# European Central Bank Set to Implement First Rate Cut Despite Inflation Concerns



**European Central Bank to Proceed with First Rate Cut in June**

The European Central Bank (ECB) is poised to introduce its first interest rate cut next week, despite lingering inflation concerns. According to a flash estimate released on Wednesday, German consumer price inflation rose to 2.4% year-on-year in May from 2.2% in April, driven by higher services inflation. Core inflation, which excludes volatile items like energy and food, remained stable at 3% for May, defying expectations of an increase.

ECB President Christine Lagarde is expected to implement a 25 basis points (bps) cut, reducing the key interest rate to 3.75% during the upcoming June 6 meeting. Analysts, including UBS, maintain confidence in this decision, predicting that even a disappointing EU-wide inflation report, due on Friday, would not deter the ECB.

Market experts like Felix Feather from Abrdn and Carsten Brzeski from ING also anticipate the cut but warn about persistent inflationary pressures potentially halting further reductions. By year-end, forecasts suggest the ECB's key rate may lower to between 3.25% and 3.5%.

In related financial news, global stock indices saw declines on Wednesday, with the S&P 500 down 0.8% and European markets also experiencing downturns. Rising bond yields and robust U.S. consumer confidence data have reduced expectations of future rate cuts, impacting equities.

Key inflation data from the U.S. and further ECB announcements will be closely monitored in the coming days to gauge the evolving economic landscape.