ECOWEEK

N° 17-39// 27 October 2017

ECB: dovishly confident

■ The decisions of the Governing Council were in line with expectations but markets nevertheless reacted positively ■ In the spring of 2018, ECB watchers will increasingly focus on what comes after QE ■ On that matter, important questions were left unanswered during the press conference

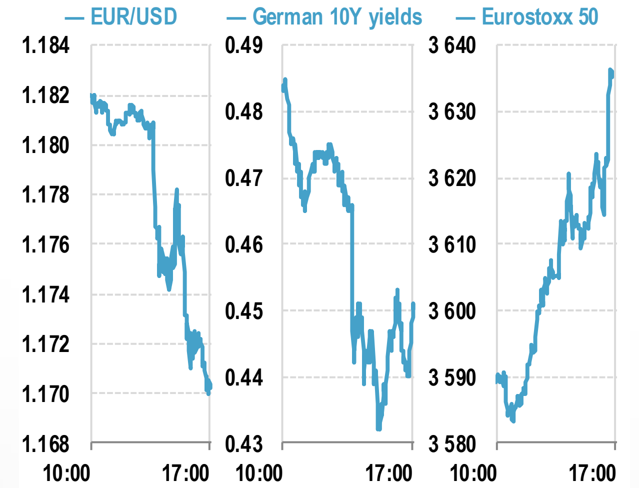
Everybody's happy. That was the feeling at the end of Mario Draghi's press conference yesterday. The ECB president must have felt relieved about the positive market reaction which saw a slight decline in bond yields and the euro and a limited rise in the Euro Stoxx 50 index.

Thanks to skilful communication in the run-up to the meeting, what could have been interpreted as a hawkish reduction in the pace of buying, ended up being considered dovish. Managing expectations is key in the world of central banking. Investors were happy as the tone in Frankfurt was confident and dovish. Confidence about how good the real economy is doing triggered the comment of Mario Draghi that there was a good atmosphere in the meeting room of the Governing Council. Dovish, because of the emphasis that inflation remains too low, a justification for an open-ended 9 month extension with EUR 30bn of net purchases per month. This means a lot of extra liquidity and, importantly, a priori several quiet months.

Are we running the risk of press conferences becoming boring? A cautious, dovishly confident central bank in a robustly growing economy is probably as good at it can get for return hungry investors. However, by spring next year, nervousness will be on the rise again: what will happen at the end of September considering that yesterday's decision of keeping the extension open-ended was not unanimous? As of when will the ECB start giving hints about its intentions? For the time being markets don't seem to care: why spoil a party by fretting that at some point the bar will be closed when this is still a distant prospect? The feeling of 'eventually change will come' was palpable during the press conference. There was the insistence on the reinvestment of maturing principal, an implicit acknowledgement that when net purchases will have stopped the monetary toolkit will consist of forward guidance, policy rates, and managing the balance sheet. On this last point, the emphasis on the reinvestment sends a signal that balance sheet reduction is years away. Changing the policy rate is another story: where does "well past the end date of the net purchases" bring us if, unexpectedly, this end date would be 30 September 2018 after all? Questions about the meaning of "well past" did not lead to a better understanding. As is often the case in life, the toughest questions are often those that remain unanswered.

MARKET EVOLUTION

Intraday at 26 October 2017



Sources: Bloomberg, BNP Paribas

William De Vijlder

Eco WEEK

ECONOMIC RESEARCH DEPARTMENT

BNP PARIBAS

The bank for a changing world