

Eurozone: ECB minutes show broad support for dovish tapering

Strong growth and gradually increasing inflationary pressure comforted the ECB's June decision to announce a de-facto end to QE



European Central Bank
HQ, Frankfurt

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The just-released minutes of the ECB's June meeting show that there was broad agreement within the ECB to prepare the end of QE, while keeping sufficient flexibility.

The assessment of both the outlook for growth and inflation showed a remarkable optimism. As for that growth, the ECB remained confident that the "economic expansion was expected to remain solid and broad-based, and to continue at a pace above potential." However, despite this optimism, the ECB was not blind to disappointing data and trade tensions, stating that downside risks related to global factors had "become increasingly prominent". As for inflation, the ECB sounded remarkably optimistic that the "likelihood of inflation being on a sustained adjustment path had clearly increased over time", even though in our view the actual data still falls short of fully confirming this assessment.

Reading between the lines of the minutes, the ECB tries to give the impression that the de-facto announcement of an end to QE at the June meeting was the most normal thing in the world, a natural evolution of previous recalibrations. While back in June not everyone would have agreed

with the ECB, the reactions after the announcement seem to prove the ECB right. With hindsight.

The ECB will still have its hands full to really end QE this year

In recent days, there has been increased speculation and market chatter about the ECB's next steps, be that an operation twist or rate hikes in the summer of 2019. In our view, these talks are premature and rather the result of some anticipated withdrawal symptoms in a summer of 2019 without any major sports event. Admittedly, we would never rule out that some ECB officials have hypothetical and theoretical talks about future steps at the coffee machine but we really doubt that there have been any serious discussions yet on an operation twist or the timing of the first rate hike.

The ECB will still have its hands full to really end QE this year. Any derailing of the recovery on the back of increased trade tensions or the absence of any increase in underlying inflation could still complicate the ECB's anticipated end of QE. Nevertheless, it is obvious that the broad majority of ECB members seems determined to QE, though as quiet as possible, and would like to return to interest rates as the main policy tool. This, however, does not necessarily mean that they will be in a hurry to hike rates.

In our view, something completely unexpected would have to happen for the ECB not to stick to unchanged rates "at least through the summer". EU aficionados should know: the official European summer break always ends in the last week of August. This should leave ECB president Mario Draghi with two opportunities to hike rates before his term in office ends - the mid-September and the late-October meeting. In our view, he will use at least one of these two opportunities.

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