Monetary developments won't stop ECB from ending QE soon

Broad money growth accelerated in October, while loan growth remained at cruising speed. Comfortable enough for the ECB to stop its net asset purchases in January. However, a slowdown in 2019 might put TLTROs back on the agenda

Source: iStock

M1 indicates further slowdown in 2019

Annual M3 growth in the eurozone increased to 3.9% in October from 3.6% in September. Adjusted loans to households expanded by 3.2% in October, unchanged from the previous month, while the growth pace of loans to non-financial corporations slowed to 3.9% in October from 4.3% in September. Credit growth seems to be at cruising speed, but nothing more than that.

The annual growth rate of the narrower aggregate M1, stood at 6.8% in October, unchanged from the previous month. Real M1 growth, a good leading indicator of economic activity, has now been on a downward path since July 2015. This is compatible with a further slowdown in growth momentum in 2019.

TLTROs back on the agenda?

While ECB President Mario Draghi is still putting on a brave face, the minutes of the last meeting of the Governing Council, revealed that some members had their doubts regarding the growth outlook. We believe that the staff projections, now pencilling in 1.8% GDP growth in 2019 and 1.7% in 2020 will inevitably be revised downwards at the next forecast round in December.

Today's figures don't offer many clues for immediate action. We believe that the ECB will proceed with its intention to stop net asset purchases from January onwards. A thorny question that will pop up in the course of next year is whether the ECB will be forced to launch a new TLTRO (targeted long-term refinancing operation). In Italy especially, higher funding costs for the banking sector, caused by an increase in the sovereign bond yield, might induce a tightening of credit conditions at a time when the economic recovery is petering out.

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