

## ECB update

### No surprises

- Another 25bp hike and an end to APP reinvestments
- Another and possibly final hike in July

Governing council served no surprises in today's policy decision meeting. All key policy rates were increased by 25 basis points (bp). The council signaled that they would continue to make policy decisions in a data dependent approach. Although, the ECB is sending mixed messages - it acknowledged that there are tentative signs of easing underlying inflation pressures and seems the ECB is satisfied with the forcefulness of policy transmission from the markets into the real economy. On the other hand, upwardly revised inflation projections for 2024 imply that further tightening might be needed, or at least that interest rates will need to stay high throughout the forecasting horizon. Dovish text coupled with hawkish forecasts and lack of forward guidance provides flexibility for rate decision in September.

The ECB confirmed the decision to end APP reinvestments in July, the pace of reduction of ECB's bond portfolio will roughly double to 30bn EUR. That's not all – almost half a trillion euro of TLTRO loans are expiring in the end of June. A move is anticipated and should not cause disorderly movements in the markets, but nonetheless will further tighten financial conditions in Europe.

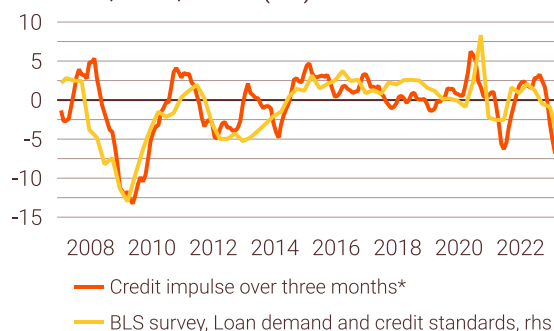
Another 25bp hike in July seems to be almost guaranteed. Market is currently expecting the final hike to be delivered in September. We believe that further negative surprises in inflation dynamics are likely and will weaken the case for another hike in September. A significant drag on growth coming from restricted credit flow should be evident by the end of the summer. Although, Europe tends to surprise with resilience recently. Nonetheless, we stick with our forecast that terminal rate of 3.75% will be reached in July for now.

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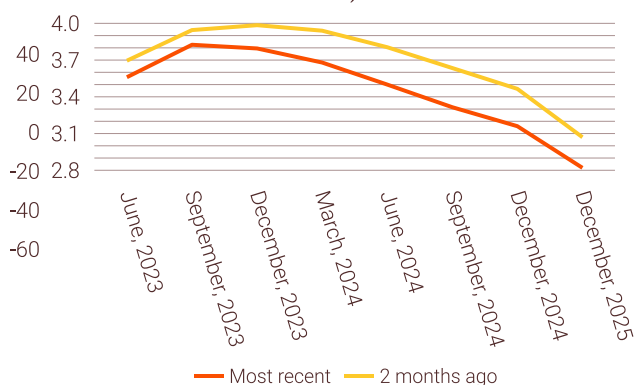
#### Euro area: financial conditions and lending

% of GDP; index, 3mma (rhs)



Sources: Swedbank Research & Macrobond  
\*change in the flow of credit

#### 3 month euribor futures, %



Sources: Swedbank Research & Macrobond

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