

ECB: Auto pilot confirmed

The minutes of the ECB's September meeting underline the Governing Council is very comfortable with the autopilot of a gradual quantitative easing tapering



Source: Andrej Klizan

Three main take-aways from the minutes

The just-released minutes of the European Central Bank's September meeting give a good grasp of the discussion behind closed doors. Remember that the ECB had announced the expected and so-called anticipated reduction of monthly quantitative easing (QE) purchases from 30 billion euro to 15 billion euro, starting 1 October.

For the rest, the forward guidance on an end of net asset purchases (end of this year) and interest rates (unchanged at least through the summer of 2019) had remained unchanged.

In the minutes, the following three issues stood out:

- During the meeting, there had been an extensive discussion on the growth outlook and the potential impact from trade and emerging markets. As already illustrated by ECB president Mario Draghi's comments at the press conference after the September meeting, the ECB had become a bit more cautious about potential risks to what is still regarded as a solid recovery. One member of the Governing Council even remarked that due to trade tensions

and global risks, risks to activity could be characterised as being tilted to the downside.

- The other important issue was the discussion on core inflation. Here, the ongoing discrepancy between low actual numbers and the ECB's expectation of a pick-up still remain. It is obvious that the ECB still believes that supply-side constraints should translate into higher core inflation. However, the discussion also stressed that evidence of this materialising is still very scarce. There also seems to be some doubt within the ECB on whether higher wages would actually lead to higher inflation as an increase in labour productivity could mitigate any inflationary effect.
- Finally, the word “vigorous” was missing in the minutes. Two weeks ago, Draghi's comments at European Parliament about a “relatively vigorous” pick-up in underlying inflation in the coming years led to some excitement in financial markets. The fact that this wording is not in the minutes, as well as the fact that the ECB staff had actually lowered its core inflation projections for 2019 and 2020 at the September meeting, are in our view reason enough to believe that “vigorous” was one of the very rare slips of the tongue by the ECB president.

Little reason to doubt the ECB's auto pilot

Still, financial market participants keep on speculating about the timing of a first rate hike by the ECB. Every time, headline inflation picks up, or a hawkish member of the Governing Council makes a slightly misleading statement, market participants seem to get nervous.

But, in our view, there is very little reason to doubt the ECB's autopilot. The communication and the forward-guidance of the ECB since June has been very consistent and straightforward. The essence of the ECB's strategy is a gradual end of the net asset purchases of QE by the end of the year and possibly a first rate in September or October next year.

The only unanswered questions are for how long the ECB would be willing to continue reinvesting maturing assets, whether the ECB would first hike the deposit rate and then the refi rate or both together and what the size of the rate hike will be.

However, it is currently far too early to answer these questions. Why should the ECB unnecessarily commit itself? As illustrated by the current market turmoil and doubts about the strength of the global economy, too much can happen between now and the end of summer 2019.

Author

Carsten Brzeski

Global Head of Macro

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>.