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ECB: STEADY AS SHE GOES

Berenberg Macro Flash

No change, no news. Upon leaving all interest rates and the key parameters of its asset purchase programme unchanged, the ECB did not signal any need to rethink its policy soon. Growth and inflation are developing roughly in line with ECB expectations as outlined in the December staff projections. The bank merely clarified the terms under which it will buy bonds with yields below the -0.4% deposit rate, as announced last December.

As before, the ECB repeated that it stands ready to expand its asset purchases in size and duration as required. The ECB vowed to maintain its current rates well beyond the expiry of its asset purchase programme. In the press conference, when asked whether the ECB would hike rates before the end of the asset purchase programme, ECB president Draghi said that it wasn't discussed, de facto dodging the question.

According to Draghi, the ECB did not discuss how to go about reducing its asset purchases once the time for that comes. While noting "signs of a somewhat stronger global recovery", the ECB council maintained its assessment that risks to Eurozone growth are tilted to the downside.

Draghi referred in the press conference to a "sense of satisfaction" among the ECB council members that the decisions taken in December were the right ones. Draghi pointed to ongoing job creation of a total of 4.5 million jobs in the last three years as well as to the December gains in consumer and business confidence.

Asked about German concerns over the recent spike in headline inflation, Draghi gave a robust defence of the ECB's stance. He emphasised that the ECB is delivering price stability which benefits savers, including those in Germany. We fully agree with the assessment that the recent rise in headline inflation reflects mostly transitory oil price effects which should not shape central bank policy. Underlying inflation pressures remain subdued. According to Draghi, the dispersion of inflation within the Eurozone is at its lowest since 1997.

Draghi made clear four key criteria to be fulfilled before the ECB policy stance would materially change: The ECB would need to see a convergence of inflation towards the ECB's definition of price stability (below but close to 2%)

1) over the medium term horizon
2) across the whole Eurozone
3) which is durable
4) and self-sustained (it would have to stay there when the substantial monetary accommodation is over).

Of course, what the criterion, of "across the whole Eurozone" would mean if inflation rates were to diverge more strongly again could turn into a thorny issue eventually. For the time being, inflation differences within the Eurozone seem well contained.

We expect the ECB to announce in September or shortly afterwards that it will start to reduce its asset purchases from January 2018. After ending these purchases in the summer of 2018, the ECB will probably follow up with the first hike in its main refinancing rate in September 2019 or slightly earlier, that is before

Draghi's term expires at the end of October 2019. In the absence of serious inflationary pressure, the ECB can and should reduce the scale of its stimulus cautiously.

Asked about comments of US president-elect Trump about the dollar exchange rate, Draghi pointed to a strong consensus among the G20 to not engage in competitive devaluations. Unsurprisingly, he declined to comment on the potential impact of Brexit on the Eurozone economy, pointing out that it is much too early to do so. After all, negotiations have not even started.

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