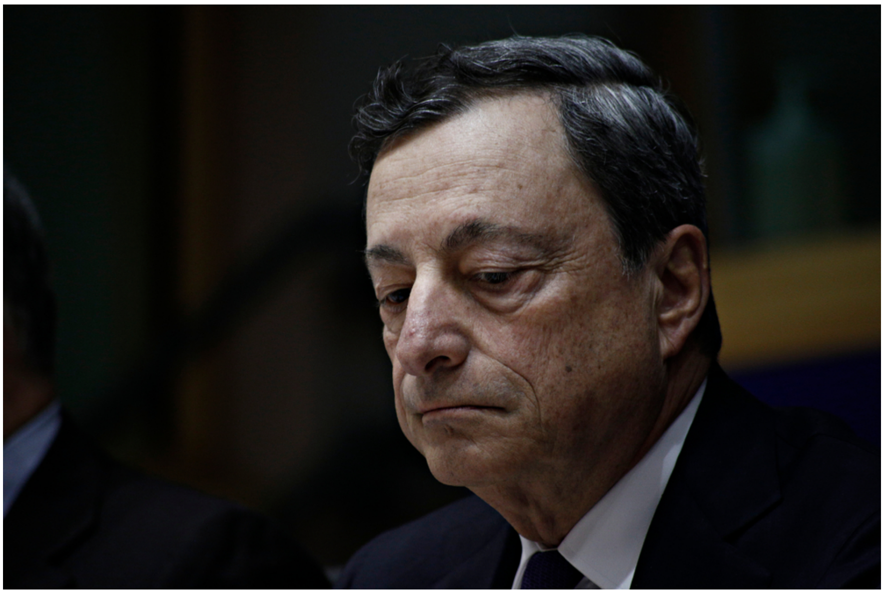
Article | 24 May 2018

ECB: Dovish minutes from the April meeting

The minutes from the ECB's April meeting confirm the bank's in no hurry to change its current monetary stance



ECB President, Mari Draghi

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Remember that we called the ECB's April meeting a meeting that many ECB officials would like to have skipped? The just-released minutes of that meeting give the impression that many ECB governors agreed with our view. Still, there were a couple of interesting details:

• In the discussion on the downswing versus soft patch of the Eurozone economy, the ECB is clearly sticking to the "soft patch" side. According to the minutes, the underlying strength of the economy *"remained broadly intact"*. As already hinted at during the April meeting's news conference, the ECB has become somewhat more cautious about the economic outlook for the Eurozone, mainly on the back of trade tensions.

• Regarding inflation, it is still more wish than reality. The minutes stress there are first signs of wage increases in some countries. The ECB still hopes these increases will eventually lead to higher inflation. At the same time, the fact that underlying inflation measures remained subdued and had "*moved mostly sideways"* since the March meeting illustrates that the ECB's job is not done, yet.

▪ Interestingly, some members of the Governing Council (guess who) saw an almost "*sustained adjustment in the path of inflation*", the broad majority disagreed with this view, stressing that "*the evidence remained insufficient at the current stage*".

▪ The ECB is in no rush to change its monetary policy stance, nicely illustrated by the statement that "*members broadly agreed that an ample degree of monetary policy accommodation remained necessary to accompany the economic expansion and secure the gradual convergence of inflation to levels below, but close to, 2%. The remaining uncertainties and the still muted underlying inflation pressures continued to justify caution and underlined the need to maintain patience, persistence and prudence with regard to monetary policy.*"

With latest developments, the last ECB meeting all of a sudden looks like very distant history, even though it was only one month ago. Since then, the discussion on whether the Eurozone only experienced a soft patch at the start of the year or whether this was as good as it gets for the recovery has not taken any clear direction. The surge in oil prices and Italian politics will further complicate the ECB's road to taper.

Against this background, doing nothing at the June meeting looks like the best and most risk-free option for the ECB. The only thing Draghi could do is to reconfirm his earlier statement that he does not expect an abrupt end to QE in September, opening the door for an extension. The discussions behind closed doors will clearly be about how long QE should be extended for, at which amounts and whether or not an end date should be communicated, but not on the "if". This discussion is very likely to continue until the July meeting. Then, we expect an extension of QE at a reduced amount at least until December 2018. Until then, buying time looks like the best option.

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