

Short Note ECB

ECB monetary policy decision

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ECB intentions not entirely clear

As expected, the ECB's Governing Council reacted to the rise in bond market yields. The written part of the statement after the meeting that ended today said that the Governing Council expected purchases under PEPP at a significantly higher pace during the coming quarter compared to the first months of this year. In the press conference, ECB President Lagarde then explained the monetary policy stance. However, some things remained unclear.

At the beginning of the press conference, the focus of the measures on maintaining favourable financing conditions was emphasised once again. Favourable financing conditions were not quantified, but were based on the inflation outlook and would be assessed on the basis of a variety of factors and indicators across all areas of financing. This is not new.

What the ECB is aiming for with the significant increase in monthly purchases, however, remains open. Is it to stabilise yields or bring them back to lower levels? President Lagarde emphasised several times that the decision to increase purchases would be implemented immediately and quoted the decision several times in the press conference. So will purchases be increased in any case or will their level depend on the level of yields, as before? It is also unclear why a decision by the ECB Council was needed. The PEPP purchase programme is already defined as flexible in terms of the extent and distribution of purchases. When the monthly purchases under PEPP were significantly reduced after the summer of 2020, there was also no decision by the Council.

Although the intentions behind today's decision are not entirely clear, the impact on markets should be muted. The reason for this is that the significantly higher purchases will only last 3.5 months and thus only for a relatively short time. The second reason is that the ECB has confirmed its medium-term course. The inflation rate is still seen at only 1.4% for 2023, well below the ECB's target of just under 2%. The forecasts for inflation rates for 2021 and 2022 were raised, but this was due to a number of special factors and the energy price and thus has no influence on monetary policy, as the ECB president stressed.

We stand by our assessment that the ECB will make do with the existing framework of the PEPP and that no increase will be necessary. We expect the bond market to be volatile, so the ECB will remain challenged. Ultimately, however, we expect a sideways movement until the middle of the year. In the second half of the year, we expect yields to rise slightly.

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Note: Past performance is not necessarily indicative of future results.

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