ECB minutes confirm driving manually (again)

The just-released minutes of the ECB's December meeting illustrate both the ECB's confidence in the strength of the Eurozone economy as well as a good amount of caution but marks the transition from autopilot to driving manually

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Only time will tell whether the ECB's take on the Eurozone economy back in December was too optimistic or simply spot on. The just-released minutes of the December meeting, show the general assessment of the economy was still a moderately positive one. The weakening of the economy in the second half of the year was mainly attributed to one-off factors and a loss of strong momentum.

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Interestingly, the Governing Council had a long discussion on how to label the risks to the growth outlook. While some members were in favour of keeping the risks 'balanced', pointing to potential upside risks stemming from lower oil prices and fiscal stimulus, others expressed their views that 'a case could be made for assessing risks to activity as tilted to the downside'. The final outcome of 'the balance of risks was moving to the downside' looks like a typical European compromise.

> *The weakening of the economy in the second half of the year was mainly attributed to one-off factors and a loss of the strong momentum*

The sentence '...it was underlined that the situation remained fragile and fluid, as risks could quickly regain prominence or new uncertainties could emerge', however, underlines the ECB's alertness.

With little changes to the ECB's take on both underlying and headline inflation and the long-lasting hope (more than reality) that underlying inflation will pick up, the decision to stop net QE purchases at the end of 2018 was made easily.

Next steps for ECB? From autopilot to data-dependency

As regards to the future path of the monetary policy in the Eurozone, the minutes explicitly stated that "linking the reinvestment horizon to the interest rate "lift-off" signalled that the forward guidance on the key ECB interest rates was the Governing Council's primary tool for adjusting the monetary policy stance.'

With the next ECB meeting due in two weeks from now, all eyes will be on how the latest set of disappointing macro data will impact the ECB's assessment of growth in the Eurozone. For the time being, we don't expect any changes in the ECB's stance; neither in terms of communication nor of real action.

In fact, the current slight easing bias combined with forward-guidance allows the ECB to drive manually. The autopilot to stop net QE purchases, which started in June last year, has been completely replaced by good old data dependency.

In our view, the ECB still intends to shelve negative deposit rates this year, at least in the absence of any real economic accident.

Also, the ECB is clearly looking into options on how to tackle the issue of any liquidity shortages stemming from the end of the targeted longer-term refinancing operations. A deposit rate hike would return the second unconventional measure in the toolbox and allow Mario Draghi to give his successor a fresh start. Admittedly, the likelihood of such an utopia hasn't necessarily increased in recent days.

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