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**CAROLINE HEPKER, BLOOMBERG:**

The ECB President Christine Lagarde has also been speaking to Le Figuro and Newspaper. A hike is possible even after a pause seems to be her message. Joining us now is Konstantin Veit, who is Portfolio Manager for European Rates at PIMCO. Konstantin, welcome to Radio.

**KONSTANTIN VEIT, PIMCO:**

Good morning. Thanks for having me.

**HEPKER:**

So Euro-area inflation probably declined in July. That's the expectation from Bloomberg economics. How important are these inflation numbers to you and what are you expecting?

**VEIT:**

Yeah, it's very hard to have a good view on the monthly numbers. I think more important is the trajectory from here. The inflation numbers in an hour will probably not be too dissimilar to what we've seen from last month and I think if the US is any guide, core inflation in Europe is still close to the peak. So core inflation peaked around 5.7% it's 5.5% currently and if the US is any guide, it will not drop like a stone, but rather slowly march lower over the following quarters. And that means that the ECB will probably be on hold and it probably has to do a little bit more. So we certainly think that the rate cuts with a price ready for next year look somewhat optimistic in the backdrop.

**STEPHEN CARROLL, BLOOMBERG:**

What did you make of the comments of Christine Lagarde in Le Figuro newspaper, where she's talking about the idea of really there being you know September being in play for a hike or a pause and a pause not meaning that's the end of the rate hike cycle?

**VEIT:**

Yeah, I think what she said on Sunday was actually pretty similar to what she had said at the press conference. They're data dependent, they will watch it from meeting to meeting and take it from there. I think what was most interesting in the interview she gave yesterday was that she said the preliminary GDP numbers for Q2 and confirmed their staff forecast for growth this year. So remember in June they had a projected 0.9% of growth for the Euro Area this year and if they broadly maintained this and inflation is also similar to what they've done in June, they said, then it's unlikely that they are done in terms of hiking interest rates. So growth seems to be holding up reasonably well. Inflation potentially comes down slower than expected so it's not entirely over, but it could easily be done.

**HEPKER:**

Okay, in terms of looking at the European rates market and in terms of what investments you might make, how do you think about that? I mean it's interesting in a way that spreads have been quite under control in the last few months in Europe and that even though this has been very difficult and is a huge pivot point for Europe that spreads have not widened significantly, is that a good sign?

**VEIT:**

Yeah, the market is certainly pricing a soft landing. I think if we take a step back and look where we have come from, a lot of people forget that not too long ago we were talking about jeopardification in the Euro area and it took the pandemic and the war which is very unfortunate to get Europe out of negative yields. But the first thing to note is obviously years are very different to where they have been. So there's obviously a great environment for fixed income and for bond investors, more broadly. So that's the first point that would make and secondly, in terms of how we would position ourselves and given the outlook. I think we have a quality bias in the portfolio as well when it comes to interest rate width and when it comes to credit rates. So on rates for example, we prefer the short to medium part of the term structure and on credit given that the funds rules are the hard landing down the line, and we prefer the more, the safer segments of the credit spectrum. And the good news is these days given the shape of the yield curve and what spreads are pricing, you don't have to take a lot of risk to get a decent yield on your investment so that's the way you think about it.

**CARROLL:**

How are you thinking about the Bank of England this week, you know, given that there seems to be a split in terms of the markets as to whether it could be a 25 or a 50 basis point hike?

**VEIT:**

Yeah so I would like to remind you that core inflation in the UK is still around 7%. So while I agree that the picture has softened at the margins, it's not entirely obvious that you know the worst is behind us when it comes to inflation in the UK. So it's still very very elevated and obviously the optics are not great if you’re- in terms of your- the size of the hikes from meeting to meeting. So they have been doing 50 events back down to 25 they have been forced given the strong data to do another 50 and now they will probably go for 25 again and to give them the distance to to what's priced in and to the core inflation I still think there's a good case for them to do 50 again and but they will probably use the opportunity of slightly weaker data to do 25.

**CARROLL:**

Okay Konstantin Veit, Portfolio Manager for European Rates at PIMCO, thanks so much for joining us with your insights on the program this morning.