WEEKLY ANALYSIS

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ECB remains cautious

- Numerous interviews and statements by the members of the ECB's Governing Council over the past month have made it clear that the decision to start the monetary easing cycle with the June meeting is a foregone conclusion. Accordingly, on 6 June the ECB decided to reduce the reference rates by 25 b. p., so that as of 12 June the interest rate on deposits (DFR) will be lowered to 3.75%, on main refinancing operations (MRO) to 4.25% and on overnight loans (MLR) to 4.50%. The forward guidance did not bring anything new, reiterating that key interest rates would remain sufficiently restrictive for as long as necessary to achieve a return of inflation to the medium-term target of 2%, while stating that the data-driven approach would continue to be applied.

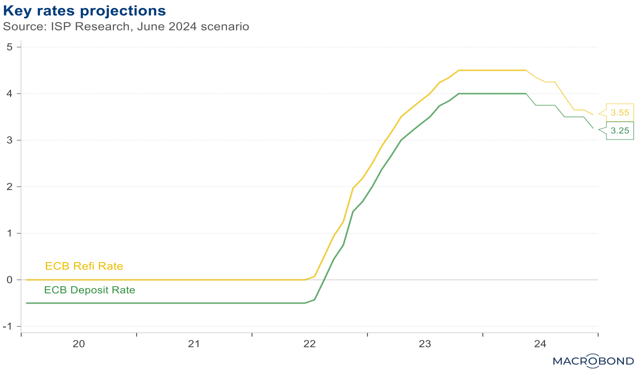
ECB lowers key interest rates by 25 b.p.

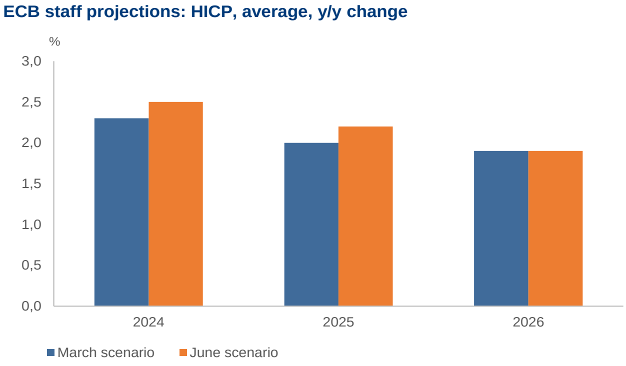
- The projections for 2024 and 2025 have been updated, thus the average annual rate of headline inflation has been revised upwards compared to the previous scenario in both years (to 2.5% and 2.2%), as well as the forecast for the core inflation rate (to 2.8% and 2.2%, respectively), which is explained by pressures from strong wage growth, as a result of which inflation is expected to remain above the 2% target for this year and for a large part of next year. As for GDP growth projections, this year's GDP growth projection has been raised to 0.9%, and for 2025 it has been slightly lowered to 1.4%, somewhat exceeding our expectations in both years.

Inflation projections revised up

- The revision of inflation projections and the emphasis on domestic price pressures indicate that the monetary policy normalisation cycle could be prolonged, as hinted, for example, also from an interview with Isabel Schnabel in May, in which she stressed that after the reduction in June, the trajectory is very uncertain and that, based on the data available so far, a reduction in July does not seem likely. The ECB obviously remains cautious, expecting inflation movements to be uneven, that is, as Lagarde vividly described at the press conference, the ECB is traveling towards 2%, but there will be bumps on the road. Our forecast is that by the end of 2024 we will see interest rates additionally reduced by 50 b.p., by 25 b.p. in September and 25 b.p. in December.

The easing cycle could be prolonged

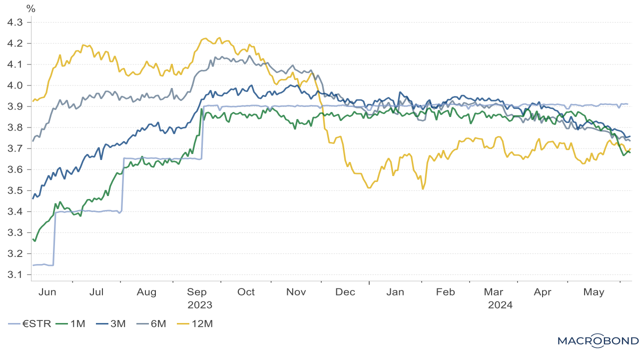




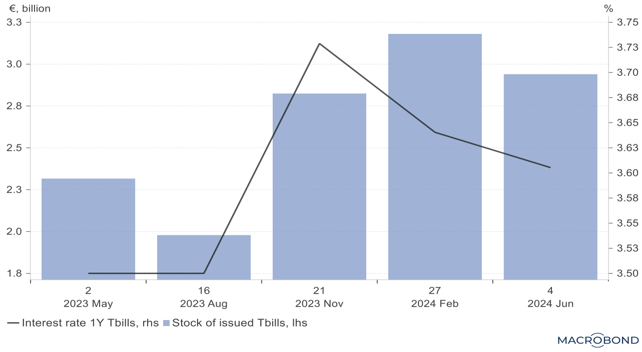
- EUR/USD remained in the range of 1.08-1.09, as the ECB's decision was widely expected and embedded into market expectations. At the end of the week, the exchange rate reached US $1.0898 for the €, up by 0.4% week-on-week.
- Anticipating the ECB's decision, Euribor moved slightly downwards last week, with a more pronounced decline at shorter maturities. At the end of the week, 3M and 6M were 3.8 and 3.7%, respectively, down by 3 and 1 b.p. week-on-week. Last week, €283 million of three-month treasury bills were issued with a yield of 3.75% for retail and 3.65% for institutional investors, and €742 million of twelve-month treasury bills with a yield of 3.65% for retail and 3.44% for institutional investors.
- Crobex again recorded significant fluctuations in the week behind us, closing Friday at 2,803 points, down by 0.1% week-on-week. Among the sectoral indices, CROBEXindustry and CROBEXnutris recorded an increase (+0.4% to 2,040 points, +0.2% to 911 points), while CROBEXtourist plunged (-1.7% to 4,363 points). Crobis achieved an increase of 0.1% to 96.6 points.

EUR/ USD

Euribor



T-bills



Crobex/Crobis

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