

ECB preview

The first cut with little forward guidance

- Inflation slightly higher in May, growth outcome and prospects improved somewhat
- The ECB is very likely to cut rates this Thursday, but will make no further promises, except to be data dependant

Headline inflation increased to 2.6% in May and was slightly higher than economists expected. Services inflation increased to 4.1%, the highest level since October last year. Negotiate wage growth also accelerated in the first quarter to 4.7%, but wage growth in advertised postings still point to moderating growth in labour costs later this year. ECB staff will revise macroeconomic projections, but large revisions are unlikely – GDP forecast may be revised slightly upwards, but inflation still seems to be on track to fall to 2% later this year.

Nevertheless, this somewhat stickier inflation and wages is likely to lead to a hawkish cut this week. We expect the ECB to cut base interest rates by 25 basis points but provide little forward guidance, other than to remain data dependent. After most recent data markets expect the ECB to cut rates only 2 times this year and another 2 times in 2025. This large shift in market expectations (see second chart) was partly affected by higher than expected inflation in US and the perception that the ECB cannot cut too much if the Fed stays put. Nevertheless, some divergence in rates is likely and even welcome this time around, given structurally weaker growth and less expansionary fiscal stance in euro area. We maintain our view that more cuts are likely than currently are priced in by the markets but will review our forecast after the Governing Council meeting on Thursday.

Analyst:

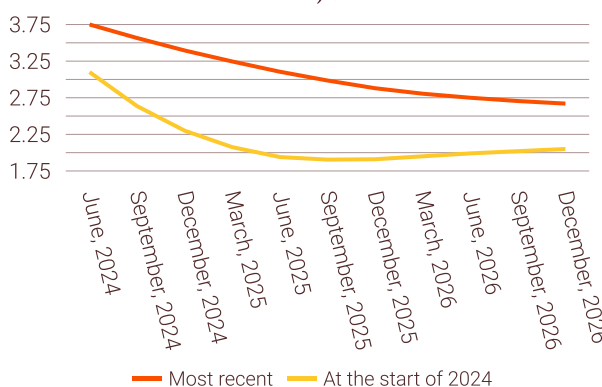
Nerijus Mačiulis, nerijus.maciulis@swedbank.lt, +370 5258 22 37

Wage growth is decelerating



Sources: Swedbank Research & Macrobond

3 month euribor futures, %



Sources: Swedbank Research & Macrobond

IMPORTANT INFORMATION

This report (the "Report") has been compiled by analyst(s) at Swedbank Macro Research, a unit within Swedbank Research that is part of Corporates & Institutions ("Swedbank Macro Research"). Swedbank Macro Research is responsible for preparing reports on economic developments in the global and domestic markets. Swedbank Macro Research consists of research departments in Sweden, Norway, Estonia, Latvia, and Lithuania.

What our research is based on

Swedbank Macro Research bases its research on a variety of aspects and analysis, for example, a fundamental assessment of the cyclical and structural economic, current or expected market sentiment.

Distribution & recipients

This Report is distributed by Swedbank Macro Research within Swedbank AB (publ) ("Swedbank"). Swedbank is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). In no instance is this Report altered by the distributor before distribution.

In Finland this Report is distributed by Swedbank's branch in Helsinki, which is under the supervision of the Finnish Financial Supervisory Authority (Finanssivalvonta).

In Norway this Report is distributed by Swedbank's branch in Oslo, which is under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

In Estonia this Report is distributed by Swedbank AS, which is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspektsioon).

In Latvia this Report is distributed by Swedbank AS, which is under the supervision of The Financial and Capital Market Commission (Finanšu un kapitāla tirgus komisija).

In Lithuania this Report is distributed by "Swedbank" AB, which is under the supervision of the Central Bank of the Republic of Lithuania (Lietuvos bankas).

This Report is not intended for physical or legal persons who are not clients of Swedbank or any savings bank in cooperation with Swedbank, or who are citizens of, or have domicile in, a country in which dissemination is not permitted according to applicable legislation or other decisions.

This Report or any information in it is not for release, publication, or distribution, directly or indirectly, in or into the United States or any other jurisdiction in which such distribution would be unlawful or would require registration or other measures.

In the United Kingdom this Report is addressed to and directed only at, and should only be relied upon by, persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order or are persons to whom it may otherwise be lawful to communicate the Report to (all such persons being referred to as (Relevant Persons)). No other person

should act or rely on this Report and persons distributing this Report must satisfy themselves that it is lawful.

Limitation of liability

All information, including statements of fact, contained in this Report has been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by Swedbank with respect to the completeness or accuracy of its content, and this Report is not to be relied upon as authoritative and should not be taken in substitution for the exercise of a reasoned, independent judgment by you.

Be aware that statements regarding future assessments comprise an element of uncertainty. You are responsible for such risks alone and Swedbank recommend that you supplement your decision-making with material, which is assessed to be necessary.

Opinions contained in this Report represent the analyst's present opinion only and may be subject to change. In the event that the analyst's opinion should change or a new analyst with a different opinion becomes responsible for Swedbank Macro Research's coverage, Swedbank will endeavour (but does not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within Swedbank or other circumstances.

Swedbank is not advising or soliciting any action based upon this report.

To the extent permitted by applicable law, no liability whatsoever is accepted by Swedbank for any direct or consequential loss arising from the use of this report.

Conflicts of interest

In Swedbank Macro Research, internal guidelines are implemented in order to ensure the integrity and independence of the research analysts. All research reports are independent and based solely on publicly available information.

This material may not be reproduced without permission from Swedbank Research.

Producer

Produced by Swedbank Macro Research.

Swedbank C&I, Swedbank AB (publ), SE-105 34 Stockholm.

Visiting address: Malmskillnadsgatan 23, 111 57 Stockholm.