ECB preview: Learning to read Lagarde’s language

This week’s European central bank meeting will be Christine Lagarde's first policy-setting meeting. The excitement to the run-up doesn't really stem from possible policy changes but rather from how her communication style will differ from Draghi

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With the eurozone economy somewhat stabilising and inflation still quite far off the ECB’s target, there are hardly any economic arguments for Europe's central bank to adjust its monetary policy. Judging from latest comments by senior ECB officials, a majority of the Governing Council seems happy with the current stance - any changes, even in the ‘soft’ communication, in our view would be a surprise.

What to watch at this week's ECB meeting

Even without any changes to the monetary policy, this week’s ECB meeting should be anything but boring. Here are four things to look out for:

Latest staff projections

Back in September, downward revisions of particularly the 2020 inflation forecasts, had been one the main arguments for the ECB's relaunch of quantitative easing and another rate cut. The latest round of staff projections will very likely confirm the September projections. In September, eurozone GDP growth was expected to come in at 1.1%, 1.2% and 1.4% in 2019, 2020 and 2021 respectively. Headline inflation was expected at 1.2%, 1.0% and 1.5% over the same period. If anything, a slightly weaker euro exchange rate and somewhat higher oil prices could lead to a very minor upward revision of the 2020 inflation forecasts. At the same time, the lack of clear indications for a rebound in manufacturing and the rather optimistic growth profile for 2020 in September (with an average growth rate of 0.4% QoQ), another smaller downward revision of the growth projections looks likely. None of these changes should be policy-relevant. Here, the first official ECB forecasts for 2022 are of more relevance.

Adverse effects of unconventional measures

While the ECB's last 'Financial Stability Review' acknowledged the adverse effects of unconventional monetary policy measures on the financial sector, leading figures from the Executive Board still emphasise the positive impact from, particularly negative interest rates. Chief Economist Philip Lane, for example, called current interest rate levels as not "super loose". We will closely listen to Christine Lagarde to identify any changes in the ECB's communication on the adverse effects, eventually leading to policy changes in 2020.

Defining the Lagarde-style

Mario Draghi made a strong entrance at his very first press conference, elaborating on details of economic data. In the eight years of his term in office, there was never a slip of the tongue. Instead, the Draghi-style represented clear (at the risk of being boring) technical communication. As Christine Lagarde's comments on monetary policy and vision has been rather sparse since she entered office on 1 November, market participants will closely watch her first press conference. We don't expect Lagarde to structurally change the introductory statement but will be looking for any changes in style and language in the Q&A session.

Strategic review and therapeutical session

While there should be little news on short-term monetary policy, markets will look at any hints on the upcoming strategic review as well as any comments on the rift between hawks and doves in the Governing Council. As regards the strategic review, everyone is already talking about, while the whole review has not even publicly been announced. This could change on Thursday unless the ECB wants to wait before the two new members of the Executive Board, Isabel Schnabel and Fabio Panetta, take office in January, but our initial thoughts can be found here.

With regards to the rift between the hawks and doves, Lagarde will probably play down the controversy, praising the good cooperative spirit since her arrival at the ECB.

What we think about the ECB's upcoming strategic review

> In our view, this week's ECB meeting will not bring any short-term changes to monetary policy but should clearly help to better understand the ECB under the new president.

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