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ECB meeting without indications of further steps

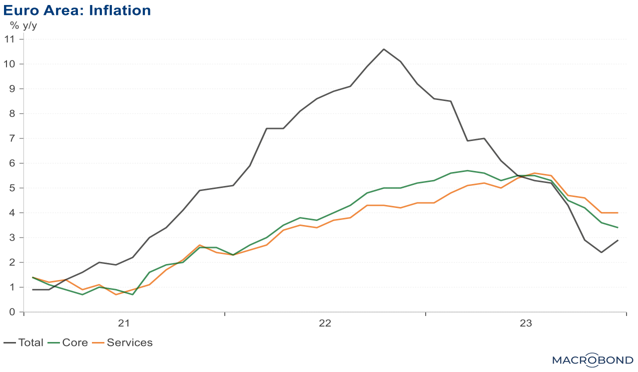
Lagarde stated at Davos it is likely that interest rates will be cut this summer

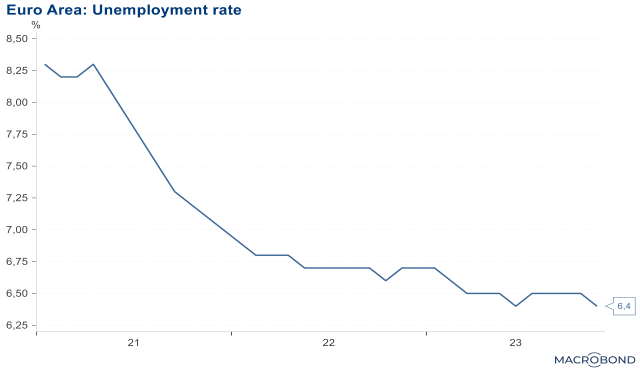
- There were high expectations from the last week's meeting of the European central bank, especially after Ms Lagarde indirectly confirmed at the World Economic Forum in Davos the week before that interest rates have peaked and that the reduction cycle will probably begin this summer (at the same time, admittedly, distancing herself by explaining that the ECB's decisions are data-dependent and that a high level of uncertainty is still present). Therefore, it was reasonable to expect that on 25 January the ECB will present clear forward guidance that will supress speculations, and one can say, betting of market actors that interest rates' cuts will begin already in April. The ECB's decision to maintain interest rates at the existing levels was therefore completely expected, but the statement was disappointing because it gave no indications of the Governing Council's further moves. It reiterated already standard explanations that the ECB will maintain key interest rates long enough at the levels that will bring down inflation towards mid-term goal of 2%, as well as that the rates' levels will remain restrictive enough as long as needed. At the press conference, regarding the statement from Davos, Ms Lagarde reiterated that the Governing Council is of the unilateral opinion it is too early to discuss interest rate cut and added that she stands by her comments but not by their interpretations. She explained that the ECB will be led by data and not by a specific date, probably another attempt to disregard market expectations that a reduction may occur as early as April. It is highly unlikely, however, that it was successful so in the absence of firm and clear forward guidance the expectations of market investors will remain unchanged.

ECB press release without change

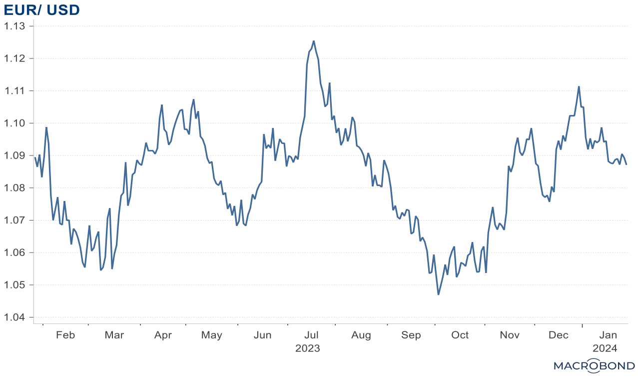
- If guided by data, the ECB has no reason to suspect that price trend is moving in the target direction. In December, inflation in the eurozone was slightly higher than in November and was 2.9% y-o-y, but it is to be expected that its movement will oscillate slightly in the upcoming months. Underlying inflation, however, continued to weaken (3.4%). Strong labour market could represent an obstacle to the downward trend, along with tensions in the Middle East. Unemployment rate (6.4% in November) is at the historically lowest level so pressures to wage growth, especially in the work-intensive service sector, could once again fuel prices. The ECB is claiming, though, that these pressures have been lessening, and we will see more data on this in the upcoming months. Our forecast is that June will see its first interest rate reduction.

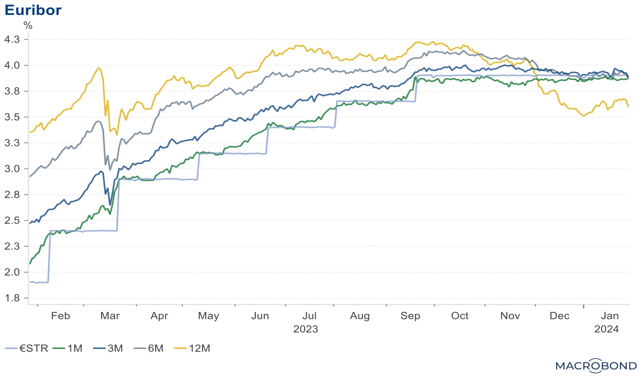
We expect first rate cut in June

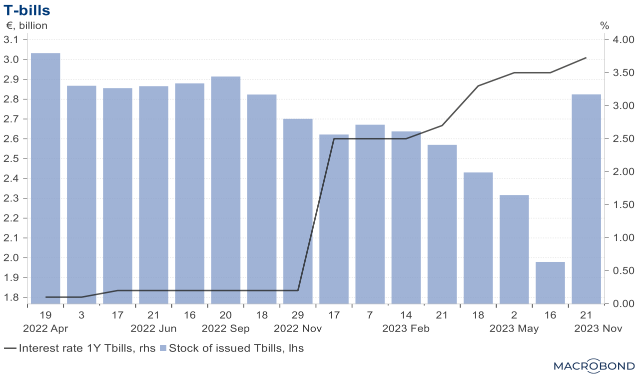




- The dollar appreciated against the euro thanks to data on the U.S. GDP growth which exceeded expectations and after the ECB's meeting which did not provide the direction of the rates' development. On Friday, the exchange rate was 1.0871 dollar to the euro, down by 0.1% w-o-w.
- Euribor recorded a mixed trend so on Friday 3M and 6M were both 3.9%, a decline of 10 bps, i.e., a w-o-w stagnation.
- Crobex recorded a mild growth of 0.3% w-o-w to 2,632 points on Friday. Out of most important sectoral indices, only CROBEXtourist recorded an increase (+3.4% to 4,357), while CROBEXindustry and CROBEXnutris ended the week in red (-1.1% to 1,741, i.e., -0.5% to 933). Crobis stagnated at 96.1 points.







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