

## ECB preview: The meaning of summer

Some ECB veterans might be longing for the good old days when the bank's summer meeting was held in the form of a teleconference. With little news, ECB President Mario Draghi will simply reiterate the main message of the June meeting



Source: Shutterstock

### What will be on the ECB's mind?

With the announced de facto end of QE at the June meeting, the ECB clearly stuck out its neck on the outlook for growth and inflation in the eurozone. The discussion on the sustainability of the recovery and any acceleration of inflation will continue.

*Soft patch or downswing?* In our view, the jury is still out on whether the eurozone only went through a soft patch in the first months of the year or is actually already in the middle of a protracted cooling. While hard macro data released since the ECB's June meeting has been encouraging and points to stable growth in the second quarter, soft indicators have only shown tentative signs of a bottoming out. On top of that, increasing trade tensions and growing geopolitical uncertainty could further undermine sentiment in the eurozone. Which direction will prevail? The one of sound and re-strengthening fundamentals or the one of a gradual denting of domestic confidence on the back of increasing trade tensions?

*Inflation pick-up, still more wish than reality?* As regards inflation, it's still hard to share the ECB's

confidence in a convergence of underlying inflation towards the ECB's target. On the back of higher energy prices, headline inflation has returned to the 2%-level but the fact that core inflation dropped to 0.9% year-on-year in June shows that the ECB still has a long way to go, to say the least. However, do not expect the ECB to deviate from its June assessment. Rather, expect it to focus on the bright side.

## How long can an ECB summer last?

With little substantial change to the economy, the ECB could definitely take it easy at today's meeting. The main focus, in our view, will be on cementing the message from June and removing any doubt about the bank's determination. Still, Draghi might have to address some of the recent market chatter during the press conference. In recent weeks, there's been conjecture about the ECB's next steps, be it an operation twist or rate hikes in the summer of 2019. In particular, the definition of the summer period seems to have provoked much speculation.

---

*ECB president Draghi's main aim will be to reiterate the June message and create as little doubt as possible about the ECB's determination to stay on the chosen path. To give market participants a quiet summer, he could also consider spelling out how long a real ECB summer can last.*

---

Remember that in June, the ECB announced that it expected interest rates to remain unchanged "at least through the summer of 2019". To some, this statement suggests that a first rate hike could come as early as July 2019. In our view, however, EU aficionados should know the official European summer break always ends in the last week of August. This should leave Draghi with two opportunities to hike rates before his term in office ends: in mid-September and late-October. In our view, he will use at least one of these two opportunities. In any event, talk about ECB steps beyond the end of QE is premature. The ECB will have its hands full this year just trying to end QE. If the recovery is derailed on the back of increased trade tensions or there is no increase in underlying inflation, the bank's efforts to end QE will be compromised. Nevertheless, it's obvious that the broad majority of ECB members seems determined to end QE, though as quietly as possible, and would like to return to interest rates as the main policy tool. This, however, does not necessarily mean that they will be in a hurry to hike rates. In our view, something completely unexpected would have to happen for the ECB to alter its plan to keep rates unchanged "at least through the summer".

### 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>.