

## ECB: We do pre-commit and will go big in December

European Central Bank President Christine Lagarde could not have repeated the main message of today's meeting more often: there will be additional stimulus in December, the only question is what this stimulus will look like and how much it will be



Christine Lagarde

### No jumping just yet

After last night's lockdown announcements in Germany and France, the European Central Bank's base-case scenario has definitely become outdated. This is why there was a small chance it could have surprised markets today by preempting additional easing in December. Some argued that the March experience could force the bank to jump ahead of the curve. Not yet. The ECB today tried a balancing act, de facto announcing new actions in December. Let's hope that the economic situation will allow the ECB to wait until then.

### Lagarde does pre-commit

ECB president Christine Lagarde could not have repeated the main message of today's meeting more often: there will be additional stimulus, the only question is what this stimulus will look like. Forget about Mario Draghi's 'we never pre-commit'. Today, Lagarde introduced her own 'we will

recalibrate all instruments' at the December meeting. There was no conditionality, apart from the reference to using different instruments.

The fact itself that new ECB action will come was not contested at all. According to Lagarde not even within the ECB. While according to her there was no discussion today on any policy action, the ECB unanimously agreed on the need to act in December. The reasons for this determination are clear: a weakening of the eurozone economy which, due to the latest lockdown announcements, will almost unavoidably turn into a double-dip recession.

## Get ready for December

Going into the December meeting, the challenge for the ECB will be to find the right answer and the right instruments to support the eurozone economy and hence restore inflation (expectations). Back in March, the emergency response PEPP programme was started to tackle a possible new eurozone crisis with widening government yield spreads, aka restoring the transmission channel of monetary policy. A widening of spreads, however, is not, yet, a problem. Therefore, the ECB will probably also look into options of how to support banks and, through the banking sector, companies running at the edge of bankruptcy. The latter won't be easy given that the sectors hit most by the lockdowns are normally sectors with many small enterprises and self-employed people. As much as the ECB would like to do 'whatever it takes', it looks as if the biggest chunk of crisis-fighting will continue to have to come from governments.

---

*Christine Lagarde surprised with more dovishness and determination than expected*

---

Interestingly, Christine Lagarde said that the ECB would look into all instruments and the mix of all instruments. This leaves the door open for another rate cut, but given the adverse effects of negative interest rates, this is in our view still an unlikely option. We think the most likely outcome of the December meeting is still an increase of asset purchases, via both the PSPP but also the PEPP programme, by some 500bn euro and more, possibly even more tailor-made support for banks and bank lending by for example including Fallen Angels in the asset purchases or extending the most favourable interest rate of -1% by more than the current twelve months. The digital euro, which could actually help in the current situation as it would allow helicopter money, will not come in time.

All in all, today's ECB meeting follows a good old ECB tradition to first assess all the facts and jump the gun. Still, Christine Lagarde surprised with more dovishness and determination than expected, posing the only question if the ECB agrees on the need to act in December, why didn't they act already today? Here is the answer: Had the ECB meeting taken place not one day but one week after the lockdown announcements in France and Germany, the outcome of the meeting would probably have been different.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.