of raising rates if wage increases persist though this is now less likely".
- **ECB's Nagel:** "Inflation has peaked", although "there is still uncertainty as to when inflation would return to the 2% target". "The ten rate hikes by the ECB to date are yielding results".
- **ECB's Vase:** "Any anticipation of an interest rate cut in March or April is premature". "*We need to wait until at least spring to reassess the policy outlook*". "I disagreed with market expectations of rate cuts". "Conditions might not be restrictive enough, given falling bond yields and rate predictions."
- **ECB's Villeroy:** "ECB will get inflation back to target by 2025". "Council stance is that ECB needs to remain patient on policy". "Next rate move should be a cut but no following any calendar on moves". "Lowering of interest rates should happen some time in 2024".

So? Rate cuts in 2024?

Probably. But less than what investors anticipate. If true, there must therefore be some sort of readjustment in markets: Increase in Yields? Stock market correction? Credit spreads widening? In principle the theory points in this direction, but it will depend on the appetite for global risk, which in turn will depend on external factors, such as energy, etc...