A confident ECB wants to keep its options open

by Franck Dixmier | 11/09/2018

Summary

We don't expect much news from the communications surrounding the European Central Bank's next meeting. But we do expect them to balance expressions of confidence in the euro-zone economy with a cautious approach to rate hikes.

Key takeaways

- The euro zone's economic environment is still robust and its growth outlook still strong – which should give the ECB confidence to end QE this year
- At its next meeting, the ECB probably won't commit to raising rates before summer 2019; policymakers want to keep an eye on upcoming data – particularly inflation
- Don't expect the ECB to discuss Italy or reinvesting QE proceeds; officials would rather keep their options open in today's tense geopolitical environment

We don't anticipate any surprises from the European Central Bank's next meeting, on 13 September. The latest euro-zone figures are likely to support the central bank's view that the economic environment is still robust and that the region's growth outlook, while below its 2017 peak, is still strong.

We therefore expect to hear an expression of renewed confidence from the ECB that it will end its asset-purchase programme by year-end. The ECB wants to establish a sure footing before entering the next phase of its monetary policy, which will be less accommodative.

The ECB is also likely to confirm its cautious stance on raising interest rates by reiterating that its first key rate hike is unlikely to take place before summer 2019. This will give the ECB enough leeway to factor in upcoming economic data, including whether the euro-zone's inflation trajectory is converging towards the central bank's target of about 2%.

With this in mind, Luis de Guindos, the ECB's vice-president, recalled during a recent speech that the central bank's governing council uses three criteria to assess inflation in the euro zone: convergence to 2%, confidence in the inflation trajectory and resilience in a post-quantitative-easing environment. This message is unlikely to be affected by recent developments, including headline inflation of 2% and core inflation of 1% in August.

At the press conference after the ECB's meeting, we expect to hear questions about how the central bank intends to reinvest the proceeds from its maturing securities. Yet we would be surprised if officials provided any clarification at this stage, since it is in the ECB's best interest to keep all its options open in today's tense geopolitical environment.

We would also be surprised if the ECB mentioned Italy in its communications, particularly the risks to euro-zone financial stability from a face-off on fiscal issues between Italian authorities and the European Commission. The draft Italian budget will not be released until late September, and it's hard to see how the ECB would comment on rumours, rather than awaiting the facts.

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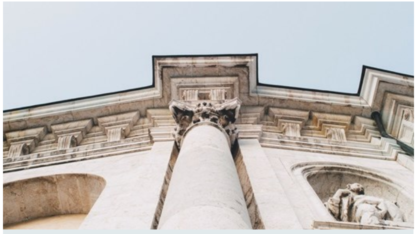

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Booming US economy provides support for the Fed's approach

by Franck Dixmier | 19/09/2018

Summary

Each new report of strong US economic growth, as well as rising but under-control inflation, seems to validate the Fed's approach to normalising US monetary policy. But the central bank won't put rate hikes

on autopilot next year; rather, it will keep monitoring inflation and risks from trade wars, Brexit and emerging markets.

Key takeaways

- The Fed's gradual withdrawal of accommodation was once again supported by the latest US jobs data: strong payrolls, healthy wage growth and low unemployment
- Inflation moved higher in August, reaching 2.7%, but it hasn't spiked in a way that should affect the Fed's tightening plans
- We expect a 25 bps hike at the FOMC's next meeting, and one more after that before the end of the year – but it won't put rate hikes on autopilot in 2019
- As the Fed inches closer to the neutral rate, it will keep monitoring risks to the US economy, including trade wars, Brexit, Italian politics and contagion in emerging markets