

Short Note ECB

ECB monetary policy decision

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ECB remains on vague course

As expected, the ECB Governing Council decided on no change in monetary policy at today's meeting. ECB President Lagarde confirmed that the last few weeks had developed essentially as had been expected at the March meeting. She said that the short-term risks to the economy were still on the downside, while the medium-term risks were more balanced.

The outlook for the further development of securities purchases within the framework of the PEPP program was more difficult. At the March meeting, a significant increase in monthly purchases had been decided for the second quarter. The minutes of the meeting then stated that the ECB Governing Council would evaluate on a quarterly basis, on the basis of the inflation outlook, whether financing conditions were favorable and would therefore indicate the level of future purchases under PEPP. None of these parameters has been quantified, and President Lagarde therefore struggled with questions asking for specifications. Accordingly, the pace of purchases in the third quarter remained open. On the other hand, the ECB president made it relatively clear that there was no question of ending the PEPP program.

The ECB is trying to steer the bond markets, but only wants to commit itself for one quarter at a time and the reaction function is vague, which does not make it easy for the markets. In June, a decision on the extent of the purchases in the third quarter will be made. We will then know whether the ECB sees financing conditions as favorable or not. Perhaps this will make the central bank's reaction function clearer. We continue to expect only a very slow rise in yields on the bond market over the course of the year. In the market, President Lagarde's statements triggered a slight rise in yields and a weakening of the euro against the dollar.

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

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Published by:

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1100 Vienna, Austria, Am Belvedere 1
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Commercial Register No: FN 33209m
Commercial Court of Vienna

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