

European Rates Alpha

Close ECB date steepener, post sell-off

Market pricing less than 50% prob of April ECB cut...

We close our paid April €str ECB date vs received March ECB, which we entered on Feb 2nd as a way to position for the pricing out of April ECB cuts. At the time, the market priced in 22bp of cuts in April and 4bp of cuts in March (spread of -18bp). We now close the trade at -10bp, as the market is pricing in only 11bp of cuts in April, ie. less than 50% probability of a 25bp move (and 1bp of cuts in March).

... making the risk-reward of paid April ECB less attractive

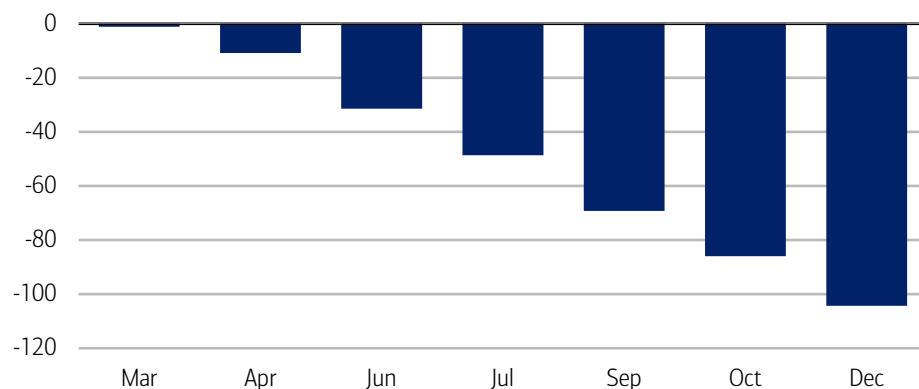
Our economists still do not expect the ECB to cut rates in April, looking instead for a first move in June. However, at current levels, the risk-reward of the trade is no longer attractive. Indeed, an April move can no longer be ruled out.

Recent ECB messages have been mixed, in particular those coming from Villeroy De Galhau who tends to sit on the middle of the dove-hawk spectrum. In an interview on Feb 16th, he flagged that the risk of moving too late exists “at least” as much as that of moving too soon. Although coming from a less frequent speaker and a traditionally more dovish one, comments from ECB’s Scicluna on the need to consider a March cut are also worth noting. This is the first time an ECB speaker has pushed for cuts as soon as March.

With that March meeting just two weeks ahead away, and in light of the downside surprises we saw in recent prints, we are also wary of any indication that the ECB would revise their inflation forecasts in a way that appears dovish. This would raise the market implied probability of an April cut.

Exhibit 1: Market implied cumulative ECB rate cuts in 2024

Post selloff, the market is implying less than 50% probability of cut in April, and just over 100bp of cuts for 2024 as a whole



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

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Rates Research
Europe

European Rates Research
MLI (UK)

Sphia Salim
Rates Strategist
MLI (UK)
+44 20 7996 2227
sphia.salim@bofa.com

Ronald Man
Rates Strategist
MLI (UK)
+44 20 7995 1143
ronald.man@bofa.com

Ruben Segura-Cayuela
Europe Economist
BofA Europe (Madrid)
+34 91 514 3053
ruben.segura-cayuela@bofa.com

Evelyn Herrmann
Europe Economist
BofASE (France)
+33 1 8770 0292
evelyn.herrmann@bofa.com

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ECB: European central bank

€str: euro short-term rate

EZ: Eurozone

QE: quantitative easing

QT: quantitative tightening

USTs: US treasuries

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