

ECB... Wake me up before you review

A subtle change in the ECB's reading of underlying inflation measures, the announcement of the strategy review and an owl brooch on Christine Lagarde's jacket... this was the sum of the excitement at today's ECB meeting



ECB President Christine Lagarde wore an owl brooch at Thursday's meeting

What is the toughest task for an ECB watcher? Writing a review of an ECB meeting at which hardly anything has happened. Today's meeting was such an example. In short, there were three takeaways from the meeting: the ECB kept its monetary policy unchanged, slightly altered its view on inflation and officially announced the start of the strategy review.

Changes in the inflation assessment. Probably the most remarkable piece of information of the entire press conference was another change in the ECB's assessment of inflation development. Today, the ECB noted that "measures of underlying inflation have remained generally muted, although there are further indications of a moderate increase...". Back in December, this was still a 'mild' increase. In October, all measures of underlying inflation were muted. A very gradual and subtle change but it is a change. In case the Eurozone economy stabilises and rebounds in the course of 2020, this gradual increase in underlying inflation could, in our view, continue. The longer it takes for a recovery to unfold, the higher the risk that the recent increase in underlying inflation is a delayed consequence of the cycle, rather than a leading indicator for headline inflation.

Start of the strategy review. Christine Lagarde announced the official start of a strategy review. The ECB's monetary policy strategy had been adopted in 1998 and adapted in 2003. According to the ECB, this review will look at the definition of price stability and the ECB's toolkit. Also, the review will take into account how other factors like financial stability, employment and environmental sustainability could affect monetary policy and its goals. According to the ECB, the review is still supposed to be concluded by the end of 2020. During the press conference, Lagarde tried not to preempt the discussion during the review. We think the main discussion of the review - and the most relevant outcome for financial markets - will still be (changes to) the definition of price stability, including whether there will be a range or not. Expect regular gossip, hints and news from ECB officials over the coming months.

Wait-and-see until end of strategy review

All in all, ECB meetings seem to have returned to a normal level of boredom. The changeover from Draghi to Lagarde, internal conflicts as well as the growing awareness that the ECB has broadly reached the limits of what monetary policy can do to support growth and inflation without creating more adverse effects have put the ECB into a wait-and-see position. The subtle shift of the inflation assessment, though to some extent it's whistling in the dark, clearly helps here.

Unless there's a severe economic accident, the best we can expect from the upcoming ECB meetings this year could be a dropping of the easing bias and possibly hints at an end to QE. Judging from Lagarde's comment at the press conference, however, a substantial change of the ECB's monetary policy, including forward guidance, before the end of the strategy review looks unlikely. Binge-worthy and nail-biting ECB meetings will otherwise not return before the end of the strategy review.

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