ECB meeting: Goldilocks can't do without QE

ECB closes the year without any surprises. In the ECB's eyes, strong growth and muted inflationary pressure give no reason to changes its current stance anytime soon

No changes to rates, QE or forward guidance. No changes at all. This was the main outcome of today's ECB meeting. As expected, the ECB did not give any argument that would create doubts about its determination to fully implement its dovish tapering in 2018. If anything, ECB's macroeconomic outlook with strong growth but very little inflationary pressure currently confirms our view that we can see another 'lower for longer' beyond September 2018.

With regards to the macroeconomic outlook, the ECB acknowledged the strong growth momentum in the Eurozone economy. Already in October, the ECB stopped talking about an economic recovery. It is now an economic expansion.

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Today, 'strong pace' and 'strong momentum' were the characteristics of the Eurozone economy. This was also reflected in a significant upward revision of the ECB's GDP growth forecasts to 2.4%, 2.3%, 1.9% and 1.7% for the years 2017 to 2020. Risks to this outlook remain balanced. It seems, however, as if the ECB still does not (yet) believe that strong growth will eventually translate into higher inflationary pressure. Here the new staff projections show an inflation forecast of 1.5%, 1.4%, 1.5% and 1.7% over the same period. Here, only the 2018 forecast was revised upwards, with ECB president Draghi also stating that while deflationary risks are largely gone, the risks to the inflation outlook are not balanced and remain to the downside for now.

2017 has been a year which many Eurozone policy-makers probably would never want to see end. Strong growth and low, but positive, inflation has created a Goldilocks moment in the Eurozone economy.A very comfortable situation for the ECB. However, looking into 2018, the ECB could face a more complicated world.

With central banks around the world hiking interest rates and trying to reduce monetary policy accommodation, pressure on the ECB to step up its tapering process could increase, from both the outside and the inside. Just imagine a situation in which the growth momentum strengthens further, core inflation gradually picks up and headline inflation breaches the 2%-level on the back of higher oil prices. In such a scenario, it could be hard to keep the ranks at the ECB closed.

For the time being, we stick to our base case scenario in which the ECB continues with its dovish tapering and will even announce another 'lower for longer' going beyond September 2018, ending QE by December 2018. Although Draghi commented that the ECB has not yet discussed the future of QE after September 2018. Having said this, if all of a sudden inflation, particularly core inflation was to pick up, some market participants could start doubting the ECB's sequencing and forward guidance. It is too early to tell how the ECB would then react.

> Remember the metaphor of the Eurozone being the patient in intensive care? Over the last years, the ECB has been the chief physician, getting the patient into rehab and making him walk again with monetary crutches. Some ECB members have already suggested that the patient should be able to walk without crutches. Today, Draghi once again made clear that walking, even walking fast, without creating inflation was fine. A reasonable cure. Only once the patient can sprint an entire marathon will the crutches come off.

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