Snap | 23 November 2017

ECB: Strong support for 'lower for longer' at least for now

Minutes of the last ECB meeting show broad support for taper decision but controversy on whether or not QE extension should be open-ended.

Source: ECB

The figures

Today's minutes of the October meeting confirmed that the decision to reduce the monthly QE purchases to 30bn euro as of January next year was taken by a large majority of the ECB members. Diverging views were mainly on the features of the tapering but not on the tapering itself, reflected in "some initial preferences were expressed for a smaller overall envelope of intended APP purchases, as well as for a different monthly pace of purchases for a given intended envelope."

€30bn

Monthly QE purchases

as of January 2018

The controversial debate

The most controversial debate seems to have been on whether or not the QE extension should be open-ended. According to the minutes, "the announcement of an end date could induce market participants to frontload possible price adjustments, which might lead to an undue tightening in financial conditions". Interestingly, some ECB members seemed to be worried about creating market expectations about a further extension of QE, beyond September 2018. According to them, "From the current perspective that did not appear justified in the absence of major new shocks." This view stands in stark contrast with ECB president Draghi's comments at the last press conference when he said that he did not expect an abrupt ending of QE in September.

An interesting detail

Another interesting detail of the ECB discussion was the fact that apparently "as regards the composition of the asset purchases beyond the year-end, broad agreement was expressed with the proposal made by Mr Cœuré that the purchase volumes under the three private sector purchase programmes should remain sizeable." This remark fits into a story already reported yesterday by Bloomberg that the ECB was investigating whether the corporate-bond-purchasing programme was favouring large companies over SMEs. It could also mean that the ECB will change the proportionality of the asset classes it purchases when reducing the monthly QE purchases. Currently more than 10% of the monthly purchases is spent on corporate debt. It could be more.

All in all, the minutes show that there was broad agreement on the October decision to reduce the monthly QE purchases, starting January 2018. However, further down the road, ie beyond September 2018, new disagreements could emerge. In our view, the ECB will do another lower for longer after September 2018. But this discussion is not for now.

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