mni

All Signal, No Noise

MARKET ANALYSIS

ECB Preview: June 2021

Contents

Details:

Monetary policy decision: 12:45BST/13:45CET, Thursday 10 June 2021

Press conference: 13:30BST/14:30CET, Thursday 10 June 2021

Expected links:

Monetary Policy Decisions:
https://www.ecb.europa.eu/press/govcdec/mopo/2020/html/index.en.html

Interest Rate Announcements:
https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

ECB Press Conference Video:
https://www.ecb.europa.eu/press/tvservices/webcast/html/webcast_pc_youtube.en.html

Bloomberg: MEDI <Go>

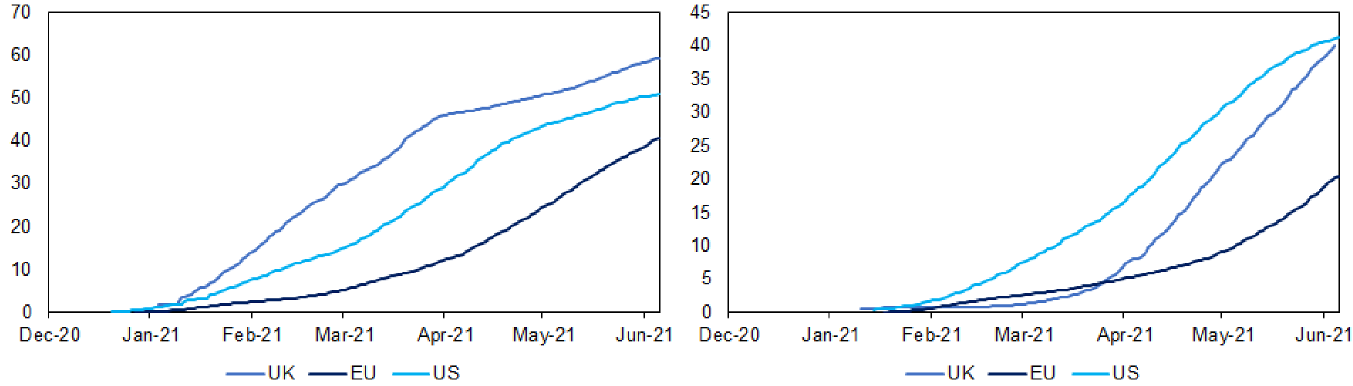
MNI Point of View (POV):

Marginal Adjustments In June; September Meeting Gaining In Importance

- Maintaining a higher PEPP pace relative to earlier in the year is the path of least resistance for the ECB.
- As reflected in recent GC commentary, talk of PEPP tapering is premature given that the economic recovery is still in the early stages and herd immunity against Covid-19 has not yet been reached.
- With policy and communication adjustments (i.e. PEPP pace and guidance, forecast revisions etc) likely to be minimal, the September meeting will gain in importance. At this point the current PEPP envelope would have just over six months left until expiry and the GC will have much greater visibility on progress towards herd immunity and the state of the economic recovery.

Progress on vaccinations, expectations of a 'robust reopening' and the spillover from the Biden stimulus have lifted the economic outlook compared to the first quarter of the year and has fuelled speculation of a potential PEPP taper. However, members of the Governing Council have struck a note of caution in recent weeks and have pushed back against expectations of a near-term tapering, citing the still embryonic stage of the recovery, the weak medium-term inflation outlook and the economy's dependence on sustained policy support during the pandemic phase. As a result, the June ECB meeting is unlikely to usher in any significant policy changes. It is likely that the GC will try to balance cautious optimism on the economic outlook against persistent economic uncertainty and a still vulnerable recovery.

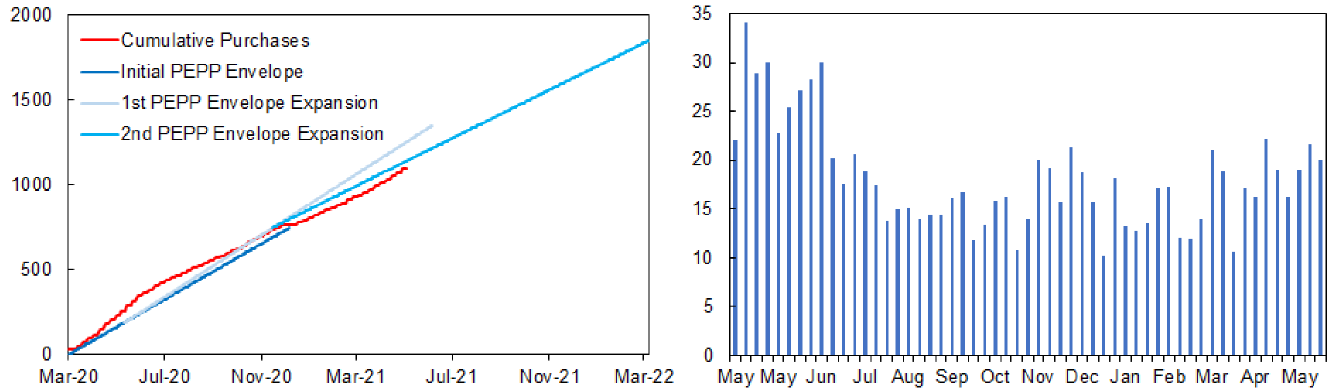
Fig 1. Share of Population Vaccinated Against Covid-19 (LHS) & Share of Population Fully Vaccinated (RHS)



Source: Our World In Data, MNI

The path of least resistance for the ECB will be to maintain the current commitment to maintain a higher pace of PEPP purchases. This would placate the doves who insist on sustained policy accommodation and is unlikely to unsettle the more hawkish members given that the economic recovery is still in the early stages. As such, while accounting for summer seasonality effects, the ECB is likely to continue purchasing at a higher rate than the beginning of the year. Markets will be particularly focused on the “significantly higher” phrasing with reference to the purchase rate and it is possible that the ECB could moderate this statement in line with upward revisions to the staff macroeconomic projections.

Fig 2. ECB PEPP Purchases: Cumulative (LHS) & Weekly (RHS), EURbn



Source: ECB, Bloomberg, MNI

Questions during the press conference will invariably be focused on PEPP, the potential for a tapering of the purchase rate and, as markets look ahead to the end of the pandemic, the possibility of specific PEPP modalities being handed on to the APP. In addition to the persistent strength of the euro, questions on financing conditions and how the ECB judges the current state of play are likely to feature.

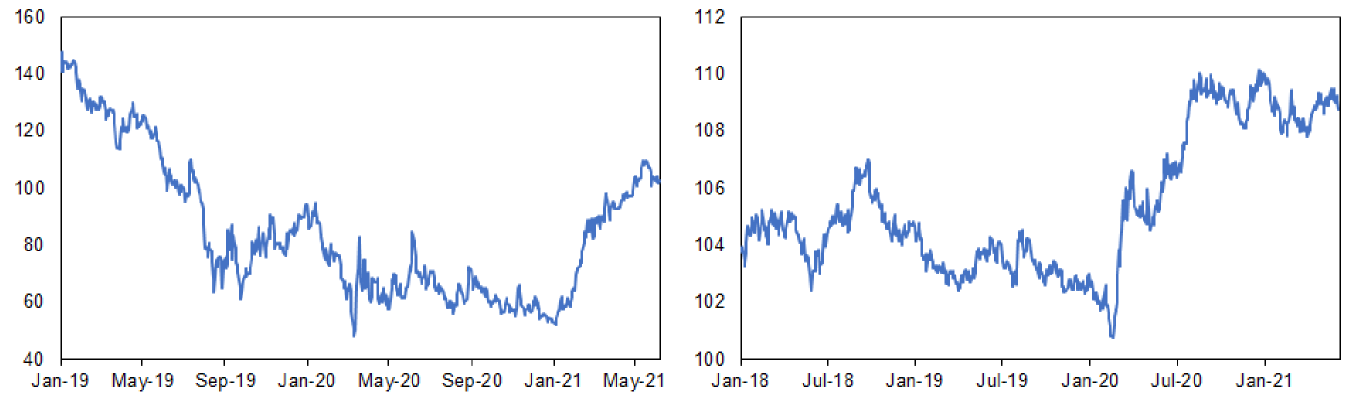
Assuming that the June meeting is indeed a case of more talk than action, then September would be in the frame as a particularly important GC meeting. At that point the current PEPP envelope would have just over six months left to run and there should be sufficient evidence on vaccination progress (i.e. how close Member States are to meeting the 70% EC target) and the state of the economic recovery to judge whether the programme should be scaled back or extended.

Baseline Scenario: The ECB reaffirms its commitment to conduct PEPP at a higher pace, but could moderate the language from “significantly higher”. Staff macroeconomic projections show a modest uptick in the growth and inflation forecasts, with the latter still below target over the medium term and the risk assessment considered ‘balanced’.

Dovish Scenario: The ECB again reaffirms its commitment to conduct PEPP at a higher pace and maintains the “significantly higher” phrasing, while striking a cautious tone with respect to the economic outlook. President Lagarde pushes back on speculation around PEPP tapering, and stresses that prolonged policy accommodation will be required even once the pandemic crisis phased as passed owing to the still weak inflation outlook, and the possibility of economic scarring. The economic and inflation forecasts are still revised higher but potentially to a smaller degree than in the baseline scenario.

Hawkish Scenario: The ECB drops reference to “significantly higher” and indicates that the PEPP pace will return to ‘normal’ levels, citing the improvement in the economic outlook and progress on vaccinations. While the ECB will not go as far as to say that the tightening in financial conditions since March is justified, neither is this development likely to require a policy response. While the economic and inflation projections will be revised to the same degree as in the baseline scenario, the balance of risks is tilted to the upside.

Fig 3. German 2s30s (LHS) & Nominal Effective EUR (RHS)



Source: Bloomberg, JP Morgan, MNI

mni Central Bank Watch - ECB

07 June 2021

MNI ECB Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
HICP	% y/y	2.0	0.9	↑	-0.3	↑					1.95
Core Inflation	% y/y	0.9	1.1	↓	0.2	↑					0.43
Oil Prices	$	69.3	66.1	↑	47.6	↑					1.07
5y/5y Inflation Swap	%	1.60	1.35	↑	1.23	↑					1.33
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Eurozone PMI (Comp)	Index	57.1	48.8	↑	45.3	↑					0.98
Industrial Production	% y/y	10.9	-0.1	↑	-6.5	↑					2.14
Business Climate Indicator	Index	1.50	-0.14	↑	-0.65	↑					1.71
Consumer Confidence	Index	-5.1	-14.8	↑	-17.6	↑					1.77
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Narrow Money (M1)	% y/y	12.3	16.5	↓	13.8	↓					0.33
Broad Money (M3)	% y/y	9.2	12.5	↓	10.5	↓					-1.48
Loans to Non-Fin Corps	% y/y	2.6	6.2	↓	6.3	↓					-2.24
Loans to Households	% y/y	4.3	3.3	↑	3.6	↑					2.13
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	23.9	-4.8	↑	4.5	↑					3.04
Unemployment Rate	%	8.0	8.2	↓	8.5	↓					-1.22
Labour Costs (Quarterly)	% y/y	3.0	3.8	↓	2.8	↑					0.30
Employment (Quarterly)	% y/y	-2.1	-2.9	↑	1.1	↓					-0.83
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	4074	3636	↑	3493	↑					1.82
Bund Yield	%	-0.21	-0.26	↑	-0.57	↑					1.17
10y BTP Spreads	%	108.8	102.1	↑	119.7	↓					0.27
EUR TWI	Index	125.28	124.87	↑	124.85	↑					1.02

Source: MNI, Bloomberg

Summary of Analyst Views

- Analysts are focused on the PEPP pace for Q3. While there are no dissenting calls for a further acceleration in the purchase rate, analysts are split on whether the current pace will be maintained or moderated.
- Most expect upward revisions to the staff macroeconomic projections with the medium-term inflation forecast still well below target.
- Once PEPP is eventually retired, most analysts expect the ECB to continuing providing some degree of policy support via the APP.

ABN AMRO

- The ECB will likely announce that the PEPP pace during Q2 will be maintained through Q3.
- In addition, the ECB could indicate that the risk assessment is now more balanced rather than to the downside.

Bank of America Merrill Lynch

- The ECB is not expected to announce a tapering of PEPP at the June meeting and will indicate that other tools can be intensified when PEPP ends.
- The ECB has a hawkish tilt given that even the more dovish members of the GC have not called for additional PEPP at this point.
- The accommodative monetary policy stance will be reaffirmed, which could come with reference to the PEPP pace being maintained at a significantly higher rate over the current quarter.
- The updated staff macroeconomic forecasts are likely to be a touch higher, reflecting US spillovers. The 2022 growth projection could perhaps be revised up by 20-30bp to 4.3-4.4% with the potential for some spillover to 2023. Similarly, headline inflation could be pushed up to 1.7-1.8% this year (+20/30bp) on the back of higher oil prices.

Barclays

- Barclays do not expect a deceleration in the PEPP pace as such a move would risk undermining recent dovish communication on easing financing conditions.
- Growth and inflation forecasts are likely to be revised higher. Projected GDP growth will be pushed up by no more than 20bp in 2021, 30-50bp to 4.4-4.6% in 2022 and 20-30bp to 2.3-2.4% for 2023.
- The inflation forecasts will be revised up to 1.7-1.8% from 1.5% for 2021. No significant changes are expected to the 2022-2023 forecasts.
- Barclays expects the ECB to judge the balance of risks to growth and inflation to be broadly balanced.
- Beyond March 2022, the ECB is expected to maintain its presence in bond markets with the APP taking over when the PEPP envelope is exhausted.

BNP Paribas

- The ECB is expected to announce a ‘dovish’ taper at the June meeting by removing or altering the reference to “significantly higher” with respect to the purchase pace, while still highlighting that persistent accommodation is required for a prolonged period.
- The ECB is likely to conclude that the economic outlook has improved since March, with the possibility that the balance of risks may also be judged to have improved.
- That some members of the GC have pushed back against the idea of reducing asset purchases at this stage suggest that the ECB is sensitive to adverse movements in market pricing.
- Although inflation developments may spark debate with the GC, the ECB will maintain its current position that the pickup in inflation is temporary.
- The ECB will indicate that the “favourable financing conditions framework” will remain in place after the pandemic subsides and until inflation has sustainably converged to target.
- PEPP is expected to end in March 2022, with the APP inheriting some of its flexibility.

- President Lagarde could use the press conference to hint at how discussions on the strategic review have progressed.

Danske Bank

- The ECB will revise its language on the PEPP pace from "significantly higher" to "moderately higher" compared to the start of the year. Danske Bank expects the monthly purchase rate to drop to EUR70bn in Q3 from the current net purchase rate of EUR80bn.
- The ECB will indicate that while economic developments have been positive, the inflation outlook remains subdued.
- Discussions on the possible transfer of PEPP modalities to the APP from March 2022 are unlikely to take place until this Autumn and Danske do not take it as given that this transfer will occur.
- GDP growth forecasts for 2021 and 2022 will be revised up by 0.3pp with the overall risk assessment seen as balanced.
- While Danske expects inflation forecasts to be revised higher in 2021 and 2022, the medium-term projection remains at 1.4% and below the ECB's target.

Goldman Sachs

- Given the lower seasonal issuance in Q3 and improved outlook, the ECB is expected to slow the PEPP pace to EUR75bn/month in Q3 from around EUR80bn in Q2.
- Moreover, the ECB will maintain its pledge to purchase at a "significantly higher" pace than earlier in the year to deflect tapering concerns.
- In terms of signalling the post-PEPP policy stance, President Lagarde is likely to indicate that policy will remain very accommodative well into the recovery. Goldman Sachs' base case sees a conclusion of PEPP in June 2022 with the APP continuing to run at EUR20bn until mid-2023.
- Economic growth forecasts for 2021 and 2022 are expected to be revised higher (to 4.1% from 4.0% and 4.3% from 4.1%, respectively), with inflation projections also revised up (to 1.8% from 1.5% for 2021, to 1.3% from 1.2% for 2022 and to 1.5% from 1.4% for 2023).

HSBC

- HSBC expects the ECB to keep the PEPP rate at a "significantly higher pace" for another quarter.
- Although progress on vaccinations and an improvement to the economic outlook may justify some of the tightening in financial conditions since March, the recovery is still in its early stages and inflation is projected to be below target over the forecast horizon. As such, it would seem too early to reduce the pace of PEPP purchases.

ING

- Given recent economic and inflation developments, this week's meeting is likely to be packed with insightful information but probably not with tangible policy action.
- Given that some members of the GC have recently made dovish statements, the ECB is likely to avoid discussions on tapering.
- Reference to a "significantly higher pace" of purchases could be dropped and replaced with a statement indicating that purchases will be conducted to ensure current financing conditions.
- Ultimately, tapering will be a form of operation twist with the APP ramped up when PEPP is eventually scaled back.
- Although the updated staff macroeconomic projections are likely to show GDP projections for 2022 and 2023 broadly unchanged, inflation forecasts are likely to be revised higher.

J.P. Morgan

- The ECB is expected to maintain the faster pace of PEPP purchases for another three months.
- A key focus will be on what President Lagarde's comments reveal about the extent of disagreement within the GC on the PEPP as this could impact future decisions on the strategic review and asset purchases after March 2022.

Morgan Stanley

- Given the robust reopening of EZ economies, Morgan Stanley do not expect an increase in the PEPP pace. However, a decision on tapering is also not expected given that:
    - Financial conditions have arguably tightened since April.
    - The economic recovery is not secure, particularly given that the degree of inoculation is still far below the European Commission's 70% target.
    - The medium-term inflation outlook is weak.
    - Recent ECB commentary has been dovish and tilted towards unchanged policy.
- Updated staff macroeconomic projections are likely to be slightly better than the March forecast, largely on the back of spillovers from US fiscal stimulus. The ECB will continue to forecast above target inflation in the second half of this year, before falling back below target in 2022-2023.

Natixis

- The ECB is expected to leave policy unchanged at the June meeting.
- The PEPP pace will be kept at the current "significantly higher" level with the main message of the press conference being that it is too early to discuss tapering.
- Only small changes are expected to the staff macroeconomic projections.

Nordea

- Despite a divergence of views on PEPP purchases, Nordea expects the GC to support a decision to continuing buying bonds at close to the current pace as the recovery is not yet fully secure.
- Nordea continues to expect net PEPP purchases to be discontinued by the end of March 2022, but stress that the weak inflation outlook warrants further easing via an expanded APP.
- Only small changes are expected to the staff macroeconomic projections.

Pictet

- The focus at the June meeting will be on the pace of PEPP purchases in Q3, with the more difficult questions likely to be postponed until September when the ECB is due to discuss the strategy review.
- The ECB is likely to commit to a higher pace of PEPP purchases in Q3, but not "significantly higher" – effectively signalling a slowdown from Q2, but still above average (perhaps EUR70bn/month compared to EUR80bn in Q2).
- The PEPP is expected to end by the summer of 2022, with asset purchases gradually phased out in the first half of next year.
- Pictet continues to expect the APP to be increased in size in 2022 from EUR20bn to EUR30bn/month, with some of the flexible features of PEPP transferred to APP.

Société Générale

- This week's meeting will give the ECB an opportunity to stress that talk of winding down PEPP is premature.
- Even though the balance of risks has improved, the ECB will likely maintain its outlook for inflation to remain well below target over the forecast horizon.
- A debate on tapering PEPP will gain momentum after the summer with the GC announcing in December that the program will be wound down in March next year. At that point the ECB is expected to increase the APP to EUR50bn/month to allow for a longer period of tapering.

TD Securities

- The June GC meeting is likely to be relatively contentious given the competing views on the future of PEPP purchases. However, recent ECB speak seems to indicate a tilt towards the dovish end of the spectrum.

- The ECB is expected to maintain its language on PEPP purchases being conducted at a "significantly higher pace than during the first months of the year".
- That said, seasonality will be accounted for, resulting in a slight slowdown from Q2.TD expects the monthly average in Q3 to lie somewhere between the Q1 and Q2 pace i.e. EUR63-83bn.
- Staff macroeconomic projections are expected to be revised higher. Growth forecasts will be revised to 4.4% and 2.2% in 2022 and 2023, respectively. Inflation forecasts will be revised to 1.9% and 1.3% in 2021 and 2022, with the medium-term projection still below target.

UBS

- While the new staff macroeconomic forecasts will show a moderate upgrade to the growth and inflation forecasts, the medium-term inflation outlook will remain subdued, which will complicate the decision on whether to adjust the pace of PEPP purchases.
- UBS expects the GC to stay on the side of caution and signal ongoing policy accommodation with PEPP purchases continuing at a similar pace in Q3 as in Q2. Furthermore, the ECB will signal that tapering is too early.
- UBS expects the 2021 and 2023 growth projections to remain unchanged, while the 2022 figure will be pushed up by 0.2pp to 4.3%.
- The inflation forecasts will be revised by 0.2pp to 1.7% for 2021 and by 0.1pp for 2022 and 2023 to 1.3% and 1.5%, respectively.
- The ECB is expected to announce on 16th December that PEPP will not be extended beyond March 2022, while also announcing that the APP will be scaled up to maintain ongoing accommodation and support a return of inflation to target. This could involve scaling up the monthly APP pace or start setting envelopes.

ECB Communication: The Detail

An improvement in the economic outlook on the back of vaccination progress and expectations of a 'robust reopening' has fuelled talk of PEPP tapering, but various members of the Governing Council have struck a more cautious note and warned against speculation on near-term tightening.

Starting with the economic outlook, policymakers have broadly affirmed the recent improvement. Isabel Schnabel stated on May 28:

> "We have reasonable confidence that we have reached a turning point. The pace of vaccinations has accelerated, infections are going down and containment measures are gradually being lifted. Sentiment indicators have come in quite strong recently, not only in manufacturing, but also in services. So, we are seeing a surge in demand, which sets the stage for a firm recovery. Consumer confidence is also picking up quite sharply. At the same time, fiscal and monetary policy remain very supportive. The short-term outlook has brightened."

Philip Lane similarly pointed out on April 29 that a recovery was underway:

> "So we do see a good rebound. We do see a good recovery throughout the rest of this year, so that is very much, if you like, a two-sided story. Looking backwards, the initial weeks have been very tough for many firms. When looking forward there will be a rebound, but I should say, of course, this is all in the context of this pandemic being a huge negative shock, and the fact we're rebounding from the worst of it does not mean there's a full recovery."

Lane also stressed on May 10 that a full recovery of the output lost during the pandemic was still some way off:

> "From now on, the economy will be growing quickly, but from a subdued level. So even with pretty rapid growth for the rest of this year, the euro area would only get back to its 2019 GDP level around this time next year. For the labour market, we think unemployment will only fall back to its 2019 levels in 2023. It is a long journey, which requires a sustained effort by fiscal and monetary policymakers to support the recovery."

Fabio Panetta similarly argued on April 26 that the recovery is heavily dependent on continued policy support:

> "…the recovery remains dependent on policy support. For example, job retention schemes are playing a major role in cushioning unemployment: the share of workers who are unemployed, discouraged or enrolled in such schemes is around double the headline unemployment rate"

> "This policy dependence masks the true underlying state of the economy – particularly in terms of labour market scarring and corporate vulnerabilities – and therefore its resilience to less expansionary policies. The recovery will need to be well advanced before we can get a clear picture of the underlying damage."

> "…even with the ongoing monetary and fiscal policy support, our recovery is expected to be slow and incomplete in terms of both growth and inflation. In fact, the euro area economy is projected to return to its pre-crisis GDP level only in the middle of 2022 and to remain below its pre-crisis trend"

Panetta further commented on May 26:

> "So we must continue to closely monitor the incoming data and ensure that the exit from the crisis is supported by a robust and lasting recovery. The output gap, the employment gap and the inflation gap are the key variables to determine when we have truly gone beyond the pandemic phase. They are expected to gradually narrow, but they are still far from satisfactory."

Panetta also played down the recent acceleration in inflation:

> "We are currently seeing a transitory increase in inflation driven by rising commodity prices at the global level, statistical base effects and the reversal of the German VAT cut. But this will be a temporary hump: it is not expected to last beyond this year, as it's not self-sustained and it's not domestically driven."

And reflected on the weak medium-term outlook for prices:

> "I am concerned by the fact that, over our policy horizon, inflation is going to remain well below our objective of 2%. This may affect our credibility after so many years of inflation "misses". Moreover, too-low inflation aggravates the real cost of debt at a time when private and public debt ratios are rising in order to offset the collapse in income caused by the pandemic."

Isabel Schnabel similarly argued on May 28 that the recent inflation surge would be temporary, but that there is uncertainty around this projection:

> "…we assume that the factors we are seeing today are transitory. But we cannot be sure."

Speaking on May 18, Francois Villeroy de Galhau was in no doubt what the weak inflation trajectory meant for policy:

"Today there's no risk of a return of lasting inflation in the euro area, and so there's no doubt that the ECB's monetary policy will remain very accommodative for a long time. I want to say that very clearly"

In addition to the weak medium-term path for inflation, policymakers have reflected on the recent tightening of financial conditions with President Lagarde stating on May 21 that the ECB was "closely monitoring" the rise in yields. Fabio Panetta warned on May 26:

"…we are now seeing a further undesirable increase in yields after the rise we observed earlier in the year. Financing conditions are tightening. In this environment, it is not surprising that we have also seen a persistent, non-negligible appreciation of the exchange rate, which – if sustained – would weaken inflationary pressures. We will discuss the implications of these trends in our June meeting, especially in the light of the new projections for medium-term inflation."

Panetta had also stressed on April 26 that the previous tightening of financial conditions partly reflected spillovers from US markets and was not fully justified in the euro area:

"US authorities are engaging in unprecedented fiscal and monetary expansion, which will show whether forceful policy stimulus can still raise inflation. The associated improvement in the US and global economic outlook has generated upward pressures on sovereign bond yields, which central banks whose economies are less advanced in the recovery are striving to resist."

"For the ECB, this implies that we will have to maintain very favourable financing conditions well beyond the end of the pandemic period. The need for very accommodative policy over a longer period should in any case be uncontroversial, given that inflation remains well below our aim in our projection horizon and, according to survey measures of inflation expectations, even beyond it."

Isabel Schnabel similarly hinted at her concern on May 28:

"At the same time, government bond yields have recently been rising more quickly than risk-free rates, even for the safest bonds, such as German Bunds. We are attentive to such developments because they may point to changes in the expected amount of duration supply, and this could be related to expected changes in our asset purchases. This would be a source of concern."

Philip Lane was somewhat more guarded on May 10:

"In March we concluded that we needed to step up significantly our asset purchases within the pandemic emergency purchase programme, and this higher level will continue over the coming weeks. We will review it again at our June meeting, when we assess the favourability of financing conditions together with the inflation outlook. And we can increase or decrease our purchases depending on what is necessary to keep financing conditions favourable."

On the issue of PEPP tapering, President Lagarde was unambiguous on May 21 as to her position:

"It's far too early and it's actually unnecessary to debate longer-term issues. Our focus in June is going to be on favourable financing conditions for the economy at large and to all sectors".

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

Villeroy similarly downplayed the possibility of a tapering decision in June:

> “We still have ample time to judge and decide, well beyond our June meeting,”

Highlighting persistent economic uncertainty during the pandemic period, Fabio Panetta warned on May 26:

> “In such an environment, a premature withdrawal of policy support would risk suffocating the recovery before it becomes self-sustained. And it would exacerbate uncertainty, further weighing on demand.”

Adding further:

> “The objective of the PEPP is to maintain favourable financing conditions, which are crucial to supporting spending by both the public and private sectors. With demand still weak and underlying inflation at very low levels, policy support remains essential and a premature tightening in financing conditions must be avoided. The risk of providing too little policy stimulus is still high.”

Panetta also clearly stipulated the conditions required for a consideration of tapering:

> “In my view, only a sustained increase in inflationary pressures, reflected in an upward trend in underlying inflation and bringing inflation and inflation expectations in line with our aim, could justify a reduction in our purchases. But this is not what we projected in March. And, since then, I have not seen changes in financing conditions or the economic outlook that would shift the inflation path upwards.”

Isabel Schnabel also conditioned a decision on PEPP purchases on the inflation trajectory:

> “From a monetary policy perspective, the main thing to look at is the inflation projection. This is the ultimate yardstick against which we measure whether the emergency is over, since we said that our tools are meant to offset the negative effect of the pandemic on the inflation outlook. The recovery still depends on continued policy support. A premature withdrawal of either fiscal or monetary support would be a great mistake.”

Furthermore:

> “The remaining envelope is quite large. For now, it doesn’t impose any restrictions on our decisions. It is therefore premature to talk about things that will become relevant only well into the future. It will all depend on two things: on how financing conditions evolve and on when the pandemic crisis phase is over.”

As markets have started to look towards the end of the pandemic, questions on the possible uprating of the APP and a speculated transference of PEPP to the APP have intensified. Isabel Schnabel stated on April 28:

> “We will have to carefully manage the transition from the pandemic to the post-pandemic period. This may include a recalibration of our regular tools and will take into account the outcome of our monetary policy.”

And on May 28:

> “It is not the objective of the PEPP to bring inflation fully back to 2%. PEPP is designed to counter the

downward impact of the pandemic on the projected path of inflation. We have other tools to bring inflation back to our aim. We should not forget that we continue purchasing €20 billion every month under the APP."

"PEPP and APP are separate programmes and serve different purposes. PEPP aims to offset the negative impact of the pandemic on the inflation outlook. The PEPP will end when this has been achieved. We are not seeing this yet."

ECB Inter-Meeting Communication

Date	Time (UK)	Speaker	Event/Topic
23/04/2021	15:35	Christine Lagarde	Participation in the Bloomberg Climate Panel "A Global Tipping Point: The Power of Global Capital Markets In The Fight Against Climate Change")
26/04/2021	13:00	Fabio Panetta	Opening speech for the online conference "Spillovers in a Post-Pandemic Low-For-Long World" organised by the BIS, BoE, ECB and IMF.
26/04/2021		Fabio Panetta	"Monetary autonomy in a globalised world" Welcome address by Fabio Panetta, Member of the Executive Board of the ECB, at the joint BIS, BoE, ECB and IMF conference on "Spillovers in a "post-pandemic, low-for-long" world" https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210426~0ac9c74462.en.html
26/04/2021	14:00	Philip Lane	"Maximising the user value of statistics: lessons from globalisation and the pandemic" Speech by Philip R. Lane, Member of the Executive Board of the ECB, at the European Statistical Forum (virtual) https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210426_1~b81fd0ff15.en.html
27/04/2021	11:00	Pablo Hernandez de Cos	Speech at the conferrence "Estabilidad financiera y politica macroprudencial: objetivos, herramientas y desafios".
27/04/2021	16:00	Pablo Hernandez de Cos	Presentation on the prospects for the Spanish economy
28/04/2021	12:00	Olli Rehn	Participation in webinar on Europe's industrial, technological and digital sovereignty
28/04/2021	13:00	Mário Centeno	Speech at an IIEA webinar "Monetary Policy in Transition"
28/04/2021	13:45	Isabel Schnabel	Interview on Twitter with Isabel Schnabel, Member of the Executive Board of the ECB, conducted and published on 28 April 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210428~86bcc373d1.en.html
28/04/2021	15:00	Christine Lagarde	Discussion for the online Global Leaders Series of the Aspen Security Forum
29/04/2021	08:30	Luis de Guindos	Participation in webinar organised by the Arcano Group
29/04/2021	10:00	Frank Elderson	"All the way to zero: guiding banks towards a carbon-neutral Europe" Keynote speech by Frank Elderson, Vice-Chair of the

			Supervisory Board and Member of the Executive Board of the ECB, at the conference on “The Role of Banks in Greening Our Economies” organised by the European Bank for Reconstruction and Development and Hrvatska narodna banka https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210429~3f8606edca.en.html
29/04/2021	12:30	Jens Weidmann	Speech "Will Covid-19 Increase Economic Inequality?"
29/04/2021	14:00	Robert Holzmann	Participation in panel discussion organised by the Austrian central bank
29/04/2021		Philip Lane	"Interview with Dagens Industri TV". Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Gabriel Mellqvist on 29 April 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210429~d2c4a56fb6.en.html
03/05/2021		Luis de Guindos	"Interview with La Repubblica". Interview with Luis de Guindos, conducted by Tonia Mastrobuoni on 27 April 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210503~e92f2b65ef.en.html
04/05/2021	09:00	François Villeroy de Galhau	Speech at EIB event
05/05/2021	13:30	Boštjan Vasle	Bank of Slovenia press conference
05/05/2021	14:00	Philip Lane	"The ECB strategy review and current challenges for monetary policy". Speech by Philip R. Lane, Member of the Executive Board of the ECB, at the OMFIF virtual panel https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210505~01af2bde18.en.pdf?cdfa982d828b1cef6ad365b2413d3747
06/05/2021	11:30	Luis de Guindos	Participation in an online Q&A for the EY Insights Economics Forum
06/05/2021	12:15	Christine Lagarde	Speech on Corporate Sustainability
06/05/2021	14:15	Isabel Schnabel	Speech at the 2nd DIW Women's Finance Summit The Future of Financial Services: Digitization, Sustainability and Post-Pandemic Growth Models
06/05/2021		Christine Lagarde	" Towards a green capital markets union for Europe". Speech by Christine Lagarde, President of the ECB, at the European Commission’s high-level conference on the proposal for a Corporate Sustainability Reporting Directive, 6 May 2021 https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210506~4ec98730ee.en.html
07/05/2021	11:00	Christine Lagarde	Speech at a State of the Union 2021 event.
08/05/2021		Frank Elderson	Interview with Het Financieele Dagblad. Interview with Frank Elderson, Member of the Executive Board of the ECB, conducted by Annemiek Leclaire https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210508~3a5a70c305.en.html
10/05/2021		Philip Lane	Interview with Le Monde. Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Eric Albert and Marie Charrel

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			https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210510~39494f0b27.en.html
11/05/2021	16:30	Klaas Knot	Participation in webinar
11/05/2021	17:00	Pablo Hernandez de Cos	Participation in online discussion
12/05/2021	10:05	Mário Centeno	Speech "How to Guarantee Economic Recovery in a Post-Pandemic Europe" at a conference organised by the Portuguese telecommunications association APDC.
13/05/2021	11:00	Mário Centeno	Attending a presentation of the Bank of Portugal's 2020 annual report
18/05/2021	09:00	François Villeroy de Galhau	Speech for an online event
18/05/2021	15:00	Christine Lagarde	Participation in the Generation Euro Students' Awards 2021 with Q&A
19/05/2021	07:00	Fabio Panetta	"At the edge of tomorrow: preparing the future of European retail payments". Introductory remarks by Fabio Panetta, Member of the Executive Board of the ECB, at the 14th Payment Forum of Suomen Pankki – Finlands Bank, Helsinki, 19 May 2021 https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210519~6a4523d953.en.html
19/05/2021	15:30	Pablo Hernandez de Cos	Testimony before the Spanish Parliamentary Commission for Economic Affairs and Digital Transformation.
19/05/2021	16:50	Philip Lane	Conference participation https://dublinclimatedialogues.com
20/05/2021	10:00	Philip Lane	Webinar discussion on the European and global economy
20/05/2021	12:50	Christine Lagarde	Participation in conference on Gender, Money and Finance hosted by the Austrian National Bank
20/05/2021	15:45	François Villeroy de Galhau	Speech at La Tribune conference
21/05/2021	12:00	Christine Lagarde	Press conference following Eurogroup meeting
25/05/2021	14:00	François Villeroy de Galhau	Speech at Danske Bank event
25/05/2021		Philip Lane	The ECB strategy review. Presentation by Philip R. Lane, Member of the Executive Board of the ECB, at the Peterson Institute for International Economics https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210525~5ffef091e8.en.pdf?f048794572a20114b85143a200123eae
26/05/2021	10:00	François Villeroy de Galhau	Speech at the Finance Committee of the French National Assembly
26/05/2021		Fabio Panetta	Interview with Nikkei. Interview with Fabio Panetta, Member of the Executive Board of the ECB, conducted by Jun Ishikawa https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210526~99707ed7f5.en.html
27/05/2021	09:00	Pablo Hernandez de Cos	Discussion with students at the Universidad Internacional de Andalucia

27/05/2021	10:45	Luis de Guindos	"Climate change and financial integration". Keynote speech by Luis de Guindos, Vice-President of the ECB, at the joint ECB and European Commission conference on "European Financial Integration and Stability" https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210527~6500964615.en.html
27/05/2021	13:00	Jens Weidmann	Speech to mark the 70th anniversary of the German Economic Institute
27/05/2021	14:00	Isabel Schnabel	"Societal responsibility and central bank independence". Keynote speech by Isabel Schnabel, Member of the Executive Board of the ECB, at the "VIII. New Paradigm Workshop", organised by the Forum New Economy https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210527_1~ae50e2be97.en.html
27/05/2021	16:00	Isabel Schnabel	Discussion at the Global Solutions Summit/Forum New Economy
28/05/2021	08:00	François Villeroy de Galhau	Speech during a presentation of the annual report of the banking supervisor ACPR
28/05/2021		Isabel Schnabel	Interview with Reuters. Interview with Isabel Schnabel, Member of the Executive Board of the ECB, conducted by Balazs Koranyi, Frank Siebelt and Francesco Canepa https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210528~6cb78adce7.en.html
31/05/2021	09:30	Ignazio Visco	Annual speech in Rome
02/06/2021	11:15	François Villeroy de Galhau	Speech at Green Swan climate conference https://www.bis.org/events/green_swan_2021/overview.htm
02/06/2021	16:45	Jens Weidmann	Speech at Green Swan climate conference
02/06/2021	18:10	Christine Lagarde	"Learning the right lessons from the past". Speech by Christine Lagarde, President of the ECB, on the occasion of the awarding of the Prix Turgot 2021, Paris https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210602~41661afb3a.en.html
03/06/2021		Frank Elderson	"The embrace of the horizon: Forcefully moving with the changing tide for climate action in financial sector policies", Speech by Frank Elderson, Chair of the Central Banks and Supervisors Network for Greening the Financial System, Member of the Executive Board and Vice-Chair of the Supervisory Board of the ECB, at The Green Swan Conference – Coordinating finance on climate https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210603~2da57607e2.en.html
04/06/2021	08:00	Pablo Hernandez de Cos	Speech at Green Swan climate conference
04/06/2021	12:00	Christine Lagarde	Speech at Green Swan climate conference
06/06/2021	14:30	Ignazio Visco	Participation in webcast.

MNI Policy Team

MNI SOURCES: ECB Inflation Target Debate Focusses On Symmetry **2 June 2021**

MNI (London) - The European Central Bank's strategy review has reached broad consensus about the need for a new symmetrical 2% price target, but officials are still arguing about whether to follow the Federal Reserve's inflation makeup strategy and some remain unsure how to incorporate climate goals into monetary policy, Eurosystem sources told MNI.

The current inflation target, of "below, but close to, 2% over the medium term" is widely recognised as inadequate for an environment in which monetary policy may more frequently find itself close to the lower bound of interest rates, sources said. But opinions on how to define symmetry, which implies that the central bank would respond to undershooting its target with equal vigour as it would to overshooting, span a wide range, with some calling for Fed-style average-inflation targeting and others favouring much more slimline approaches, one official told MNI.

"At one end, there is the simple fact that just targeting 2% allows for simple symmetry," one official said. "At the other end, one can argue for Fed-style AIT, even Fed-style plus, and every point in between has its supporter."

CLIMATE AND MONETARY POLICY

Another issue being discussed in the review, which is due to announce its results by September but might conclude earlier, is how better to account for the cost of housing in inflation measurements, a task made more difficult by a lack of monthly data, one source said. Eurostat, the EU's statistics agency, continues to examine this issue to find a workable solution, though issues remain.

One of the toughest challenges has been posed by the question of how to incorporate climate change into ECB policy. While one official said that differences in the area had been smaller than expected, others shared the scepticism on the topic expressed by Bundesbank chief Jens Weidmann. Pursuing green goals by modifying ECB bond purchasing criteria could raise issues of market neutrality, one official said, with another arguing that trying to relate climate to the inflation target would only cause confusion.

"That's not a reason to have average inflation targeting or make-up strategies, because again, I don't think we'll be able to explain them," the official said. "Why are you allowing this overshoot? Well, because we want to support climate change later on. How does that work?

"I think it's an area that probably deserves further research," the official added. "But my gut feeling is that if we came out with it now we'd have to spend the next hour explaining it."

FOLLOWING THE FED

Officials expressed differing views as to the extent to which the ECB should follow the lead of the Fed, which explicitly promises to allow inflation to overshoot its target to compensate for periods of undershooting. Finland's Olli Rehn has publicly called for such a strategy.

"I'm pretty skeptical about the Fed's approach to average inflation targeting, make-up strategies," one official said, adding that such an approach "begs a whole bunch of questions", and noting that the Fed, unlike the ECB, could also explain periods of above-target inflation by pointing to its mandate for supporting employment.

"There are bound to be some differences of view. On average inflation targeting, there definitely are," the official said, before stressing the areas of agreement. A target will always have "a certain degree of ambiguity", and will almost certainly refer to the medium term, he said.

Another official said the discussion on symmetry went beyond the definition of the price target.

"Do you want it on the price stability definition, or do you want to bring that symmetry notion –and possibly of overshooting—to the management of monetary policy tools?" the official said. "So through the management of a specific instrument - forward guidance or interest rates - I allow overshooting. Without the need to define ex-ante your strategy as a makeup strategy."

Whatever the ECB agrees this time, it should review its strategy more frequently, the official continued.

"It isn't reasonable to wait 18 years to review the strategy," said the official, adding that he thought there might be support for a system such as that used by the Bank of Canada, which examines its policy framework every five years.

The review is likely to be a focus during the ECB's annual retreat for Governing Council members pencilled in for June 18-22. While it is looking into the role of the ECB's tools in its policy response, it is not considering major changes to them, despite some officials suggesting that alterations might be necessary once the Pandemic Emergency Purchase Programme concludes net purchases in March. This discussion seems to have been pushed back a few months "in order to have a clearer picture of the new strategy framework," an official said.

An ECB spokesperson declined to comment on the matters in this article

MNI SOURCES: ECB Seen Halving Asset Purchases After PEPP **28 May 2021**

Early estimates for post-Covid bond buying are circulating among European Central Bank officials, with some telling MNI the ECB's toolbox should be adapted to allow for purchases to continue at around half the current level after the Pandemic Emergency Purchase Programme concludes its active phase in March.

With ECB asset purchases currently running at about a net EUR100 billion a month, that could translate into somewhere between EUR40 billion and EUR60 billion a month from next April onwards, even if the eurozone returns to 2019 growth levels, one official said. Another said purchases at about half today's levels would be "well within the makeup of our expectations," adding that these could come from the ECB's Asset Purchase Programme and other facilities. A third official said EUR60 billion would be a "realistic" figure for purchases after next March.

"I have no doubt there will be arguments at both ends of the spectrum when the time comes, but that is probably a discussion for November and December," one source said, speaking as Austrian National Bank Governor Robert Holzmann told MNI earlier this week the ECB's Asset Purchase Facility could run at only EUR20 billion a month in 2022.

EURO A CONCERN

A debate is expected towards the end of the year over possibly granting the Asset Purchase Programme some of the PEPP's additional flexibility in order to buy more bonds if necessary. In the meantime, June 8's Governing Council meeting will focus more on whether to continue PEPP purchases at their current pace. While the economy is improving sharply, financial conditions may also be tightening again, with bond yields rising in recent weeks.

"What will be key is how much of this the Governing Council decides is due to an increase in inflation expectations, and how much is a tightening of real interest rates," one source said, adding that the strengthening euro was also a cause for concern, but that the ECB would keep any concern over the exchange rate low key. "The ECB is always very shy of talking about this for obvious reasons, but obviously this also weighs on Council deliberations."

Asset purchases usually fall over the summer, another Eurosystem source said, suggesting they might be kept elevated into early July. The ECB could, though, at its June meeting, adjust the language adopted in March in response to a surge in global bond yields, when the Council said it would conduct purchases at a "significantly higher pace than during the first months of the year", the source said.

"The real issue is not so much the pace, but whether the real economy's performance will give hawks a strong argument to not to use the whole [EUR1.85 trillion PEPP] envelope till March 2022," said another official, anticipating that northern states would point to hundreds of billions of euros of Covid aid money and impetus from U.S. growth. "I expect hawks' arguments and pressures to intensify pretty soon."

Some national central banks, including the Bank of France, which has made its position public, are preparing to argue for some of the PEPP's flexibility to be bequeathed to the APP, which is constrained by a capital key limiting the proportion of any country's bonds it can buy. Others lean towards creating an entirely new facility. The governor of the National Bank of Belgium has even said the PEPP's active phase could be extended beyond March if necessary, but officials who spoke to MNI said this was unlikely.

A more flexible APP could combine with "beefed-up" forward guidance, targeted longer-term refinancing agreements providing cheap loans for banks and possible interest rate cuts if necessary, one source said. "Clearly the PEPP is a bugbear for the hawks, so frankly we need to de-dramatise the withdrawal of the PEPP, but it will continue until next year."

INFLATION BLIP

Hawkish central banks, though, are likely to resist such changes.

"The position from northern parts of the eurozone is to enforce the rules for normal-time programmes," one official said. "This is a pandemic, it's temporary."

For the moment, the economic recovery is gaining strength, with one official saying June's macroeconomic projections could surprise to the upside with regards to growth and the near-term inflation outlook. But key inflation projections for 2022 and 2023 may stay unchanged from March, the official said.

The acceleration in the rate of price increases is generally expected to subside quickly.

"My impression is that we will be returning to levels clearly below 2%. This will be an important factor for the Governing Council, no doubt about it," one official said.

An ECB spokesperson declined to comment on the matters in this article.

MNI INTERVIEW: ECB's Toolbox Sufficient-Austria's Holzmann **27 May 2021**

By Jason Webb

The outlook for the eurozone economy is improving sufficiently for the European Central Bank's existing toolbox to provide any necessary stimulus once net purchases under the Pandemic Emergency Purchase Programme conclude in March, the governor of the Central Bank of Austria told MNI.

Barring any significant setback there would be no reason to continue PEPP beyond its agreed horizon, after which tools such as the Asset Purchase Programme, cheap loans for banks via Targeted Longer-Term Refinancing Operations, negative interest rates and forward guidance could be adjusted according to prevailing economic conditions, Robert Holzmann said in an interview.

"Currently, we have outstanding TLTROs of over EUR2 trillion, interest rates on the deposit facility are -0.50% and the monthly purchasing pace for the APP is EUR20 billion," explained Holzmann. "It could of course be imagined that one or the other adjustment takes place, but this would depend on economic conditions at the beginning of 2022, which is too far away to predict. We stand ready to accommodate as needed, but if the inflation projection changes we will change our assessment of the policy instruments."

POSSIBLE REDUCTION IN PURCHASE PACE

June's Eurosystem macroeconomic projections will guide the Governing Council regarding its management of PEPP, Holzmann said, but if conditions become more favourable over the summer there may be no need to buy bonds at the current pace.

"The question of when and how the ongoing PEPP purchases will be reduced or not will be determined by market conditions," Holzmann said. "It's less an issue of announcing something - yes, we may announce it, but we may purchase less, because this will depend on market conditions."

Looking beyond the crisis, the ECB cannot continue to ensure favourable financing conditions, potentially imposing more constraints on fiscal policy, he said.

"Once the pandemic is over public programmes have to be made much more targeted," he said. "During the pandemic extraordinary measures were necessary but once it's over we have to go back to normal."

Holzmann highlighted the re-entry into the labour market of people who lost their jobs as a result of the Covid-19 pandemic as a possible source of upside risk to the inflation outlook, with increased negotiating power leading to upward pressure on wages.

"Here the information is still outstanding, and this topic is not yet fully in discussion," he said, "but other countries like the U.S. will be an indicator for us of what's happening."

Asked whether tightening the collateral eligibility framework adopted by the ECB early on in the pandemic would lead to any cliff effects, even were the economy booming, he was non-committal.

"You may also have an alternative mechanism which goes in the opposite direction," he said, "but for the time being I don't see that there's a need to intervene, in order to make sure there won't be real cliff effects which would change the environment and the financial markets situation."

MNI SOURCES: ECB Retreat To Consider Strategy Review — **14 May 2021**

By Luke Heighton

The European Central Bank will hold its annual retreat for Governing Council members face-to-face next month, with Eurosystem sources telling MNI that discussions are likely to centre on key areas of disagreement within its monetary policy strategy review and communications.

The meeting pencilled in for June 18-20 will see central bank governors debate as yet unresolved issues, including how national central banks and the ECB should spell out the conclusions of the review, said one Eurosystem source.

Hopes the review might be published in July may be "unrealistic," a second source close to the Eurosystem said, with views on some topics "too different" to ensure an early conclusion to the process.

INFLATION TARGET

"President Lagarde intends to invite the members of the Governing Council to the ECB annual retreat, which could not have been held because of the Covid situation," an ECB spokesperson told MNI. "The pandemic situation permitting, this retreat would take place in the second half of June."

He did not comment on the agenda for the retreat, which would take place between Governing Council meetings scheduled for June 10 and July 22

The review includes a consideration of the ECB's inflation targeting strategy, with Eurosystem officials previously telling MNI that it is likely to recommend adopting a specific inflation target, rather than the current "below, but close to 2%", but also to emphasise that the central bank will treat undershooting the target as seriously as overshooting it. Differences remain, though, over how closely the ECB should reproduce the Federal Reserve's shift to average-inflation targeting, the sources said.