# ECB: 'Big' Cut to Inflation Forecasts, But No ECB Cuts Until June

**Contributors**

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- **The ECB's slightly larger than expected negative revisions to headline/core inflation and GDP growth forecasts triggered an EGBs rally and increased ECB cut bets as a June easing start becomes more likely.**
- **As the dust settles, EGBs have given up their gains and markets have halved what they had initially added in expected cuts by year-end. The EUR is surprisingly stronger than pre-statement, though lagging all its G10 peers.**
- **Aside from the forecast revisions, the ECB's communications offered very few changes and Lagarde reinforced our view that they will hold in April with only "a little more" on the data front known by then.**
- **We expect the ECB's rate cutting cycle to begin in June with a 25bps move that will be the first towards 100bps in reductions through 2024.**

It took only a couple of decimal points worth of revisions to inflation forecasts to immediately trigger a strong rally in EGBs and shift cuts pricing to total roughly a full percentage point by year-end. Markets have come to their senses and faded the bulk of the rates gains but have still added 2–3bps to cumulative cuts expected by end-2024, at 95bps. It happened again. Governing Council hawks that spoke in the lead-up to today's announcement had primed markets for a less 'cut-friendly' decision and again the set of communications fell short of the higher, more hawkish, bar that they had set and markets were caught off-guard.

Today's ECB decision generally met our expectations in terms of tone and forecast revisions. In turn, we leave unchanged our forecast for four 25bps cuts by end-2024 with the first one coming in June. An April cut, five weeks from today, is likely too early as the ECB wants to be fully confident (thanks to data) that they can begin cutting rates. Lagarde practically said as much in her presser; the ECB "will know a little more in April but a lot more in June". This "a lot more" refers to wages and inflation figures released over the next thirteen weeks, but also the results of pay rise negotiations across the bloc.

The ECB did not make any changes to its key guidance paragraphs (second and third **here**). A dovish twist would have been alluding to the nearing start of easing or greater optimism regarding the inflation path. A hawkish stance would have been highlighting strong wages growth and a clearer call for patience to observe these data over several months. We got neither, leaving the ECB's updated forecasts as the main 'tradeable' component of the monetary policy decision.

The ECB did not discuss rate cuts for this meeting according to Lagarde, but this isn't surprising. She added that they have just begun discussing the dialing back of their restrictive stance, which is also reasonable at this stage. She reinforced the bank's view that they remain worried about services inflation and wage growth risks that are the key reasons to not begin rate cuts yet. Lagarde also highlighted the role that shrinking profit margins have played in absorbing rising labour costs, thus preventing higher inflation. Tomorrow's third release of Q4-23 GDP figures will contain data on profit margins and compensation for employees, with Lagarde already teeing up that she expects Q4 wage data out on Friday to show a slowdown.

ECB staff revised their headline and core inflation forecasts by slightly more than economists expected. GDP growth is also now seen weaker in 2024 (0.6% vs 0.8% in December round), but that's not turning heads. With the new lower profile, headline inflation reaches the target on an annual average basis in 2025 (versus 2026 previously), with core inflation now also averaging 2% in 2026. The 2025 core inflation forecast revision to 2.1% from 2.3% is perhaps the most noteworthy of the bank's new projection round as only about a fifth of economists polled by Bloomberg expected a lower number.

To be clear, these are minor adjustments that could easily flip the other way on a couple of prices tailwinds. In the case of headline inflation, revisions also owe largely to a decline in energy prices. But, if headline inflation does average 2.3% in 2024 as the ECB projects (2% in 2025 and 1.9% in 2026), then one can imagine this would also act to anchor inflation expectations and wage demands over the next few quarters, helping the wage pressures side of the picture.