



BERENBERG

PARTNERSHIP SINCE 1590

Holger Schmieding, Chief Economist | Holger.schmieding@berenberg.com | +44 20 3207 7889

ECB: PLAYING IT SAFE

Berenberg Macro Flash

After financial markets overreacted to Mario Draghi's Sintra speech, the ECB played it safe today. In its monetary policy statement, the ECB maintained an easing bias for its asset purchase programme, emphasising once again that it "stands ready to increase the programme in terms of size and/or duration" if the economic outlook were to become less favourable or if financial conditions were to worsen significantly. A sizeable minority of observers had expected the ECB to either drop or to heavily modify this commitment.

In his introductory statement to the press conference, Draghi also took care to not deviate much from the previous script. At the margin, he sounded slightly more confident than before that core inflation will indeed respond to the resilient economic recovery and edge up gradually over time. Adding a half-sentence to his June statement, Draghi noted that "the ongoing economic expansion provides confidence that inflation will gradually head to levels in line with our inflation aim" before emphasising that this has "yet to translate into stronger inflation dynamics". All in all, the changes were rather small. Following Sintra, the ECB this time adjusted its statement less than it had at previous meetings. As Draghi explained, the ECB wants to prevent an unwarranted tightening of financial conditions which, according to the ECB, could prevent the slow increase in inflation towards the ECB's target of just below 2%.

The Eurozone economy seems to be largely on track. Recent data are in line with ECB staff projections and our own forecasts for resilient growth and no more than a very gradual pickup in core inflation. If upcoming data confirm the picture, as they probably will, the ECB will likely continue to tiptoe towards the exit from its aggressive monetary policy stance. We expect the ECB to:

- announce at its 7 September meeting that it is studying in detail various options to reduce its asset purchases as of January 2018,
- announce on 26 October that it will reduce asset purchases from a monthly rate of €60 bn to €45bn as of January 2018 and maintain that new pace for at least three months,
- scale back the asset purchases in further steps of €15bn every three months thereafter until purchase stop at the end of September 2018,
- raise the deposit rate from -0.4% to -0.25% in late 2018, and
- hike the refinancing rate from 0.0% to 0.25% in September 2019.

Of course, if the economic outlook were to change materially, the ECB may move more slowly or a little faster. Although a small chance remains that the ECB will try to appease its resident hawks and its outside critics somewhat by easing the burden which the negative deposit rate places on banks before late 2018, the overdone market reaction to Draghi's thoughtful but neutral Sintra speech has probably made the ECB even more cautious than before. As core inflation remains subdued, the ECB will likely prefer to err on the side of caution, that is moving more slowly rather than faster than many observers project.



BERENBERG

PARTNERSHIP SINCE 1590

MACRO NEWS

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7878
www.berenberg.com
holger.schmieding@berenberg.com