FINANCIAL TRADING BLOG

CAN EXPECTED ECB AND FED CUTS BALANCE EUR/USD

The ECB recently cut interest rates as expected, making the path forward less clear as analysts argue over the divergence between Europe and the United States.

AFTER THE RATE CUT

The ECB signaled for months that a June rate cut (https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.mp240606~2148ecdb3c.en.html) would occur, so markets were prepared. Inflation concerns and weak economic growth in Europe supported the rate cut. However, with the decision made, the balance of what comes next has shifted. Particularly since there have already been concerns about persistent inflation going into the meeting, and the Euro Area economy is in a very weak upswing that could very much use the help of lower interest rates. While the ECB Chief Economist Philip Lane previously backed a June cut, he is now less certain of additional easing (https://www.rte.ie/news/business/2024/0618/1455342-ecb-rate-cuts-poll/).

Economists have maintained their predictions, however. A post-decision Reuters poll still showed 80% expectation of two more rate cuts this year, in September and December. If the Federal Reserve also cuts rates as expected in September and December, it would balance the effect (https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html) of monetary policy on the EUR/USD exchange rate. However, this means that other factors, such as inflation and economic growth, could influence the currency pair more strongly.

IN A CONVERGENCE LINE

Over the past couple of years, inflation has largely defined fiscal and monetary po
The US economy has shown resilience and above-expectation growth. Meanwhile, Europe

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