

ECB: Preparing the big September bang - part II

During the press conference, Mario Draghi added some flavour to the announced language changes. Not everyone at the ECB seems to be ready for a big September package yet, but this should not stop the ECB from acting



ECB President, Mario Draghi, at Thursday's news conference

As if it weren't hot enough already in the eurozone, expectations about today's ECB meeting also raised the temperature levels. The ECB refrained from cutting rates or announcing new monetary stimulus but it is clearly preparing markets for a rate cut and probably even more at the September meeting. When there is no new action, it is words which count. In this regard, the ECB changed its language on four crucial issues:

1. **In its forward guidance**, the ECB included that interest rates will no longer not only remain at present levels but now also at "or lower" levels, sending a clear hint at a future rate cut.
2. **As for the willingness to act**, the ECB added new language, repeating Draghi's Sintra words that the ECB will act if the medium-term inflation outlook continues to fall short of its aim. The ECB stands ready to adjust all instruments.
3. **The relevant committees**. In the past, tasking the relevant committees has been a

codeword for upcoming ECB action. Consequently, using the magic words that the “Governing Council has tasked the relevant Eurosystem Committees with examining options, including ways to reinforce its forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases” is a clear language.

4. **Symmetry.** Last but not least, the ECB for the first time explicitly pointed to the symmetry of its inflation target. Apparently, there had also been a discussion on possible changes to the inflation objective. During the press conference, Draghi stressed that the ECB was not accepting the current low inflation levels.

What Draghi said during the press conference

During the press conference, ECB president Mario Draghi gave some insights into the discussion and the reasons for the ECB's dovishness. In short, the ECB has become less optimistic about the eurozone's growth and inflation outlook, having doubts about a rebound of the economy in the second half of the year as well as a pick-up of inflation and inflation expectations. Draghi tried not to be too pessimistic, pointing to some signs of strength, but the words that the outlook for the eurozone was getting “worse and worse” was probably the best and shortest illustration of the ECB's concerns.

Judging from Draghi's comments, it also looks as if not all ECB members are yet up for new policy action. According to Draghi, views were converging on the macro economic assessment but there was no unanimity on what to do in September. There were different views on the nuances of the possible policy options. This was why the relevant committees had been tasked.

What will come next?

With the latest disappointing macro data and tentative signs of a weakening of the domestic economy, it will be hard for the ECB not to act in September. At his Sintra speech, Draghi said that the ECB would act if there were no improvement. Today, the macro outlook was getting “worse and worse”.

In our view, it is hard to see how the ECB could once again step up its dovishness by words, rather than action. Admittedly, it does not yet look as if there is a consensus view of what to do at the ECB. However, in our view, the likelihood of a package of several measures at the September meeting, rather than a series of smaller measures, has clearly increased. Think of a 20bp cut of the deposit rate, a tiering system, a lowering of the TLTRO pricing and a restart of QE by 20-30bn euro per month.

One day before the 7th anniversary of his “whatever it takes” speech, Draghi today has clearly prepared the grounds for another (and his personal last) “whatever it takes” in September.

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