

## ECB preview: Ready to do more

Following 'normal' crisis patterns, the actions of the last few weeks should call for a 'taking stock' ECB meeting this week. But the current crisis is far from normal



The ECB's inflation forecasts, in particular, suggest the current neutral stance on policy is the right one

Who needs a regularly scheduled European Central Bank meeting, when the action these days seems to take place during spontaneous video or telephone conference calls. After the last regular meeting, which already offered ample liquidity and an increase in quantitative easing, the ECB decided on its €750 billion Pandemic Emergency Purchase Programme (PEPP) and several significant tweaks to its collateral framework. Heading into this week's meeting, ECB members will try to take stock of all these measures but also get a better grip of the severity of the economic situation. According to media reports, ECB President Christine Lagarde last week warned EU leaders that the eurozone economy could shrink by 15% this year. Whether this is the ECB's base case or the outcome of a risk scenario is unclear to us.

### The ECB's current main worries

Currently, it looks as if the ECB is following three main goals: i) avoid a vicious circle of downgrades of sovereigns and companies and consequently problems in the banking sector; ii) prevent sovereign spreads from widening further; and iii) support the economy. The avoidance of a vicious circle, in particular, seems to have the ECB's main attention, with last week's decision to include junk bonds as collateral. Despite some market disappointment about last week's EU leaders' call, the PEPP and the waiver to the issuer limit are currently still sufficient to tackle unwarranted increases in government bond yields, if supported by strong communication, but more to this

later. As regards the ECB's efforts to support the eurozone economy, the latest readings of confidence indicators were dreadful and gave a first impression of how severe the contraction could be. Also, the drop in oil prices will significantly lower the ECB's inflation projections. However, as this is anything but a 'normal' crisis, additional monetary stimulus at the current juncture could be the allegorical attempt to catch a falling knife.

## What the ECB could still do

While we cannot fully rule it out, we don't expect the ECB to decide on additional measures this week. This does not mean that the ECB is done. In fact, given the depth of the contraction, low inflation and falling inflation expectations and the risk of a further widening of government yield spreads, we would expect the ECB to step up its PEPP. If old patterns hold, the June meeting with a fresh round of economic projections, would be the right moment to announce such an increase. The increase of PEPP could follow the principles of the latest collateral easing, including purchases of fallen angels. It also would seem logical that the ECB adds bonds of these 'fallen angels' to its purchase programme. The ECB could even go beyond this and consider buying bonds of banks.

## Strong communication this week - priceless

For this week's meeting, strong communication to do 'whatever it takes' by reiterating that the ECB stands ready to increase and extend the PEPP at any time could be sufficient to bridge the gap until the June meeting. However, remember that particularly regarding communication, the March meeting did not really stand out. Christine Lagarde's faux pas on yield spreads and the (no personal) need for 'whatever it takes' added some bruises to the ECB's reputation as almighty crisis manager. The measures taken since the March meeting have restored this reputation. A strong and convincing message from Lagarde on Thursday could therefore save the ECB from taking even bolder steps, at least for now.

### 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 [www.ing.com](http://www.ing.com).