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ECB: Get back to the cold drinks, nothing to see here

ECB leaves everything unchanged and confirms main messages from June

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OK, given the summer heat, we will not even try and pretend that today's ECB meeting was exciting. In fact, hardly anyone would have noticed if the ECB's communication staff had simply replayed the tape from the June meeting on the live stream channel. As expected, the ECB and ECB President Mario Draghi chose to play extremely safe and did not deviate at all from the main messages from the June meeting: i) the ECB remains confident and determined to gradually end quantitative easing by the end of the year and ii) the first rate hike is still a long way out.

The ECB's entire assessment of the eurozone economy was almost a verbatim copy from the one at the June meeting. The ECB continues to see a strengthening of the eurozone recovery, pointing to stabilised growth data, and at the same time shows strong confidence in a further pick-up in underlying inflationary pressure, stressing that uncertainty on the inflation outlook had receded. In short, the basis for the ECB's policy message from June remains intact.

There was a little chance that Draghi could clarify the ECB's definition of "through the summer of 2019" as there had been some speculation in markets on where the ECB would see the end of the summer, hence when there would be the first theoretical opportunity for a rate hike. Here, Draghi dodged the question, which in our view means that a first rate hike is still so far away for the ECB that it feels comfortable with some uncertainty in markets. Mainly for the German audience, Draghi also addressed the Target 2 imbalances, clearly downplaying the issue.

All of this means that our ECB calls remain unchanged. Even though the ECB has stressed the optionality of the anticipated gradual dovish tapering, we still think that it would need a severe slowdown of the recovery and/or continued low core inflation for the ECB not to stop QE by the end of the year. QE remains part of the toolbox but most ECB members would clearly be happy if it returns into the box and stays there, so that interest rates return as the ECB's main policy instrument. In this regard, the ECB could eventually show more leniency than markets currently expect and postpone a first rate hike even further into the future, if need be. For the time being, however, we still think that Draghi does not want to go into the history books as the central bank president who never hiked interest rates. He will have two opportunities after the summer of 2019. As this is still a long way out, it is clear that the only intention of today's meeting was to have a quiet summer this year.

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