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**STEPHEN CARROLL, BLOOMBERG:**

Well, let's get into more details of those stories that are moving markets now. We've got Konstantin Veit with us, who is Portfolio Manager at PIMCO. Good morning to you, Konstantin, great to have you with us on the program. Bit of a busy day, I feel for you, probably for most of your colleagues as well, given the central bank decisions that we're expecting. How, let's just kind of put the market moves in a bit of context. How much of a game changer was the Fed for the ECB today?

**KONSTANTIN VEIT, PIMCO:**

Good morning to you. I'm not sure to what extent the ECB will be influenced by the Fed yesterday. I think the ECB will keep communicating as they've done at the last meeting. They will obviously not hike interest rates, and they will probably communicate that they have made solid progress, and then they've reached a peak on rates. But they don't think they will declare victory over inflation, and they will certainly remain data dependent on a meeting by meeting basis. So I think, to what extent the market will listen to the ECB is a different story, but I don't think the ECB will be embracing market pricing. For example, or comment on a lot of market pricing, I think they will highlight that. The verdict is still out, whether this inflation happens as quickly as the market currently expects, and they want to remain vigilant.

**CARROLL:**

But is anyone listening in markets to that sort of commentary, though? Because if you look at the pricing, it appears that the efforts to push back against the repricing of markets isn't really working.

**VEIT:**

You certainly had a shift also in rhetoric from central bank officials started a couple of weeks ago as well in the US, and you saw that yesterday with the Fed statement, but you also had it at the ECB, where they basically said that it's rather unlikely that they will have to do more from here. So it's quite natural that the focus now shifts to the cutting cycle, and also the recent inflation print has certainly been encouraging and fueled the rally. I just think that, you know, for inflation in Europe, for example, is still at 3.6%, a lot will depend on the wage agreements for next year, profit margins. So there's a lot of uncertainty still out there. So the market might have gone a little bit ahead of themselves, but that would be my take.

**CARROLL:**

Okay, so when do you expect to see the first cuts from the ECB?

**VEIT:**

So currently the market is pricing basically a cut starting in March, and we think it will be a little bit later. Whether it's September or June, it's very difficult to say, but we will be a little bit later than what current market pricing suggests. On the other hand, if history is any guide, and central banks, why they might be slower to start the cutting cycle, they might be more aggressive than in terms of the terminal rate in the cutting cycle. So I think the ECB is on the side of caution and the side a little bit later than what the market is currently expecting.

**CARROLL:**

What about the pandemic era bond buying program PEPP? Do you think that the market repricing might actually lead to the ECB shifting its position on winding that up?

**VEIT:**

I think the APP playbook might be a reasonable guide here. I expect them to end the PEPP reinvestment earlier than current guidance suggests. So I wouldn't be surprised if they announced that they intend to end reinvestments earlier, basically today. Basically I'm saying that more details will be forthcoming in the first quarter of next year, and the partial wind down might commence from April next year. For example, it's pretty similar to what they've done with the APP. On the other hand, we all know it's the first line of defense, when it comes to the fragmentation side, so they will be very careful and gradual in terms of unwinding and reinvestment or ending the reinvestments.

**CARROLL:**

With yields plummeting in the way that we've seen over the past number of days, do investors need to be rethinking their fixed income positions?

**VEIT:**

I think fixed income still looks extremely attractive in historical context. I mean particularly here in Europe, we have had negative rates for eight years. So certainly years were more attractive, 100 basis points ago, but they still look very attractive in historical context. And I think the good news really is that you don't have to take much risk these days to earn a decent return on your investment. So you can stay in the shorter part of the yield curve, you can stay in the safer part of the credit universe, and earn really a healthy return on your investment. So certainly years have, well, a lot of fixed income is definitely still very attractive.

**CARROLL:**

I wonder, given that we're looking at the broader picture for central banks today, if you have a thought on the SMB's decision to hold rates and drop the mention of future possible hikes from its statement, is that a significant shift?

**VEIT:**

There are some intrinsics obviously when it comes to Switzerland. So it makes sense given the currency developments we have seen there and the bank agreements, they have their intrinsic value, we don't expect much there. So there will be nuances here and there. And they also have certain differences in mandates for example. So the Fed has a dual mandate, the ECB has a single mandate. So that might explain nuances and differences in the reaction functions. So I wouldn't be surprised to see this playing out also from here, but the Fed being potentially a little bit more vocal on rate cuts while the ECB is a little bit more restrained.

**CARROLL:**

Okay, who has the most difficult job then in that context when it comes to what they do in their next steps?

**VEIT:**

I think they all have difficult jobs given the market- the market is basically pricing the soft landing and the immaculate is inflation. And given the uncertainties out there, it strikes me that they all have difficult jobs. And that's why I think markets are well advised to focus on the data. And it will be important to see how inflation development, major agreements and profit margins develop over the coming quarters. And this will kind of define the outlook for central banks from here. So I wouldn't get carried away by the price action we have seen now. It's understandable to some extent. And given what we have seen on the data side, given that we have seen from or heard from the central banks, but there's still a lot of uncertainties out there. And inflation might still provide a little bit stickier than what's currently priced in.

**CARROLL:**

Okay, Konstantin Veit. Thank you so much for joining us this morning as the program. Portfolio Manager there. At PIMCO, talking us through his outlook for the ECB decision later on.