

## ECB: Preparing the end of QE?

A rather hawkish speech by ECB chief economist Peter Praet this morning provided more evidence that next week's ECB meeting will see a heated debate on how and when to end QE



Source: Shutterstock

### Clear hints on end to QE

With slightly more than a week to go before the 14 June meeting of the ECB in Riga, speculation about the possible outcome of that meeting has gained traction. This morning, a remarkable speech by ECB chief economist Peter Praet gave a clear hint that even the ECB doves seem to be fine with a gradual end to QE this year.

Speculation about the ECB's plans began last night with a Bloomberg article quoting ECB officials as saying there "is a real chance of policy change" at next week's meeting. Praet's speech this morning supported this view. The two main quotes/messages from Praet's speech in our view were:

- The Governing Council has three criteria for assessing whether there is a sustained adjustment in the path of inflation towards levels below, but close to, 2% over the medium term: first, the convergence of the projected headline inflation to our medium-term aim; second, confidence in the realisation of this convergence path; and third, the resilience of inflation convergence even after the end of our net asset purchases

- Signals showing the convergence of inflation towards our aim have been improving, and both the underlying strength in the euro area economy and the fact that such strength is increasingly affecting wage formation supports our confidence that inflation will reach a level of below, but close to, 2% over the medium term. As for our third criterion, resilience, waning market expectations of sizeable further expansions of our programme have been accompanied by inflation expectations that are increasingly consistent with our aim.

## Optimistic on Europe's recovery

Praet also stressed the underlying strength of the eurozone economy, suggesting that the ECB considered the recent weakness in eurozone data as transitory. Contrary to previous comments, Praet sounded more optimistic that the recovery and higher wages would eventually lead to higher inflation. And he left out the caveats in recent months that hard data had not yet confirmed the ECB's confidence in inflation picking up again.

After the official speech, Peter Praet was confronted with a video message by Bundesbank president Jens Weidmann, who reiterated his well-known view that QE should be stopped by the end of the year. Praet refrained from voicing his personal view and stressed that he had only presented facts and that the decision will be up to the ECB Governing Council next week.

## Upward revisions to staff projections

With Italian stress on financial markets fading away, the ECB will be in a more comfortable situation to focus next week's discussion on macro factors. The fact remains that the weaker euro and the surge in oil prices in recent months should lead to an upward revision of the ECB staff projections for inflation. Judging from Peter Praet's comments, it also seems that the majority of the ECB considers the series of weaker hard macro data as a soft patch rather than the start of a downswing of the eurozone recovery. As observed earlier, Praet's speech today provides further evidence that there is a growing majority within the governing council favouring an end of QE by the end of the year. Maybe an ironic outcome of the Italian market tensions is that the weaker euro is making it even easier to engage in QE tapering. However, we do not think that there is already agreement on the timing and detail of the communication. In our view, the main topics to be discussed next week will be:

**When to communicate.** Should the ECB present an explicit roadmap for next QE steps next week or should it wait until the end of July to get more and better information on the state of the eurozone recovery?

**End date.** Should the future path for QE be communicated with an upfront end-date or should it remain open for as long as possible, thereby creating more flexibility?

**From thirty to zero.** Should the period beyond September 2018 be a tapering period, reducing the monthly purchases gradually from €30 billion to zero or should there be another transitory period of a reduced pace?

## Prelude to July announcement?

All of the above means that next week's ECB meeting will be an exciting one. Even though some market participants will take today's comments by Praet as a prelude to a decision next week, we still don't think the ECB will easily give away flexibility and room for manoeuvre on QE in a situation

where downside risks to the economic outlook have increased and political risks (be it from Italy or later this year from Brexit) could easily reemerge. Against this background, clear hints at an end of QE, while keeping full flexibility, at next week's meeting still seems the most likely outcome. Then, the July meeting could bring the announcement of a QE extension at a lower pace at least until December. If underlying inflation really creeps up in the second half of the year, QE could then be stopped in December. Even though there seems to be a general understanding on an end to QE, the devil is definitely in the detail.

## Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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>.