WEEKLY ANALYSIS

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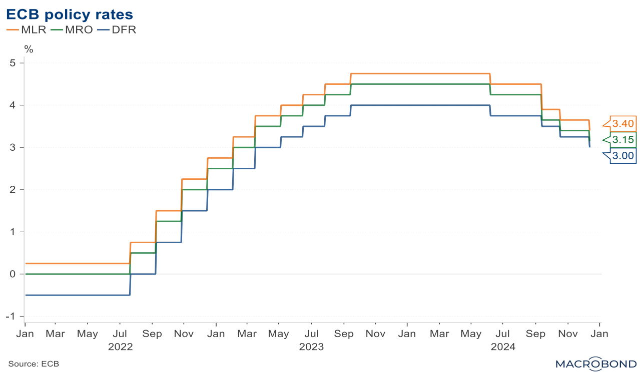
ECB cuts key interest rates by 25 b. p.

- Last week, we looked at recent developments in economic activity in the euro area, which indicate that growth remains tepid. Stronger monetary policy support will help only to a certain extent (to a greater extent, it could be removing barriers to raising productivity and competitiveness, choosing a decarbonization strategy, strengthening security and reducing dependencies and external vulnerabilities, as indicated by the Draghi report on the future of competitiveness in the EU), so ECB Governing Council member Schnabel in an interview[1] points out that the euro area faces structural problems that go beyond those of Germany, which could cause investment to remain weak even when interest rates fall.

ECB lowers inflation and growth forecasts for 2025

- The ECB did not surprise at last week's meeting, the estimate of market players that it will lower interest rates by 25 b. p. lately prevailed. Thus, as of 18 December, the main policy interest rate, DFR, is 3.00%. New projections were also not surprising, according to which the forecast for euro area inflation in 2025 was slightly lowered to 2.1% and GDP growth to a slightly less optimistic 1.1%, with the assessment for unfavourable growth prospects to be prevailing. Forward guidance was absent, and it was reiterated that the bank does not decide in advance on a certain dynamics of rate changes. However, if we look at the projections, a further decline in rates is clearly expected and that the decline towards the level of 1.75-2% is in line with the target long-term inflation level.



In 2025, we expect a systematic reduction in rates

- In our recent projections, we cut the expected level of interest rates in 2025 by 50 b.p. We now forecast that in the next six months the ECB will systematically cut rates so that at each monetary policy meeting it will decide to cut them by 25 b.p. This would end the monetary policy easing cycle in June with DFR at 2.00%. However, we cannot rule out the possibility of more decisive cuts and falling below that level.

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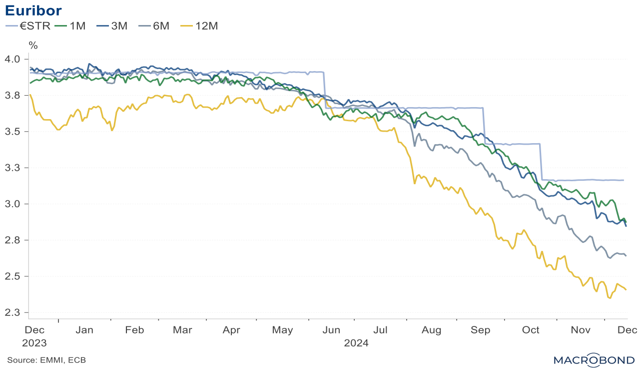
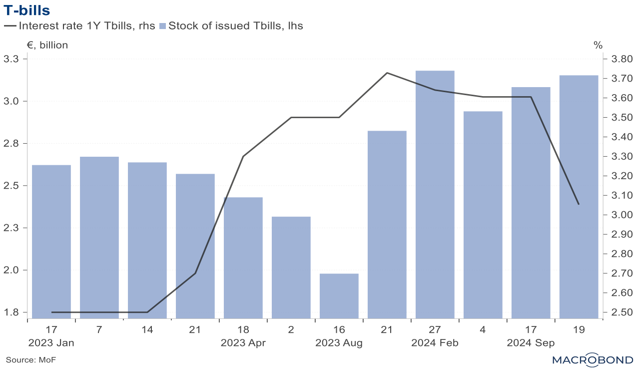
[1] Interview with Bloomberg

- In anticipation of this week's Fed meeting, the euro initially fell sharply after the ECB's decision, only to recover slightly to $1.0518 per euro on Friday, but still recorded a decline of 0.6% week-on-week.
- After the ECB meeting, the Euribor was only marginally lowered, so 3M and 6M stood at 2.8% and 2.6% respectively at the end of the week, which is almost unchanged week-on-week. This week, €427 million of three-month treasury bills are due, so last week the first round of subscriptions began, in which the bills were offered to natural persons with an annual yield of 3.10%. The second round of subscriptions will be held tomorrow, and the target amount of the issue is €400 million.
- Crobex recovered, achieving a 1.6% week-on-week growth to 3,194 points owing to the positive trend of all the most important sectoral indices (CROBEXindustry +1.1% to 2,290, CROBEXnutris +4.4% to 873, CROBEXtourist +0.3% to 4,142). Crobis increased by 0.5% to 98.5 points.





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