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**TOM MACKENZIE, BLOOMBERG:**

Okay, joining us now for the take on all of this is Konstantin Veit, Executive Vice President Portfolio Manager at PIMCO. Konstantin, thank you for joining us this morning. Has the Fed opened the door for the ECB to come forward with its own pivot? As markets priced in 157 basis points of cuts from the European Central Bank in 2024.

**KONSTANTIN VEIT, PIMCO:**

Good morning. The market is indeed pricing a very swift disinflation back to the central bank target. I don't think the ECB will declare victory. It's reasonable to expect them that we have reached the peak on policy rates, but I don't think that we discuss market pricing too much and we continue to focus on the data from here.

**ANNA EDWARDS, BLOOMBERG:**

Okay, they might not want to discuss market pricing Konstantin, but they might be asked about it and with traders now suggesting six rate cuts from the ECB in 2024. Does that look overdone to you or does it look right given the weakness in some of the growth data?

**VEIT:**

I think it looks very optimistic, given there is still core inflation at 3.6%. There is uncertainty on the medium term inflation trajectory. We have to see what wage agreements will look like in 2024, what profit margins will look like. So the market is currently very optimistic and it might turn out that way, but I think the uncertainty is large and I think the ECB wants to remain data dependent and they don't want to declare victory too early here.

**MACKENZIE:**

Okay, so Konstantin, they're not going to declare victory too early. What about the sequencing then? You think the markets are getting ahead of themselves? What is the sequencing in terms of the cuts that come through from the European Central Bank that you are looking for next year?

**VEIT:**

So if history is any guide, then central banks might be somewhat later than what the market expects in commencing the cutting cycle and then they might be a little bit more aggressive. So it's interesting if you look at the 2% that's currently priced as a terminal point for the cutting cycle for the ECB. I think this will be interesting to see whether the ECB gets there because if you look at 10-year bunds yielding 2%, they look attractive or less attractive depending where you think the endpoint is in the cutting cycle. So this will be a more interesting question to me than the precise timing of the first rate cut.

**EDWARDS:**

Konstantin, sticking with the ECB, there's a lot of focus on the PEPP reinvestment program, of course a pandemic era tool that was very useful back then and some people wonder if it's out stayed its usefulness. What would you expect them to say about that? Given that it can still be useful as a sort of anti-fragmentation tool when we're focused on Italian politics, for example, what are you watching for Konstantin when it comes to the PEPP program?

**VEIT:**

Yes, so it is the first line of defense indeed when it comes to the anti-fragmentation side and they want to be careful in removing that first line of defense because it's not obvious what would be the second line of defense. So I would expect them to follow broadly, the APP playbook and announce that they are thinking of dialing back reinvestments earlier than current guidance suggests and they could release operational details in the first quarter of next year and then start winding down from say, April next year. I think the APP playbook might be relevant here.

**MACKENZIE:**

Is there a mass market dislocation on the back of that because you do essentially be tightening policy in terms of the balance sheet, whilst also looking ahead to those potential cuts coming through from the ECB? Is there a dislocation that the markets need to be thinking about or are you relatively relaxed about that scenario?

**VEIT:**

Yes, indeed there is a debate whether the sequencing here is relevant. I'm not so concerned about it as long as policy rates are clearly in restrictive territory and the ECB might have just started cutting rates by then. I think it's totally consistent to wind down the PEPP reinvestments into cutting. If you get into calling it commodity policy territory then that might be a different story but I think that's far out.

**EDWARDS:**

What's the PIMCO view, Konstantin on the long term trajectory for rates? I'm thinking here about post the pandemic. Do rates settle at something that looks like the pre-GFC kind of levels or post-GFC levels?

**VEIT:**

I think the verdict is out and a lot of observers and I think including the ECB currently assume that we left the disinflationary episode behind us, the low and negative rates behind us here in Europe and we will settle more where kind of other jurisdictions settle like the U.K. or the U.S. somewhere lower of course but not into negative or zero policy rates. Even Philip Lane assumes that the ECB might get towards a neutral rate of call it 2% over the medium term. I think this remains to be seen and a lot depends on the policy mix going forward here in Europe. The fiscal policy, the monetary policy and how this interacts into stabilizing economies from here and I think the verdict is out on that one.

**MACKENZIE:**

Konstantin, we have about 20 seconds on the clock. Where do you position right now?

**VEIT:**

We are still reasonably constructive on fixed income. The fixed income is very attractive and the good news is particularly in Europe, you don't have to take much risk these days compared to history so you can be in the shorter parts of the interest rates curve and you can be in the high quality segments of the credit spectrum and earn a decent return on your investments.

**EDWARDS:**

Konstantin, thanks very much. Thanks for joining us. Good to get your views. Konstantin Veit, Executive Vice President and Portfolio Manager over at PIMCO.