



## Fixed Income Special

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

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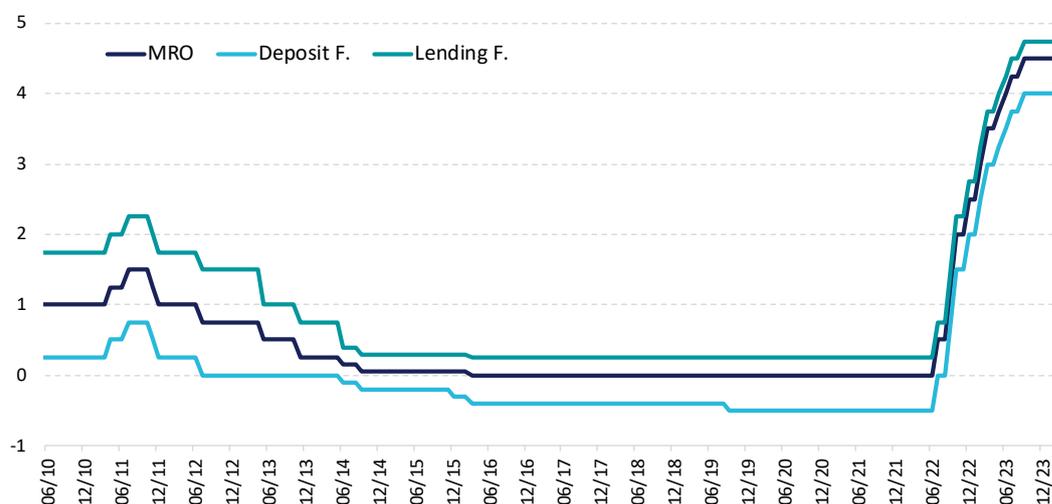
## ECB decision: The council thinks game-by-game

Authors: Dr Norman Rudschuck, CIAA // Lukas-Finn Frese

### ECB key interest rate decision: The next meeting is always the most important

As expected, the decision-makers at the European Central Bank made no adjustments to the three key interest rates today. Accordingly, the interest rate for the main refinancing operations was left unchanged at 4.50%, the interest rates for the marginal lending facility (4.75%) and the deposit facility (4.00%) also remained untouched. The relevant [press release](#) once again points out that, in the Council's opinion, the key interest rates are at a level at which a return to the mandated medium-term inflation target is achievable (at least in theory). Requirement: The high level is maintained long enough. With regard to the question of the appropriate length of time at this restrictive level, the declaration refers to the data-driven meeting-by-meeting approach. The meeting was dominated by downward revisions to the inflation and growth forecasts for 2024 as well as critical questions and the classification of market expectations. In our [ECB preview](#) last week we called it “Delays in operations or full focus on June?” This describes the fact that the majority of market participants expected several early interest rate cuts for a long time, but now the majority sees a pause in interest rates until at least June.

### ECB key interest rates (in %; incl. current interest rate decision)



Source: ECB, Bloomberg, NORD/LB Floor Research

### ECB statement: The same procedure as usual, Madame Lagarde

When we look at the specific wording from today's ECB statement, we experience a sense of déjà vu: If we put the current press release next to the one from January, the parallels are unmistakable. It is pointed out again that most measures of the underlying inflation rate continue to decline. The Governing Council also remains prepared to “adjust all its instruments within the framework of its mandate to ensure that inflation returns to its target value of 2% in the medium term [...]”. There are no targeted longer-term refinancing transactions (TLTROs) planned at all – the paragraph is, so to speak, “carried along” from meeting to meeting.

**ECB projections: Inflation continues to decline, “soft landing” ahead**

The adjusted *ECB Staff Projections* have the expected trend. For the current year, the central bank's experts now expect an average inflation rate of 2.3% (previously: 2.7%). The figure for 2025 is now 2.0% after previously 2.1%. 2026 is sufficiently far away in the future and is still valued at 1.9%. However, the ECB sees inflation excluding energy and food at 2.6% in 2024 (previously: 2.7%), before falling to 2.1% in 2025 (previously: 2.3%) and to 2.0% in 2026 (previously: 2.1%). Here we see – as of today – clear disinflationary tendencies in the updated *staff projections*. With regard to economic activity, we believe that the base scenario is a “soft landing”. The ECB experts adjusted their projection for 2024 to 0.6% (previously: 0.8%). For the following years 2025 and 2026, the central bank communicated a growth rate in economic output in the common currency area of 1.5% and 1.6% respectively (2025 so far: also 1.5%; 2026 so far: 1.5%). Now that the ECB has once again adjusted its short-term economic output forecast slightly downwards, we see the “soft landing” scenario confirmed. Or is it hanging more than ever by a thread of hope?

**Latest ECB projections for euro area growth and inflation (in %)\***

	<i>March 2024 projections</i>		
	<b>2024</b>	<b>2025</b>	<b>2026</b>
<b>Real GDP</b>	0.6	1.5	1.6
<b>HICP inflation</b>	2.3	2.0	1.9

\* Change versus previous year in %  
Source: ECB, NORD/LB Floor Research

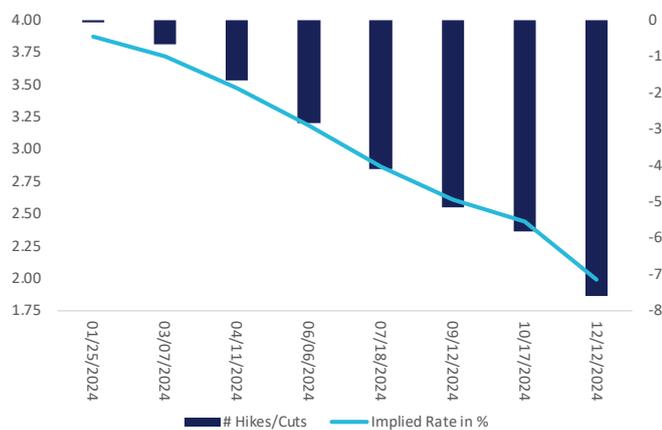
**Press conference: “The economy remains weak”**

Before President Lagarde was starting to speak, “the markets” already had 30 minutes’ notice to act on the statement and (re)position themselves again. These (re)positionings appear to have interpreted the ECB's lowering of its inflation forecast as a dovish signal and are increasingly confident in pricing in a cut in June – and four cuts in 2024 in total. The ECB is likely to remain cautious about declaring victory, pointing out that interest rate cuts depend on wage growth. In our view, the disinflation process appears to be continuing and will definitely open the door to monetary easing this year. Lagarde's most catchy sentence was: “The economy remains weak”. In addition, at no point did she allow anything to be elicited: neither about the planned speed of the interest rate cuts, nor when they were planned to start, nor about the frequency this year and next year. Interest rate cuts would not have been the subject of current discussions at this council meeting either. She also rejected comparisons with the Federal Reserve. Every central bank is independent.

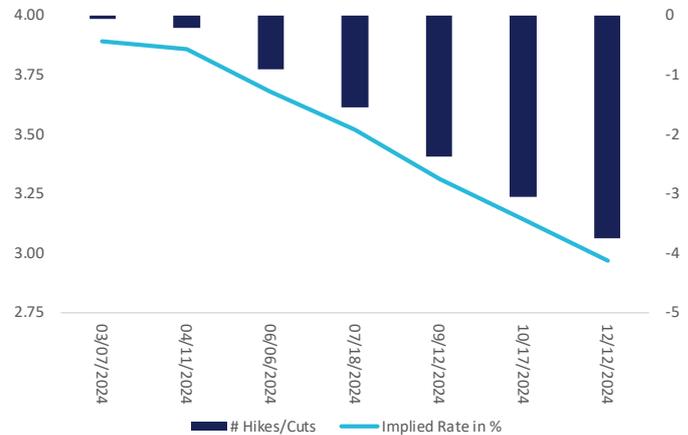
**Allow us to put this into perspective:** It would actually be a novelty if the ECB were to act before the Fed. But you know what they say on the capital markets: the past is no indication of future developments. No good evidence, no bad evidence – simply no indication at all.

**However, other bon mots say:** History repeats itself. That's how we would classify today's press conference. Let's just let it go, April is likely to be “boring” again, but from then on, we think we need to be careful. In the nature of things, there is more data available in June than in April. That's how it is with monthly data. The longer the ECB waits, the more data is available.

Implied Overnight Rate 27.12.2023



Implied Overnight Rate 07.03.2024



Source: Bloomberg, NORD/LB Floor Research

### What does “the market” expect?

What is exciting is that in December 2023 some market participants expected seven to eight interest rate cuts in 2024. The trend only reversed when the interim low for 10-year Bunds was reached at around 1.9% shortly after Christmas and some opinions shifted towards “mid-year” or “second half of the year”. Today we had the second council meeting of the year, so the interest rate cut fantasies in the market – i.e. the implicit interest rate changes derived from overnight index swaps – have cooled down again since January. At the same time, the ECB Council appeared in interviews to be targeting June 2024 for the first cut. As is well known, this led us to the statement: “Are there delays in operations or full focus on June?” We think we’ll enjoy the calm before the storm for a few more months.

### Conclusion and outlook

First of all, we would like to point out again: With a meeting-by-meeting approach – a monetary policy clause for: “We think game-by-game” – patience is required. And also the corresponding data – this applies in one direction as well as in the other. In addition, to stay in the sporting metaphor: the next meeting is always the most important one. In view of this and because we initially doubt the inflation forecast of around 2.3% in 2024 due to the considerable geopolitical uncertainties, we stick to our forecast that there is a certain probability of an interest rate cut until June at the earliest. However, the majority of activity will shift to the second half of the year and we expect small and slow steps. In concrete terms, this means that we expect steps of 25 basis points and that these will not take place at every upcoming meeting in the second half of the year. The German economy is currently being hit like no other major economy in the world: due to the coordinated strikes (airports and railways), some council members were unable to physically attend the council meeting for the entire time and some had to leave early yesterday. The local population is tired of such measures. However, we strongly condemn attacks on infrastructure, e.g. power lines. Today Madame Lagarde whistled the press conference promptly at 3:36 p.m., we look forward to the new kick-off on 11 April. The first interest rate cut could then follow on 06 June. The chances of this happening have increased significantly today.

## Appendix

### Publication overview

#### Covered Bonds:

[Issuer Guide Covered Bonds 2023](#)

[Covered Bond Laws](#)

[Covered Bond Directive: Impact on risk weights and LCR levels](#)

[Risk weights and LCR levels of covered bonds](#) (updated semi-annually)

[Transparency requirements §28 PfandBG Q4/2023](#) (quarterly update)

[Covered bonds as eligible collateral for central banks](#)

#### SSA/Public Issuers:

[Issuer Guide – German Laender 2023](#)

[Issuer Guide – German Agencies 2023](#)

[Issuer Guide – European Supranationals 2023](#)

[Issuer Guide – French Agencies 2023](#)

[Issuer Guide – Dutch Agencies 2023](#)

[Issuer Guide – Non-European Supranationals \(MDBs\) 2024](#)

[Beyond Bundeslaender: Belgium](#)

[Beyond Bundeslaender: Greater Paris \(IDF/VDP\)](#)

[Beyond Bundeslaender: Spanish regions](#)

#### Fixed Income Specials:

[ESG-Update 2023](#)

[ECB preview: Delays in operations or full focus on June?](#)

[ECB decision: Council versus market](#)

## Appendix

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