

# Pulse

Global Market Strategy, NIM Solutions

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## ECB March meeting review: in no rush

As broadly anticipated, the European Central Bank (ECB) left its policy rates on hold at the [4.5%-4.0%] range for the fourth consecutive meeting. The central bank also offered its new set of staff projections where both real growth and inflation were revised downwards over the entire forecasting horizon (2026). During the press conference, President Lagarde highlighted that the ECB is focused on wages and profits and indicated that “a lot more” information will be available on this front in June to discuss on the possibility of cutting rates.

The new set of macroeconomic projections showed a somewhat larger-than-expected downward revision to inflation. Compared to last December’s projections, ECB staff now expect inflation to come in at 2.3% (0.4ppts lower) in 2024, 2.0% (0.1 ppts lower) in 2025, and 1.9% (unchanged) in 2026. Similarly, Eurozone GDP growth projections were revised slightly lower, with real growth expected to average 0.6% (0.2 ppts lower) in 2024, 1.5% (unchanged) in 2025 and 1.6% (0.1 ppts) in 2026.

While President Lagarde’s comments made it clear that the next move is down, she also emphasized the need for more data before feeling confident in such a decision. The ECB’s stance continues to be one of vigilance, with a keen eye on wage dynamics and unit labour costs as critical variables influencing core inflation and headline outlooks. Looking ahead, the ECB signalled that the June meeting could be pivotal one, suggesting that by then, the ECB should have the necessary amount of data to make informed decisions. However, the timing of any rate cut would depend on the evolution of inflation and wage and corporate profits dynamics. On the wage front, a recent study released in the ECB Economic Bulletin (February 2024) indicated compensation growth in 2024 could increase between 5.5% and 6.5% in Germany and between 4.0 and 4.5% in France. Corporate margin behaviour will therefore be crucial.

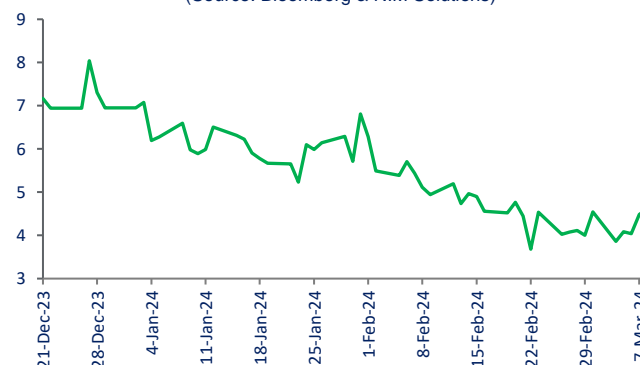
### Our take

ECB’s primary concern continues to be the persistence of underlying price pressures, particularly those in the services sector, which keep being supported by elevated wage pressures. These wage pressures continue to be fuelled by a still tight labour market, reflected in both the hard-to-find job ratio and job vacancies not yet returning to pre-crisis levels even after the notable growth slowdown in 2023. On this note, indications that wage pressures are receding are still very tentative, and ongoing salary negotiations may lead to higher pay rises, further exacerbating inflationary pressures. Additionally, recent data keeps suggesting the Eurozone’s economy is stabilizing around low level, invalidating the severe recession scenario. In fact, thanks mainly to

disinflation-driven gains. In household real wages and therefore in purchasing power, demand is expected to rebound this year.

Markets have taken notice of these developments and have accordingly cut back their expectations for ECB rate cuts in 2024, from seven rate cuts expecting at the beginning of the year to four cuts in just a matter of two months (see Figure 1). In addition, the first-rate cut is now expected in June instead of March.

Fig. 1: Number of ECB cuts expected by Dec 2024  
(Source: Bloomberg & NIM Solutions)



Overall, we keep our call that the ECB is in no rush to cut rates and could likely maintain rates on hold until September to gain more confidence in the projected disinflation and its sustainability. We do, however, take notice of President Lagarde’s tone and consider the possibility on an earlier cut, with the July-September timeframe looking appropriate – but we feel that the odds are skewed to later.

### Asset Allocation Implications

As expected, government yields, especially short-dated ones, have drifted higher as expectations for early ECB cuts have been cut back. Looking ahead, we expect 2Y/10Y euro sovereign spreads to continue steepening as the ECB gets ready to normalise its monetary policy.

From a positioning perspective, we keep duration in line and prefer to hold short-dated bonds and use the likely bouts volatility to progressively come buy back longer-dated ones. Our near-term outlook for EMU equities remains constructive with a relative preference for the Spanish and Italian markets to increase our exposure to the region’s banking sector.

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