The ECB pours old wine from a barely new bottle

The ECB slightly changed its forward guidance as a result of the new strategy, becoming even more dovish. As a result, any tapering announcement in September looks highly unlikely

ECB president, Christine Lagarde

The announcement of the revised ECB strategy had increased expectations for today's meeting. Would the ECB really be serious about implementing the new strategy, which implied becoming more dovish, and how would the new 'crispier' communication that president Christine Lagarde promised just two weeks ago really look?

Let's start with communication. Here, the ECB clearly overpromised and underdelivered. Hardly anything changed, except for some restructuring of texts and adding some coloured headlines. The new bottles had a lot of scratches and dust at delivery.

The ECB did indeed make a shift towards more dovishness

As regards the implementation of the new strategy, the ECB did indeed make a shift towards more dovishness, putting more emphasis on the possibility of inflation overshooting and by tying the forward guidance on interest rates even closer to the inflation projections. With an inflation projection currently of 1.4% YoY for 2023 and the new forward guidance, interest rates will remain low for even longer.

The statement that rates will remain unchanged until the ECB "*sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon',* and it judges that '*realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at two per cent over the medium term*" is very clear. Also, the ECB emphasised that it will accept "*a transitory period in which inflation is moderately above targe*t". Not very surprising; this decision was not taken unanimously.

Today's decision to stick to the front-loading of asset purchases in our view implies that there will either be significant tapering in the fourth quarter of the year or that the envelope could be increased, pushing an end of the Pandemic Purchase Programme (PEPP) beyond March 2022.

What's next for the ECB?

What does all of this old wine in new bottles really mean? In our view, it means that the new strategy indeed marks a shift towards more dovishness, potentially leading to a delayed and very soft tapering as well as a further delay of any rate hike. Not a real surprise but a confirmation that the hawks at the ECB are currently having a hard time.

An extension of PEPP, its emergency pandemic programme, beyond March 2022 looks increasingly likely. A significant reduction of monthly asset purchases before the end of this year looks increasingly unlikely, and any rotation out of PEPP into the old Asset Purchase Programme (APP) will hardly lead to an overall reduction of monthly purchases in 2022.

The hawks at the ECB are currently having a hard time

All of this is obviously built on a very benign, and in our view challengeable, take on inflation and pass-through from higher producer and commodity prices to consumer prices. We sometimes feel reminded of the football fans who see a clear negative trend in their favourite club's performance while the team manager is still blaming the referee, bad luck and the weather for a series of disappointing matches.

In any case, as long as the ECB sticks to this benign inflation view the only really important change that the ECB delivered today was that any change (to monetary policy) will come later than expected. Even in new but scratched bottles, the wine is still the same: low for even longer and QE for almost ever.

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