

ECB forcing a calm summer

The ECB is putting the 'Sintra dogs' back on the leash and is in no rush to taper



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Autumn is coming...

With the QE easing bias staying in place, no inflationary pressures and no changes in the official language, the ECB seems in no rush to taper. Expect first tapering discussions in September at the earliest.

It seems as if the only goal of Thursday's ECB meeting was to calm financial markets and recent tapering speculation, which some even labelled a light version of a taper tantrum. There were no changes to interest rates and even more important, there were no changes to the easing bias on QE or any other key phrases of the official communication. In fact, the introductory statement was almost a verbatim copy of the one from the last meeting in June.

In short, the ECB still sees an improving momentum of the Eurozone recovery, but without inflationary pressures or wage increases. Risks to the economic outlook are still balanced and the outlook for inflation still has not received any risk assessment.

Draghi's four key words

As regards the recent taper discussion, ECB president Mario Draghi tried to talk it down. In its

official communication, the ECB sounded already as dovish as possible by keeping one of the key sentences, on the QE easing bias, in place by repeating that “the Governing Council stands ready to increase the programme in terms of size and/or duration”.

Draghi reiterated his last four key words of “confidence”, “persistence”, “patience” and “prudence”.

Even more important, Draghi said that the Governing Council had been unanimous in the decision not to change the forward guidance and also in the decision not to set a precise date in the future to discuss possible changes to the ECB’s monetary policy stance.

Market confusion?

However, Draghi said that the Governing Council will discuss the future of QE in the autumn. Sounds exciting but is also obvious given that QE would expire in December if the ECB does not decide differently. In this context, it was interesting that the ECB did not re-use the phrase from the Sintra speech Draghi gave late in June referring to an adjustment of the parameters of QE to keep a constant monetary stance when the economy continues to recover. In our view, this phrase could still be the best justification of any future tapering but apparently, it is – yet – too complicated for some market participants.

Back on the leash

Looking ahead, we feel confirmed in our current base case scenario that the ECB will task its working committees to investigate several options for tapering in September, before deciding on “lower for longer” starting in January 2018 at the October or December meeting. Still, today’s news conference also showed how difficult the ECB’s life currently is.

Fine-tuning its monetary policy in a world without inflation but with a cyclical recovery is not an easy one.

Those were the days when the ECB did not have to talk about confidence, persistence, patience, prudence, not transitory, core inflation and wages as a lynchpin. Back in the good old days, the ECB only had a single-needed compass. With today’s news conference, ECB president Draghi clearly wanted to put the Sintra dogs back on the leash. It was an attempt to force a calm summer in financial markets by stopping and even rewinding latest taper speculations. Tapering will come but the path towards the tapering announcement will be extremely gradual, as the ECB does not want to distort markets. Draghi today tried to give the ECB, financial markets and ECB watchers some quiet summer weeks to reflect and digest.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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