

(BN) ECB Seen Cutting Rate Next Week by Banks From Nomura to RBS
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(Updates with Nomura, Commerzbank starting in first paragraph.)

By Fergal O'Brien

April 24 (Bloomberg) -- The European Central Bank will cut its key interest rate to a record low next week as the euro-region economy slumps, according to banks including Nomura International Plc, UBS AG and Royal Bank of Scotland Group Plc.

Economists forecast a reduction for May after gauges of manufacturing and services activity for April underscored weakness in output. Germany's Ifo index of business confidence fell more than economists predicted, the institute said today.

ECB policy makers have also indicated they may consider a rate cut at their May 2 meeting. President Mario Draghi said on April 19 he hasn't seen any improvement in economic data in the region as a whole, after hinting at the beginning of the month he might lower borrowing costs if the recovery faltered.

Executive Board member Joerg Asmussen said a day later that it could lower rates if data show a need for it.

"The disappointment from the latest data increases further the downside risks to the ECB's baseline scenario and increasingly challenges the pace of the gradual recovery expected," said Nick Matthews, an economist at Nomura in London. "We see the mention by Mr. Draghi that the ECB 'stands ready to act' as a clear statement that the ECB is prepared to cut next month."

ECB Tone

Nomura now sees the ECB taking its key rate to 0.5 percent from 0.75 percent on May 2, having previously forecast a reduction in June. Commerzbank, UBS, Rabobank International and ABN Amro Bank NV also see a reduction in May, as does RBS.

"The main reason for our call is the tone of the commentary over the past month by members of the Governing Council," said Richard Barwell, an economist at RBS in London.

"Another month of weak, soft data on activity does not tell you that the recovery is permanently postponed, but it could tell you that the recovery has been pushed back another month -- and we think that is enough."

The euro-area composite purchasing managers' index of manufacturing and services remained at 46.5 in April, Markit Economics said yesterday. That's below the 50 mark that divides contraction from expansion.

Those surveys "further strengthen the case" for an ECB cut next week, said Nick Kounis, an economist at ABN Amro in Amsterdam.

In Germany, Europe's largest economy, the Ifo institute said today its confidence index dropped for a second month in April, to 104.4 from 106.7 in March. Economists in a Bloomberg News survey forecast a decline to 106.2, according to the median of 44 estimates.

Separately, Daimler AG, the world's third-largest maker of luxury vehicles, cut its 2013 profit forecast after first-quarter earnings tumbled more than analysts expected, burdened by weaker Mercedes-Benz sales in China.

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