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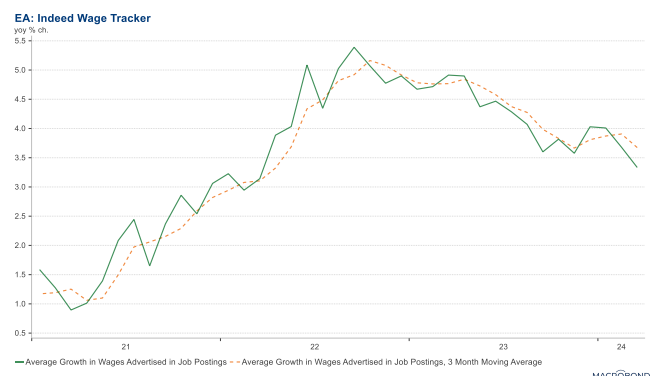
ECB almost confirmed rate reduction in June

- At last week's meeting, the European Central Bank decided to keep interest rates at their current levels, which was mostly in line with expectations. The ECB stated in a press release that inflationary pressures are decreasing (in March the average annual inflation rate in the eurozone was 2.4%, and in February 2.6%) due to lower growth in food and goods prices, but service prices are still increasing at a strong pace. Wage growth is gradually decreasing which, along with more restrictive financing conditions, is weakening the pressures on the demand side.
- Besides matter-of-fact explanations, the press release contains a significant shift compared to the previous meeting, i.e., indications of monetary policy developments: "If the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction." Considering that the new estimates will be ready for the meeting in June, there is a high probability that the easing of monetary policy will begin then, i.e., the interest rate reduction (by 25 bps according to our estimate) because it is estimated that the price trend will strengthen the belief about a steady decline towards the targeted 2%. By the end of the year, we forecast a cumulative decrease in ECB interest rates by 75 bps, although even 100 bps cannot be ruled out.
- At the press conference, Ms Lagarde confirmed that the ECB will not pre-commit to a particular rate path but will remain faithful to an approach based on data, of which there will be significantly more by June, not only on price trends, but wages. Answering a question on high inflation in the U.S. and its influence on the Governing Council's decisions, she said that the ECB is data not Fed dependent (where, *nota bene*, the probability of the first rate cut in June is diminishing), but the effect of the U.S. economy trends is taken into account when generating ECB's forecasts. At the same time, she refused to comment on the possible effect of the EUR/USD exchange rate trends (on import prices and consequently inflation) in the scenario of different monetary policies' paths which now seems certain, stating that a certain level of the exchange rate is not the ECB's goal.

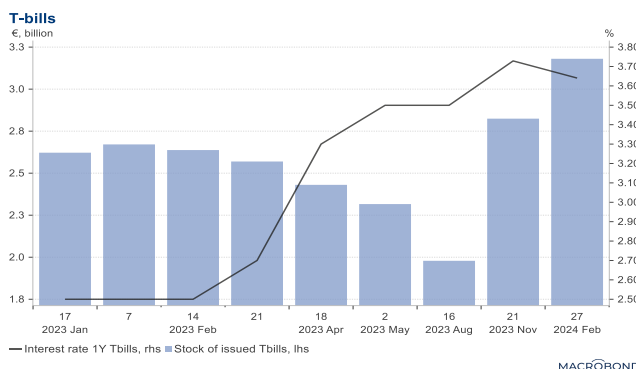
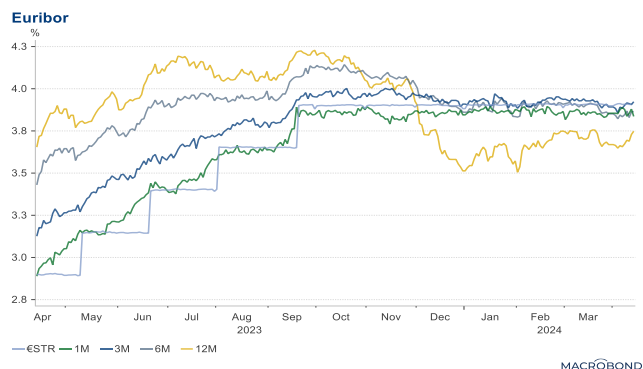
ECB's interest rates without change

We expect the first cut in June, in 2024 cumulatively 75 bps

ECB tracks the data, not the Fed



- The euro depreciated against the dollar after the data was published on surprising growth of U.S. inflation in March and the ECB's meeting which indicated that the eurozone's central bank will start the interest rate cut cycle before the Fed, as well as during growth of geopolitical tensions that are strengthening the dollar as a safe-haven currency. On Friday, the exchange rate was 1.0652 dollars to the euro, down by 1.7% w-o-w and the lowest level since November last year.
- Euribor recorded a decline on maturity of 1M and growth on longer maturities so on Friday 3M and 6M were both 3.9%, slightly up w-o-w. This week, EUR 185 million of 1Y T-bills is due, but there will be no auction.
- Crobex recovered at the end of the week, achieving a mild growth of 0.2% w-o-w on Friday (to 2,830 points), whereas the most important sectoral indices recorded divergent trends (CROBEXindustry +0.8% to 2,026, CROBEXnutris +0.6% to 924, CROBEXtourist -0.7% to 4,463). Crobis stagnated at 96.0 points.



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