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**KAREN TSO, CNBC:**

Let's get to Konstantin Veit who is Portfolio Manager in European Rates at PIMCO. It was an interesting turnout yesterday. I think some were rewriting expectations around when we could actually get a hike, sorry, get a cut rather from the ECB next, and I was astounded to see over at Berenberg, they're talking about 2025 that next year could just be this long plateau, a long pause when it comes to rates. What do you think we are now looking at just holding at the current rate, even if it's the terminal one?

**KONSTANTIN VEIT, PIMCO:**

Good morning to you. If you look at the market pricing after the decision, it hasn't actually materially changed compared to before the press conference. So the market has been broadly pricing free cuts for next year, starting in June. And it hasn't changed much after the press conference. So the market is still looking for free cuts next year and starting in June. So one cut at every quarterly meeting until the end of the year from starting in June. And we are slightly more cautious on that. So we see more like two cuts in the second half of next year instead of three. But our disagreement with the consensus over the market is not as pronounced as it was in the past.

**TSO:**

Just pick a very different economy, as what we've seen has been some strength coming through from the southern European countries. One of the real problems has been Germany. But that said, the data has been so lumpy. We've had revisions to the upside after we've had some of the initial prints. How do you think Germany unfolds over the course of the next several months and what bearing will that have on the rate story?

**VEIT:**

Yes, so Germany is, as an economy, certainly very challenged in its business model and has to reinvent itself over the next decade or so which has a lot of repercussions. But I tend to think the ECB looks at the Euro in aggregate. The picture is clearly one of stagnation, which is very different to the US. But the ECB has also made clear that their mandate is inflation and not avoiding recession. And what they've done so far has been reasonably impressive. 450 basis points in a very short time. So I think the ECB will look at what inflation does, and that will determine the rate outlook from here.

**STEVE SEDGWICK, CNBC:**

Konstantin, we're going to get the viewers to have a look at the bond BTP spread as well. We can see it on the screen. And no problems at all, sitting pretty at around about 2% as well. That's not going to upset anyone or trigger the transmission protection instrument otherwise known as the anti-frag tool over at the ECB. But what about the absolute yields, any problems emerging there?

**VEIT:**

I think so far there is no issue. And you have seen that the retail demand for example in response to the absolute yield was very strong in Italy, so everybody was thinking who will buy all the BTPs if the ECB retreats, and the answer was clearly that a large part of that has been absorbed by the domestic community. So these yield levels are very attractive, and people are buying BTPs at current levels. I think you're right that the spread is not a big cause for concern at the ECB. At the moment it was interesting to hear that they haven't discussed. And then the PEPP reinvestment, but later we got a leak that they will discuss it at some stage as part of the operational framework review. And that is interesting because it might indicate that the ECB is looking into something more structural as a first line of defense instead of just getting rid of PEPP and then the next layer is the TPI.

**SEDGWICK:**

But isn’t the point here is that the ECB could create a problem in its own and actually need its tool later on, because what it could do is it could have a quantitative tightening that scares the horses so to speak in 2024 creates a supply and demand imbalance, and actually then sends the yields higher and then creates the problem in itself.

**VEIT:**

I think that's the reason why they morph the end of the PEPP reinvestments into the operational framework review, because part of the operational framework review will probably entail a structural bond portfolio, and you might want to equip that structural bond portfolio with some of the flexibility that you've seen with the PEPP. So it would be a reasonably slick solution and would be a little bit more structural then because the PEP will end in one form, one way or the other.

**TSO:**

Konstantin, I want to talk about the environment around bonds. We were talking with the US guest about the bond vigilantes being back when it comes to the US Treasury's market. How does the European markets look here then if those bond vigilantes are back? How are you navigating some of the rates out there on the European's sphere?

**VEIT:**

The regard was very clear yesterday that the sell we have seen for example in September and since is clearly driven by the US which I think is right and has a couple of reasons behind it. One is obviously the strength of the US economy as we discussed earlier, and then you have on the demand side a lot of the traditional buyer base is somewhat retreating, and on the supply side we know that there is a lot of Treasury is coming, but again similarly to the Italy question before

we are not particularly concerned because we think if yields are attractive, and to be honest 5% on 10-year Treasury looks reasonably attractive already. I think if yields are attractive enough then they will be enough buyers out there eventually.

**SEDGWICK:**

Very nice to see you as ever, Sir. Thank you very much indeed for joining us. And regards to your studio manager who is a very close friend of mine who I know is standing close by. Konstantin Veit. who is Portfolio Manager for European rates at PIMCO.