

ECB: Not sexy but highly effective

The ECB remains determined to continue its chosen path to bring net QE to an end in December



Source: Shutterstock

No change today

No changes from the ECB and President Mario Draghi. As expected the European Central Bank sticks to its autopilot to bring net QE purchases to an end in December. It didn't deviate from its earlier language and looks highly determined to continue with its strategy, chosen in June.

What Draghi said

Some noteworthy comments by ECB president Mario Draghi during the press conference:

- **risks to the growth outlook are balanced.** With the latest stock market correction and dropping confidence indicators, some market participants had been speculating on some changes in the ECB's assessment. Wrongly so. Draghi gave a good overview of the ECB's take on the Eurozone economy. According to Draghi, the ECB acknowledged a somewhat weaker momentum in the Eurozone but still positive output gaps, positive domestic demand and pro-cyclical fiscal policies plus several country-specific temporary factors. Draghi, in our view, rightly so reiterated that the Eurozone was currently experiencing a weaker momentum but not a downturn.
- **the expected pick-up in core inflation.** Draghi stressed increasing negotiated wages in several countries, an expanding but tightening labour market and high capacity utilization rates were at the basis of the ECB's expectation of a gradual increase in underlying inflation.
- **Italy is a fiscal issue.** Obviously, Draghi was asked about Italy. Also, obviously, Draghi did not come up with any surprising comments. According to him, Italy was mainly a fiscal issue,

the European Commission not the ECB was the Guardian of the Treaty and higher interest rates reduce the room to expand the budget.

The year ahead

All of these comments demonstrate that the ECB remains highly determined to bring net asset purchases to an end at the December meeting. It would require a severe downturn of the economy, not only weaker momentum, in the coming six weeks for the ECB to alter its course.

Looking beyond December, however, weaker growth and the lack of higher underlying inflation could in our view still lead to currently unexpected changes in the ECB's monetary policy. Just think of the length of QE reinvestments, new TLTROs (already mentioned by two ECB members today) and forward guidance on interest rates. With every new disappointing data releases, the probability increases that the ECB will fine-tune the non-QE tools. At the same time, chances that Draghi could deliver at least one rate hike before leaving office decrease. But this will be 2019's story.

For this year, the autopilot should remain the main story. The ECB's autopilot to bring net QE purchases to an end. Not very exciting for markets and ECB watchers but highly effective.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.