ECB minutes confirm more cautious take on growth

The just released minutes of the ECB's October meeting show a more concerned central bank regarding growth and a clear attempt to stick to 'high for longer'

The European Central Bank (ECB) is back to releasing minutes of its meetings three and not two weeks ahead of the next meeting. With this development, the minutes will have less lasting impact on financial markets. They are rather a reflection of the mood during the meeting and not so much an indicator of what will happen next.

Main messages from the minutes

The minutes confirmed the more cautious tone ECB President Christine Lagarde had already shown during the press conference in October. Risks to the growth outlook were clearly to the downside, and a disinflationary process had set in.

The ECB seemed happy with markets expecting rates to remain high for a longer period than predicted ahead of the Governing Council's September meeting. The phrase "it was deemed important for the Governing Council to avoid an unwarranted loosening of financial conditions" shows why ECB officials tried to talk up market expectations again after the meeting.

In fact, ECB officials did what they agreed during the meeting; the minutes state that "members agreed that the Governing Council should continue to stress its determination to set policy rates, through its future decisions, at sufficiently restrictive levels for as long as necessary to bring inflation back to target in a timely manner."

End of rate hikes

In short, the minutes underline the ECB's more cautious take on the economy and, in fact, mark the next phase of monetary policy tightening: ending rate hikes and focusing on 'high for longer'. Obviously, it was and is too early for the central bank to close the door to further rate hikes entirely. However, ongoing growth disappointments combined with a disinflationary process that is likely to gather more traction, it will be hard to justify any further rate hikes. On the contrary, while the central bank may not want to talk about it – or even spell it out – rate cuts could enter the ECB's vocabulary faster than many currently think.

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