

## ECB preview: The breather meeting

Next week's meeting should tell more about Christine Lagarde's communication skills than about the future path of monetary policy



Source: Shutterstock

They have deserved it. After all the excitement since March, next week's meeting should give the ECB some time to reflect and take stock. It will not be the moment to decide on any new action.

The June meeting had not only delivered an increase in the size of the Pandemic Emergency Purchase Programme (PEPP) but also addressed the German Constitutional Court's ruling on the Public Sector Purchase Programme (PSPP) and paved the way for a workaround. By now, the minutes of the meeting and the German parliament's assessment should have eased the tension and reduced the tail risk of the Bundesbank eventually having to step out of the PSPP. The ECB can again concentrate on fighting the economic impact from Covid-19.

Overall, there is too little new data evidence to change the base case. If anything, the ECB is also witnessing a rebound in economic activity in the eurozone, driven by the lifting of the lockdown measures. Also, the ECB will have closely followed latest German data, showing that external demand and industrial production is lagging behind domestic consumption. The exact size of the economic impact in the second quarter will only become clear towards the end of the month with the first estimates for GDP growth. Currently, there is an interesting discrepancy between more real-time and experimental GDP growth trackers and more conventional forecasts.

## *The real test case will come in the second half of the year.*

---

The latter being more optimistic than the former. In any case, in our view, the real test case will come in the second half of the year. June data should still be positive, continuing the – at least initial – V-shaped recovery. Therefore, July data will in our view be key for the future path of monetary policy.

The inflation outlook has also hardly changed since the June meeting. Despite some inflationary pressure in some pockets of the economy due to some price mark-ups, the overall picture with high unemployment, increased uncertainty and the risk of companies going out of business is clearly disinflationary.

Looking beyond next week's meeting, there is the ongoing question on whether to once again increase the size of the PEPP or maybe even to end the programme earlier than expected. The ECB has always emphasized the flexibility of the programme and the fact the eurozone bond yields are back at pre-crisis levels as well as some slowing of the pace of the ECB purchases has given rise to speculation in markets about a possible earlier end. In our view, this speculation is premature. The economic outlook for the eurozone is simply too uncertain. Also, the negotiations (and eventual decision) on the European Recovery Fund will also have an impact on bond yields. An agreement next week should stabilize bond yields. Disagreement and postponement could add new pressure on peripheral yields.

All in all, the next important stop for the ECB will be the September and October meetings. This is when there will be clear information and evidence on the shape of the recovery going into the second half of the year. Next week's meeting will rather be a test for ECB President Christine Lagarde's communication skills. What will she tell if there is actually nothing to say?

### 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>.