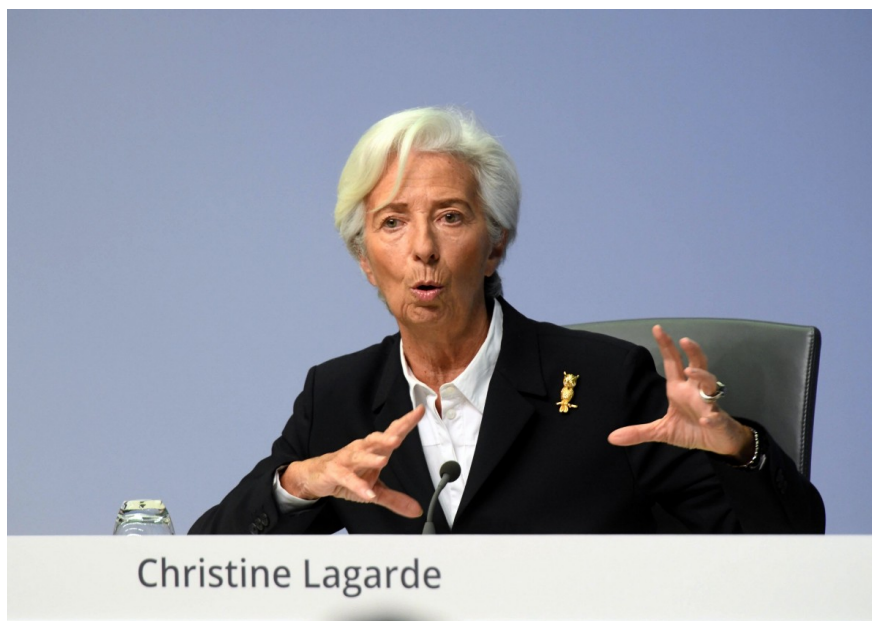


## ECB Minutes: Modified optimism

The minutes of the January meeting put initial optimism into perspective. When the European Central Bank meets again in three weeks, the macro environment will be even more challenging



President of European Central Bank Christine Lagarde

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The just-released minutes of the ECB's meeting in January illustrate the well-known phenomenon that ECB members have several rounds to alter the draft and often indirectly start factoring in developments since the actual meeting. While the introductory statement and the press conference after the January meeting tried to present a somewhat more upbeat tone, the details of the minutes modify this optimism.

Back in January, subtle changes to the official communication stressed the ECB's more optimistic take. The risk assessment to growth had become somewhat less "tilted to the downside" and the ECB acknowledged an increase in measures of underlying inflation. In today's minutes, these already subtle changes were weakened by adding attributes like "some caution was also expressed about becoming too optimistic", "the outlook for price developments remained below the Governing Council's medium-term aim and risks to the outlook were still elevated" and "inflation was still far away from the Governing Council's objective and a robust convergence of inflation towards the Governing Council's aim was not yet assured, notwithstanding a slight uptick in underlying inflation".

It looks as if the ECB is trying to caution financial markets against too much optimism and prepare them for the new reality. In fact, data releases since the January meeting have been rather disappointing. Manufacturing – at least temporarily – worsened instead of improving and the outbreak of the coronavirus will not only negatively affect the Chinese economy but also the eurozone; at least temporarily. Even though we would expect the ECB to look through the short-term impact from any adverse external developments, January's optimism will be hard to maintain at the March meeting. It has happened too often in the recent past that initial short-term or one-off factors quickly morphed into more structural problems for the eurozone economy.

All in all, the minutes of the January meeting not only put the subtle more optimistic changes into perspective, they also seem to be preparing market participants and the ECB itself for a more challenging March meeting.

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