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Article

Cherish the moment as ECB Christmas comes early

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This week's ECB meeting, as well as the subsequent press conference, should be short. The ECB has said and done everything it wanted to do this year: gradually introducing a dovish tapering. Therefore, Thursday's meeting, in our view will probably bring lots of looking back and self-congratulation. But don't be overwhelmed by the Christmas harmony, 2018 is likely to bring new ECB in-house tensions.

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For the ECB, the year 2017 will come to a close already this week. Thursday's meeting will end another exciting year for the ECB. This was a year in which the Eurozone economy finally gained strong momentum, proving the ECB and its ultra-loose monetary policy right. But it has also been a year in which the ECB temporarily lost its magic touch on financial markets – it got it back eventually by successfully preparing the grounds for a dovish tapering, with a reduction of QE without distorting financial markets.

Thursday's meeting, in our view, will bring lots of self-congratulation by ECB president Mario Draghi, emphasising the strong growth story. At the same time, we expect Draghi to reconfirm the main messages from the October meeting - that policy rates will remain at current levels "well past" the horizon of the net asset purchases, that QE could continue beyond September 2018 if a "sustained adjustment in the path of inflation consistent with its inflation aim" is not achieved, and that the ECB could still do more QE if the macro outlook "becomes less favourable" or financial conditions "become inconsistent with further progress towards a sustained adjustment in the path of inflation".

The most interesting bit of the ECB meeting will probably be the presentation of the latest ECB staff projections. With some upward revision for Eurozone growth for this year and next, the ECB should join the growing choir of Eurozone optimists. Even more important for the future path of monetary policy, however, will be the ECB's inflation forecasts for 2019 and 2020.

The long-term inflation projections will be important in a possibly upcoming policy debate in 2018. With higher oil prices, chances that headline inflation could push through the 2% level next year have increased. This has provided ammunition for ECB hawks to push for a definite end to QE earlier rather than later than September 2018. It could also be the trigger to restart the currently hushed debate on sequencing and forward guidance.

> One of the ECB's big successes in 2017 has been that it managed to tame many diverging views and statements within the Governing Council towards what we see as the right path towards tapering. It should cherish the moment because it is far from certain that this discipline will continue in the next year.

ECB Bull Bear

	Bull ↓	Bear ↑	ING →
Monetary stance	There has been little change to the monetary stance over the last few weeks.	Cyclical upswing argues in favour of some withdrawal of monetary accommodation.	→ After the October announcement of a dovish tapering, there is no need for changes.
Inflation	Low headline inflation and core inflation only marginally above 1% could still argue in favour of further easing.	With deflationary risks having disappeared, some might argue in favour of less monetary stimulus.	→ Deflationary risks have disappeared, but no inflationary risks are in sight.
Economic growth	Although growth in the Eurozone has been positive for several quarters in a row, there are no signs of overheating.	The cyclical recovery is strong and could probably do with somewhat less monetary easing.	→ The Eurozone economy continues to grow without producing inflationary pressure.
Exchange rate and asset prices	Further monetary easing could lead to a weaker euro and support exports as a result.	A further strengthening of the euro exchange rate is currently not an option for the ECB.	→ Despite the recent strengthening, the euro exchange rate remains favourable for Eurozone exports.
Politics and fiscal policy	Political uncertainty and the lack of fiscal stimulus argue in favour of more monetary easing.	Loose monetary policies undermine the incentive to implement structural reforms.	→ With interest rates at record low levels, any changes would only have a marginal impact on fiscal policies.

Source: ING

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