ECB minutes show that the job is far from done

The minutes of the European Central Bank's December decision once again confirm the main messages heard during and after the meeting: the Bank is far from done with its rate hike cycle

A keynote speech by ECB President Christine Lagarde will be in focus today

The key takeaways from the December minutes were that “the monetary policy stance had to be tightened decisively and that the current configuration of interest rates and expectations embodied in market pricing was not sufficiently restrictive to bring inflation back to target in a timely manner”. Several ECB members were in favour of a 75bp rate hike (instead of the decided 50bp) and also preferred a fast pace for the reduction of reinvestments under the Asset Purchase Programme.

ECB is far from done with rate hikes

Looking ahead to future ECB meetings, it is clear that the central bank is far from being done with rate hikes.

Admittedly, the recent drop in eurozone inflation has nothing to do with the ECB’s rate increases so far. The surge in inflation was mainly a result of higher energy prices, and the recent drop has consequently been driven by lower energy prices. Therefore, when predicting what the

ECB will do next, it doesn't make sense to analyse what the ECB *should* do but rather, what the bank is saying it will do. Hawkishness is no longer a characteristic of just a few ECB members; it is now the mainstream view.

Another 50bp rate hike at the February meeting in two weeks looks like a done deal and another 50bp rate hike at the March meeting even looks highly likely. As long as core inflation remains stubbornly high and core inflation forecasts remain above 2%, the ECB will continue hiking rates. To some extent, we are currently witnessing a mirror image of the ECB until 2019. Back then, the Bank had a clear easing bias and was chasing disinflation with all means possible, even though the root causes for disinflation lay outside of the ECB's realm. Now, the ECB has a clear tightening bias and is chasing inflation which arguably also has its root cause in something the ECB cannot tackle. Still, it looks as though the current generation of ECB policymakers will only let go once they are fully convinced that inflation is no longer an issue. In this regard, the slight improvement of the eurozone's growth prospects as well as abundant fiscal stimulus have given the Bank even more reason to continue with its hawkish mission. With all of this in mind, it is hard to see that the ECB would cut interest rates any time again. Current market expectations about ECB rate cuts in 2024 are premature. If anything, these expectations as reflected in dropping longer-term interest rates are an additional argument for the ECB to stay hawkish. Just remember that the ECB's December hawkishness was also a result of the Bank's view that market pricing was too dovish. Today's comments by both Christine Lagarde and Klaas Knot illustrate once again the ECB's determination to go all the way.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de