

## ECB preview: It's all about the strategy

The official start of the strategy review should be the highlight of this week's European Central Bank meeting. For any (subtle) changes in the ECB's risk assessment or forward guidance, market participants will have to wait until March



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This week's press conference should be a rather risk-free practice area for ECB President Christine Lagarde to further sharpen her own communication style and monetary policy skills. While we expect the ECB to announce the official start of the strategy review, the meeting should be rather uneventful regarding monetary policy.

### Signs of bottoming out no reason for change

The ECB's macro assessment will, in our view, not have changed since the December meeting. Data released since then suggest that the eurozone economy seems to have reached a period of bottoming out, even though there are still very few signs of a rebound in the manufacturing sector. There is still the risk that the lagged impact from the manufacturing slowdown on the labour market comes before a significant rebound in industrial activity. As a consequence, the bottoming out phase could still last until the summer. As regards inflation, the gradual increase in core inflation since last summer has comforted the ECB's view of a gradual pick-up in underlying

inflation. However, the longer it takes for a significant rebound of the entire economy to materialise, the higher the chance that core inflation measures start dropping again.

All of this means that the ECB will currently stick to its wait-and-see stance, confirming the two small additions to its assessments of risks to the growth and inflation outlook. Remember that in December the ECB had changed the phrase describing the risks to the economic outlook to “still tilted to the downside but somewhat less pronounced”. Looking beyond this week’s meeting, the ECB could further change the risk assessment in case of an actual rebound of the eurozone economy in the coming months. In such a scenario, we would expect the ECB to drop the easing bias in its forward guidance on rates.

## Strategy review kicks off

Waiting for more guidance on growth and inflation developments, the highlight of this week’s meeting should be the announcement of the official start of the strategy review. A lot has been said and speculated, both by market participants and ECB officials. Now, with all changes in the ECB’s Executive Board behind us, it is time to set out some parameters like, for example, scope and timing of the review. Christine Lagarde already gave some ideas at the December meeting, also stating that in her view the review should be concluded before the end of the year. In this regard, decisions to include external parties, be it academics, politicians, ‘ordinary people’ or other interest groups would have a clear impact on the length of the process, making the deadline of end-2020 more ambitious than it currently sounds. According to Lagarde, the review would also look at the monetary policy instruments. A recent working paper of more than 300 pages by influential ECB officials already gives an idea of where the ECB currently stands. In our view, the most important part of the review will be an assessment of the definition of price stability and how to reach it. We still think that eventually, a new definition (of “around 2%”) would institutionalise symmetry while at the same time provide maximum flexibility; more than any point range would offer. For a longer read, here is what we expect from the [review](#).

## Still learning to read Lagarde

With no changes to monetary policy and the announcement of the review, this week’s meeting will give market participants another opportunity to learn how to read Christine Lagarde. With less than three months in office, Lagarde has so far been a moderator at the helm of the ECB, starting to heal the wounds of dissension but with very little guidance on the possible next steps for the ECB. While such skills will help a smooth review process, market participants might need somewhat more guidance soon.

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