

ECB Watch: Mounting opposition and headwinds to further easing

Inge Klaver | Anders Svendsen | Tuuli Koivu | Sofia Fröjd

The September monetary policy account confirmed the view of a divided council, concerned about a slowing economy.

At the September meeting, the ECB decided on a full stimulus package comprising of a rate cut, restart of QE, a strengthened forward guidance, a move to a two-tiered rate system, and easing terms of the TLTROs. Since then, we got a sense of the discussion at the meeting. An unprecedented divide within the ECB council has become increasingly clear. A number of members of the Governing Council have publicly voiced their disagreement with resuming QE, [Sabine Lautenschläger has resigned](#) seemingly out of protest, and the Council ignored advice against QE from officials preparing the policy options.

Since the meeting, in which both the growth forecast and the inflation forecast were revised down considerably, incoming data has disappointed. The [PMIs dropped much more than expected](#) in September, for both services and manufacturing. Inflation trailed down just below consensus in September, pointing to [continued muted price pressures](#). We don't expect the ECB to act on this in October, however.

The disappointing data does justify to some extent the concerns raised by a number of members during the meeting that *"despite the revisions, the baseline scenario in the latest ECB staff projections was still too optimistic in the light of the prevailing uncertainties."* As before, *"Concern was expressed about the longer-term downward trend observed in inflation expectations, which was evident in both market-based and survey-based measures."*

What do the minutes tell us about the division in the council?

Although all members agreed that it was time to act, the discussion of policy considerations reveals that there were varying levels of agreement for the separate policies announced, ranging from *"majority"* to *"clear majority"* to *"very large majority"*.

As already voiced by several members right after the meeting, there was opposition to the bond-buying. *"A number of members assessed the case for renewed net asset purchases as not sufficiently strong, either because they deemed them to be a less efficient instrument, given the prevailing compression of term*

premia, or because they deemed them to be an instrument of last resort which should only be deployed in the event of more severe contingencies and which was not warranted in the light of the current outlook."

Also the policy proposal for the introduction of the two-tier system received some opposition, but was in the end decided on with a "*A majority of members*". The opposing mostly arose from the fact that a combination of tiered rates and TLTROs was perceived as excessive.

The rate cut seemed to be more of a done deal, at least for the "*very large majority*". Even a few members proposed cutting by 20bps, so more than the decided 10bps, as an alternative to the net APP.

Open ended QE?

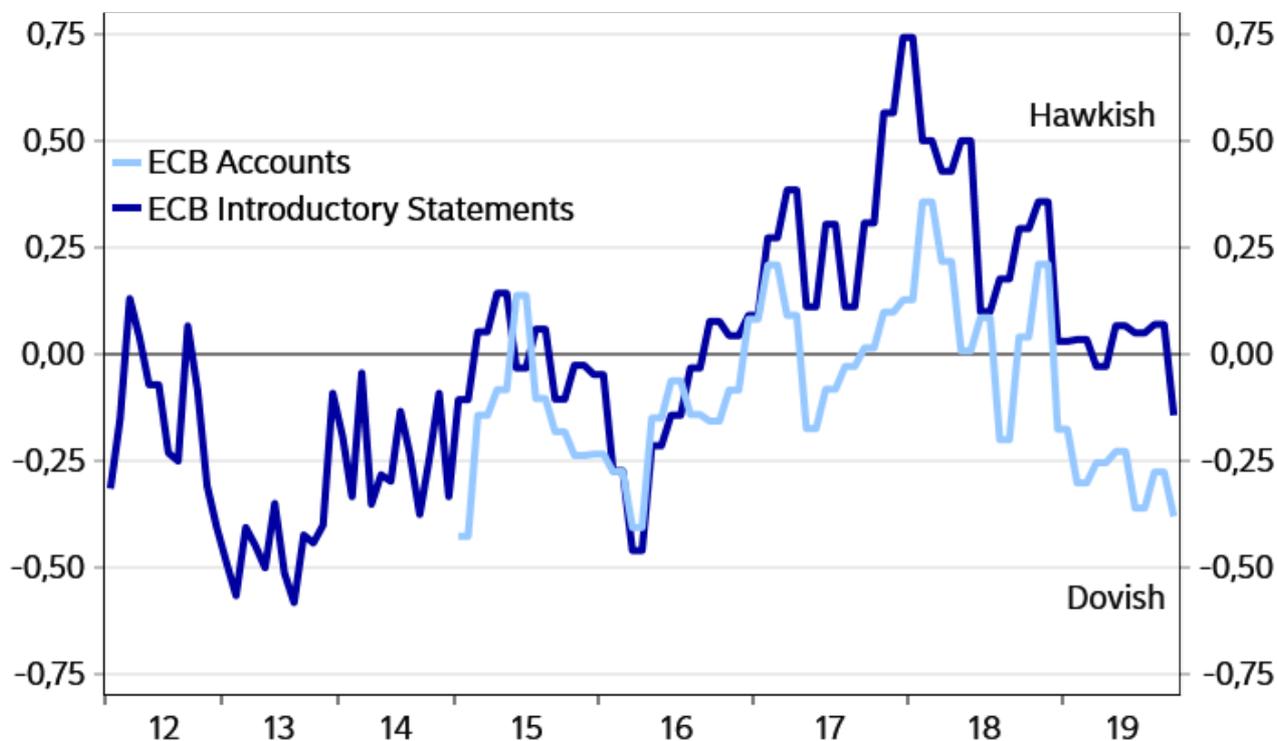
In their discussion of the open-ended nature of the proposed QE, our concern of the issuer limits was not treated in earnest. "*it was felt that a discussion of the limits could wait until the issue became more pressing.*" In our view, the issue will become pressing quite soon and is standing in the way of the market buying into the effectiveness of the announcement. The self-imposed limits will be a challenging issue for Lagarde to handle.

Conclusions

Overall, the Governing Council members agreed about the dire state of the Euro-area economy and agreed about the need for a comprehensive package of monetary easing. The huge divide that has been the general perception in the public since the September meeting seems to be more on the details of the individual instruments and preference for some instruments over others. In general, the ECB remains dovish. We still expect another easing package in December.

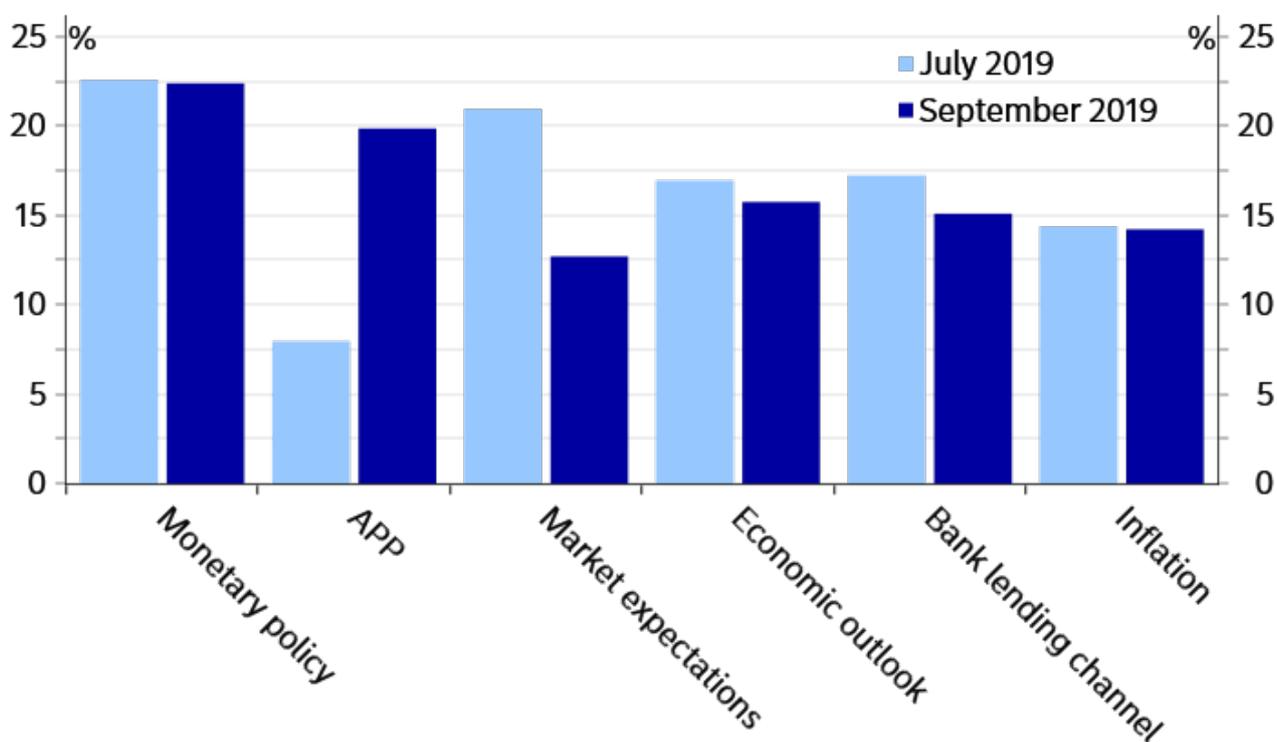
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Our AI model confirms our view of a dovish ECB



Source: Nordea Markets and Macrobond

The model shows that the discussion was centered around the several policy options, with a focus on the APP



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Inge Klaver
Analyst
inge.klaver@nordea.com
46720848268

Sofia Fröjd
Associate
sofia.frojd@nordea.com

Anders Svendsen
Chief Analyst
anders.svendsen@nordea.com
4555471527

Tuuli Koivu
Senior Analyst
Tuuli.Koivu@nordea.com
+358 9 5300 8073

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Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Finland, domicile Helsinki, Business ID 2858394-9

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