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**ROMAINE BOSTICK, BLOOMBERG:**

We did get a big central bank meeting earlier today out of the bank of Canada. Rates were left unchanged, and we get a big one tomorrow. The European central bank is holding its second policy meeting of the year. And most officials are urging patience on those expectations for rate cuts until they see more evidence that inflation is indeed slowing. Konstantin Veit is joining us right now, PIMCO’s Portfolio Manager and Executive Vice President. And Konstantin, no one's really expecting a change tomorrow. But when it comes to the communication that we get out of (Christine) Lagarde, do you think that she's willing to give the market a little bit more hope that those rate cuts are indeed coming and coming sometime soon?

**KONSTANTIN VEIT, PIMCO:**

I don't think so. I think the message will probably be broadly similar to what we've heard from her in the last meetings. They are data dependent. They need to gain more confidence. Services inflation is still too high. So it would be very surprising if we get a little forward guidance from her tomorrow.

**SCARLET FU, BLOOMBERG:**

So the Fed has a preferred inflation gauge, right? It likes to look at core PCE or the super core version as well. Does the ECB have a preferred inflation gauge that markets kind of hone in on and fixate on?

**VEIT:**

Yeah, the ECB has a single mandate of 2% inflation over the medium term. So typically, the staff forecast — and we will get a new staff forecast tomorrow. Obviously, important. So we get numbers for ‘25 and ‘26 again. They will probably come in broadly at target both on headline and on core inflation. But I think this skepticism around services inflation, as I mentioned earlier, it's 4% roughly in the Euro area, 5% in the US, and 6.5% still in the U.K. So all the central banks are broadly in the same boat right now. They need to be confident that wages moderate, that part of the inflation equation comes down before cutting interest rates.

**FU:**

Right, I like how you say that. All the central banks are kind of in the same boat right now. What's the likelihood that the ECB would move ahead of the Fed when it does decide to cut rates, or does it need or want to wait for the Fed to do so first?

**VEIT:**

So they're obviously looking at what the Fed is doing, but I don't think they will be thinking about going earlier or later than the Fed. They will look at the Euro areawide inflation projections. They will look at core inflation developments in the Euro area and policy transmission and make a decision based on that. They probably don't want to go far ahead of the Fed, but I don't think that there is a strong view that they have to go a little bit before or a little bit after the Fed.

**BOSTICK:**

A lot of investors, Konstantin, seem like they're at least somewhat comfortable with where rates are right now at four and a half percent, although the expectation is they want to see that come down. I guess the question is, are the economic conditions across Europe, and particularly in some of the key countries like Germany, are they actually going to be supportive of where rates are right now, or is that economic data really going to shift what Lagarde has to do?

**VEIT:**

I think the ECB is not in the business of avoiding a recession. They're in the business of getting inflation down to 2%. So that's what's guiding them. Obviously, you have a lot of dispersion but in the Euro area, Germany is reasonably weak from an economic perspective right now. So monetary policy transmission, when it comes to the periphery, for example, is not a big issue right now. But overall, I think that's what the ECB is focused on. And if you look at what's been priced in not too long ago, you had almost 175 basis points of rate cuts priced for 2024. That has been very excessive before. Now market pricing is closer to four cuts for this year, which we think is much more reasonable.

**BOSTICK:**

What is your general outlook, though, for the broader European economy this year, particularly relative to maybe what we're seeing here in the US, which is still looking relatively strong?

**VEIT:**

So last year Europe was broadly stagnating. The US was very strong. And this is a theme that's broadly continuing this year as well. So the US is probably growing above trend this year as well. While in Europe, it looks like we will be growing below trend. So it looks like we've dropped this and the economic momentum is turning. The PMIs are closer to 50 now. Bandlanding surveys look a little bit better. So there are a lot of green shots if you want in Europe as well. But that probably means still a pretty weak growth in the euro at close to 1% at best for this year.

**FU:**

I'm looking at the European stock market up about 4% when you look at the stock 600 euro, of course, at 108.97. What's priced in when it comes to equities and the euro and what would trigger a move, a significant move in terms of commentary from the ECB?

**VEIT:**

I think what's priced in is a soft landing. And you see that in credit markets more broadly and stock markets, also in the rates markets. So the market is pricing a soft landing. And I think the risk case would be if that's not materializing in a sense that inflation doesn't come down. We don't get the cuts that people are expecting from the central bank. And this could be an environment that's less pleasant for risk assets.

**FU:**

Alright, Konstantin Veit of PIMCO. We really appreciate your joining us today.