mni

All Signal, No Noise

MARKET ANALYSIS

ECB Preview: September 2021

Contents

Details:

Monetary policy decision: 12:45BST/13:45CET, Thursday 9 September 2021

Press conference: 13:30BST/14:30CET, Thursday 9 September 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):

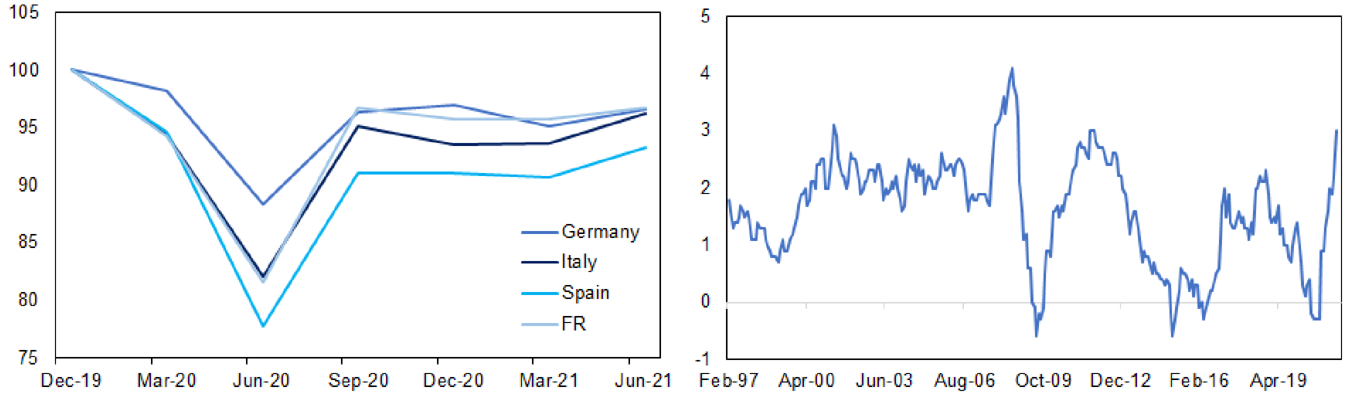
Tweaking The Pace, Postponing Duration

- Easing financial conditions since the July GC meeting, coupled with an improvement in economic conditions and an acceleration in inflation, suggest that the ECB is likely to announce a reduction in the PEPP purchase rate this week.
- A more fundamental decision on the future of PEPP is likely to be postponed until December, given that the Governing Council will require greater conviction that the Covid crisis is over before considering wrapping up the emergency support measures.

We have previously pointed out that by the time of September GC meeting, the ECB would be getting close to the point at which a fundamental decision about its pandemic support measures would need to be taken – at this point, the ECB would have more insight on the post-lockdown recovery, a fresh set of staff macroeconomic projections, signs of progress on Covid vaccinations, and the PEPP would have a little over six months left to run.

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

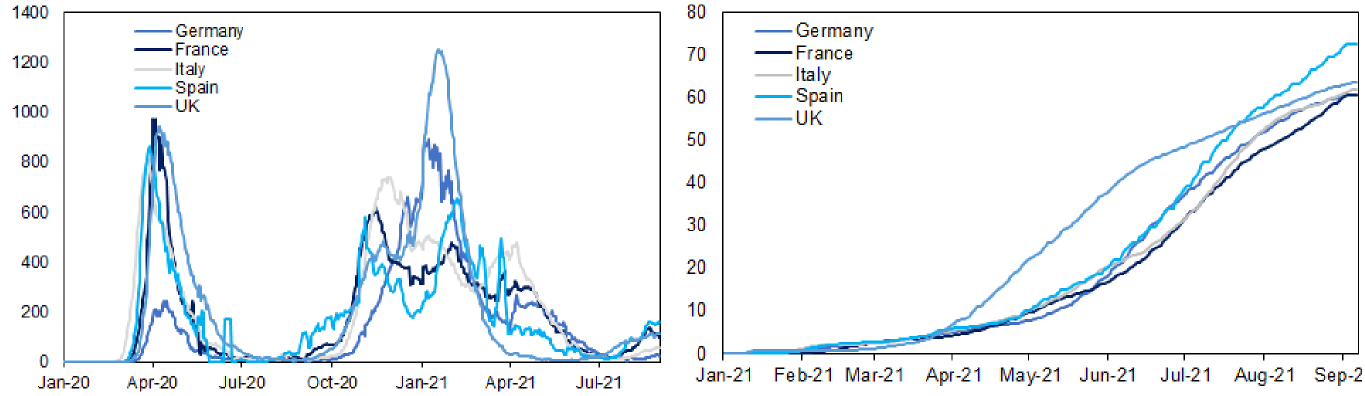
Fig 1 Real GDP Index, Rebased, Q419=100 (LHS) & Eurozone CPI, % Y/Y (RHS)



Source: MNI, Bloomberg

Sure enough, economic conditions have improved, the eurozone (and wider EU) is homing in on the 70% vaccination target and, most pertinently for monetary policy, inflation has been accelerating. However, the economic outlook remains shrouded in uncertainty given the confluence of near-term and more fundamental headwinds (supply bottlenecks in the manufacturing sector, the impact of the Delta variant and the possibility of pandemic scarring to the economy). In short, the picture looks much brighter than at the beginning of the year, but the pandemic is not yet in the rear-view mirror.

Fig 2. Covid Deaths, 7-Day Average (LHS) & % of Citizens Fully Vaccinated (RHS)

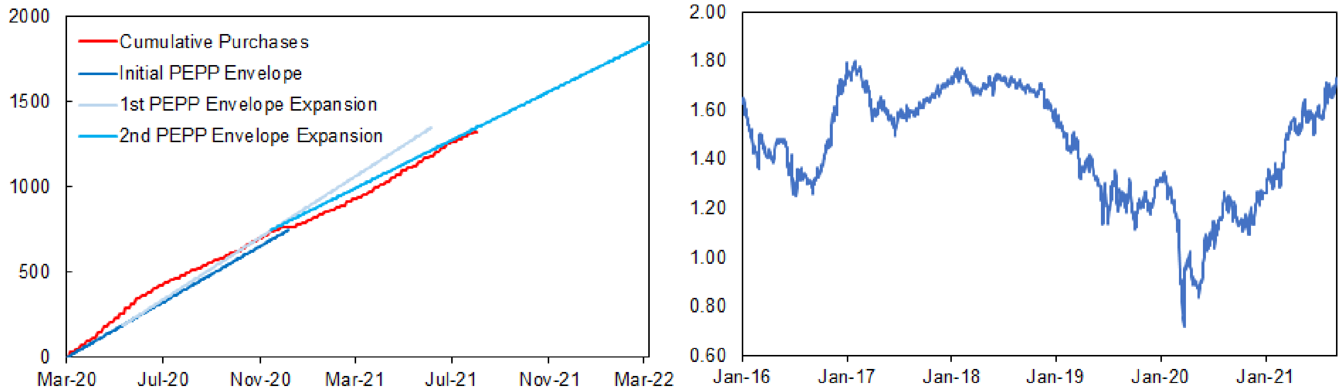


Source: MNI, Bloomberg, Our World in Data

This suggests that it is still too early for the ECB to consider announcing an end to the pandemic emergency purchase programme. Gauging the sentiment expressed in recent GC commentary, it does not appear as though there is a sense of urgency to wrap up the pandemic support measures just yet. Jens Weidman, for his part, recently warned about the upside risks to inflation, while still stressing that accommodative monetary policy remains appropriate. Assuming that the ECB wants to avoid a PEPP cliff edge in March and ensure a smooth transition to either a duration extension or reversion to APP, then an announcement on the future of PEPP would likely come in December.

For the September meeting, focus will be on the possibility of an announced change to the PEPP purchase rate. A reduction in the purchase rate seems like the most appropriate policy action given the improvement in financing conditions since the last meeting. Indeed, given that the ECB has been keen to stress the flexibility of PEPP in preserving favourable financing conditions, a failure to reduce purchases when financial conditions have improved would risk establishing an asymmetric reaction function. As others have argued, a modest reduction in the purchase pace, with the ECB stressing that this is a technical implementation decision rather than a taper signal, would be the most likely course of action in our view.

Fig 3. Cumulative ECB PEPP Purchases (LHS) & EUR 5y5y Forward Inflation Swap (RHS)



Staff macroeconomic projections will likely show an upward revision to the growth and inflation forecasts, with the latter still below target over the medium term. From this meeting onwards, questions on the future of PEPP, the transition to APP and the possibility of PEPP modalities being handed over to the APP, are set to intensify. We would also expect the ECB to face more questions on how it will determine when the 'pandemic phase' is over.

Baseline Scenario: The ECB announces a modest reduction in the PEPP pace for Q4 and stresses that this is a technical implementation decision and not a taper signal. Growth and inflation forecasts are revised higher to reflect the recent data improvements, but the medium-term inflation projection remains below target.

Dovish Scenario: The ECB maintains the "significantly higher" purchase pace and reiterates the flexibility of PEPP (suggesting a potential duration and size upgrade beyond March).

Hawkish Scenario: The PEPP purchase rate is reduced and the ECB indicates that discussions have started to take place on concluding PEPP and the post-PEPP policy landscape. Growth and inflation forecasts are revised higher, with the medium-term inflation projection now much closer to target.

mni Central Bank Watch - ECB

06 September 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	3.0	2.0	↑	0.9	↑					2.42
Core Inflation	% y/y	1.6	1.0	↑	1.1	↑					1.76
Oil Prices	$	73.0	69.3	↑	66.1	↑					0.69
5y/5y Inflation Swap	%	1.74	1.60	↑	1.35	↑					1.09
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	59.0	57.1	↑	48.8	↑					1.00
Industrial Production	% y/y	9.7	12.0	↓	0.0	↑					-0.02
Business Climate Indicator	Index	1.75	1.47	↑	-0.16	↑					0.88
Consumer Confidence	Index	-5.3	-5.1	↓	-14.8	↑					0.65
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	11.0	12.4	↓	16.5	↓					-0.27
Broad Money (M3)	% y/y	7.6	9.2	↓	12.5	↓					-1.24
Loans to Non-Fin Corps	% y/y	1.2	2.6	↓	6.2	↓					-1.09
Loans to Households	% y/y	4.5	4.3	↑	3.3	↑					1.07
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	3.1	23.6	↓	-4.8	↑					0.14
Unemployment Rate	%	7.6	8.2	↓	8.2	↓					-1.96
Labour Costs (Quarterly)	% y/y	1.5	4.2	↓	2.4	↓					-1.28
Employment (Quarterly)	% y/y	1.8	-2.1	↑	1.1	↑					1.29
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	4243	4039	↑	3636	↑					1.68
Bund Yield	%	-0.37	-0.19	↓	-0.26	↓					-0.55
10y BTP Spreads	%	106.1	109.6	↓	102.1	↑					-0.38
EUR TWI	Index	123.83	125.83	↓	124.87	↓					-0.95

Source: MNI, Bloomberg

Summary of Analyst Views

- Most analysts expect the ECB to announce a slowdown in PEPP purchase rate, with a decision on the 2022 policy mix delayed until the December meeting.
- Inflation forecasts are expected to be revised higher, with medium-term inflation still below target, while there is slightly less agreement among analysts on the direction of forecast revisions for medium term economic growth.

Barclays

- Given the improvement in economic conditions, the ECB is expected to announce a reduction in the pace of PEPP purchases and potentially replace reference to "significantly higher" with "slightly higher".
- In practice, this could mean the ECB purchasing EUR60-70bn per month via PEPP, in addition to the EUR20bn/month bought through the APP.
- Barclays expects modest upward revisions to economic growth and inflation forecasts for 2021 and 2022, although the 2023 inflation projection is expected to remain below target.
- Given that improving forecasts and a reduction in the PEPP pace risk being interpreted hawkishly by the market, the ECB could stress that conditions for a broader change to monetary policy are not in sight yet, that the decision to reduce the purchase rate is not the start of tapering and that the ECB will maintain ample and persistent monetary accommodation.
- The ECB could signal that the APP would be recalibrated if the PEPP ends in March 2022 and that if needed the PEPP could also be extended beyond that point.
- An announcement on the size and pace of QE (APP and/or PEPP) for 2022 is likely in December. Barclays expects a EUR700bn expansion of the ECB balance sheet via asset purchases in 2022.

Bank of America

- A small reduction in the PEPP pace is expected to be announced at the September meeting, with decisions on concluding PEPP, upsizing the APP and forward guidance deferred to a later meeting (likely December).
- PEPP is expected to end in March 2022, but a small volume of purchases after this date cannot be ruled out.
- When PEPP ends, APP is expected to be upsized to EUR40-50bn/month for at least 12 months with smaller purchases after that. In addition, forward guidance on APP will be changed and could perhaps become date-dependent.
- Staff macroeconomic projections will show upgrades to the growth and inflation forecasts, although there will be no substantive policy implications given the limited change to the forward trajectory.

BNP Paribas

- Slowing PEPP purchases in September is more likely than not.
- The PEPP will be concluded in March, with an expanded and more flexible APP taking over. However, a decision on this is unlikely before December at the earliest.
- Prolonged monetary accommodation is here to stay, with APP net purchases set to continue until early 2024. Moreover, the first rate hike is not expected until mid-2024.

Commerzbank

- The ECB is likely to announce a slower pace of PEPP purchases for the fourth quarter.
- However, given recent comments from GC members, the ECB is likely to postpone a fundamental policy decision on PEPP.
- Moreover, any adjustment to the PEPP pace for this coming quarter is likely to be modest given the risks to economic activity (Delta variant, supply bottlenecks etc).

Danske

- With the economy recovering and financial market conditions benign, the ECB will announce a slowdown in the pace of purchases at the September meeting, but will stress that this is not tapering.
- Purchases under PEPP are expected to be similar to the January/February level of EUR60bn/month.
- The bigger QE calibration 'battle' is expected to take place in December and so the ECB will try to keep the September meeting as uneventful as possible.
- Danske stress that transferring PEPP flexibility to APP should not be taken as given.

Goldman Sachs

- Given the constructive economic outlook and improvement in financing conditions since June, the ECB is expected to lower the PEPP purchase pace to around EUR65bn in Q4.
- While the GC is expected to have initiated discussion on the conditions required to end PEPP, no significant news on the post-PEPP landscape will emerge at the September meeting. A decision on concluding PEPP is likely to come at the December meeting.
- The updated macroeconomic projections will show a slight upgrade to the inflation forecasts with a 0.1pp increase in the 2023 figure leaving medium-term inflation still below target.
- While GS believes it possible that APP purchases could be temporarily increased to contain net duration supply after PEPP is exhausted, an open-ended APP increase is seen as less likely given the bond scarcity in core markets and a binding capital key allocation.

HSBC

- Given the improvement in financial conditions, the expected drop in sovereign issuance towards the end of the year and the recovery in growth and inflation, it would be difficult for the ECB to continue conducting PEPP at a significantly higher pace.
- As such, the pace of PEPP is expected to revert to 'normal', which would reduce the cliff edge when PEPP expires in March.
- In practice, this could mean EUR15bn of purchases per week, rather than EUR20bn. In turn, this would mean purchasing EUR1.8trn of asset by next March, rather than the full EUR1.85trn envelope.
- HSBC expects a small upward revision to the 2023 inflation forecast, but this will leave inflation still below the 2% target.

ING

- An announcement of tapering will not be on the cards next week. However, it is possible that the ECB could communicate a hypothetical exit plan.
- Tapering clues could come from how the ECB judges when the pandemic is over. This could refer to herd immunity, infection rates, or the economy and inflation returning to the pre-crisis path.
- ING questions whether front loading of asset purchases to preserve favourable financing conditions is still needed. However, the ECB is likely to stick with this strategy for now since doing otherwise risks being interpreted as de facto tapering.
- The ECB has become more dovish over the summer with its new monetary policy strategy.
- This recent dovish shift was confirmed by comments from Philip Lane and Isabel Schnabel who argued that low inflation is still more of a risk than inflation that is too high.
- Staff macroeconomic projections will show slight upward revisions to growth and inflation for this year, but hardly any changes for 2022 and 2023.

JP Morgan

- Staff macroeconomic projections will show upward revisions to growth and inflation forecasts.
- With higher staff macroeconomic forecasts and easier financing conditions, there is a strong case for reducing the pace of purchases under PEPP. However, JPM argue that there are difficulties in interpreting

the framework for "maintaining favourable financing conditions". Nonetheless, JPM still comes down on the side of expecting a modest step down in the purchase pace.

- JPM also believe that that the hawks will agree to sufficiently dovish language along with the announcement on the PEPP pace.
- Beyond the current decision, JPM expects the ECB to announce a new "recovery PEPP" with a EUR500bn envelope, a duration of around 18 months and some (but not all) of the flexibilities of PEPP.

Lloyds

- A comprise agreement could be reached among policymakers to allow for a slight reduction in the PEPP pace, but this is not assured.
- There will be an upward revision to short-term inflation in the new staff macroeconomic projections, but the 'transitory' argument for medium-term inflation will prevail.

Morgan Stanley

- Given uncertainty over the economic outlook, the doves are expected to win out on the GC with the PEPP purchase pace being maintained at around EUR80bn through to December.
- Furthermore, any decision on QE after PEPP will be delayed until December.
- Growth and inflation forecasts are expected to be revised higher.

NatWest

- Given the improvement in growth and inflation dynamics, coupled with loose financial conditions, the ECB is expected to abandon the "significantly higher" PEPP purchase rate.
- This could mean lowering PEPP purchases to ~EUR15-17bn/week from the current EUR18-20bn/week.
- Although growth and inflation projections are likely to be revised higher, the medium-term inflation projection is expected to remain below target.
- The distance of current inflation expectations from the 2% target justifies a persistent accommodative monetary policy stance when PEPP ends. This is likely to come in the form of a renewed and bolder APP that should benefit from quasi PEPP-like flexibility.
- NatWest expects to see QE purchases slowing later this year from the current ~EUR100bn/month to EUR60-80bn in March 2022 with further tapering until H2 2024.
- The first policy rate hike is not expected to come until late 2024 or 2025.

Nordea

- Although the time to end pandemic bond purchases has not yet arrived, Nordea expects the ECB to announce a slowdown in the pace of purchases at the September GC meeting, given that financing conditions now appear very easy.
- While dropping its pledge to conduct PEPP at a significantly higher pace, the ECB will also insist that it will not mark the first step of tapering.
- Signals from GC members suggest that a decision on when to end PEPP will not be taken until December.
- A revision to the forward guidance on rates is more likely to take place at the December meeting.
- When PEPP is eventually wound down, Nordea expects the ECB to boost monthly APP volumes. Moreover, no policy rate hikes are expected before 2024.
- Updated staff macroeconomic projections will show upward revisions to growth and inflation in 2021. Nordea does not expect any significant revisions to the ECBs view on inflation in 2023 given that much of the recent acceleration has been attributed to temporary factors.

Rabobank

- The improvement in the economic outlook and financial conditions will allow the ECB to reduce the pace of PEPP – to EUR60bn/month- during the fourth quarter.

- President Lagarde will stress that this does not constitute a tapering signal, or a signal that PEPP will conclude in March.
- If the GC do not announcement a pace reduction in September, then extending PEPP beyond March and/or substituting higher APP purchases becomes more likely.
- Decisions on the 2022 policy mix will be postponed until December.

SEB

- Although the Governing Council is split, SEB expects a decision to be made on reducing the PEPP pace during the fourth quarter to EUR60-65bn/month from EUR80-85bn in Q2/Q3.
- Inflation forecasts will be revised higher over the forecast horizon, with the medium-term projection still below target.
- The ECB will also reiterate that stands ready to be "forceful and persistent" when rates are close to the effective lower bound, its commitment to preventing a premature tightening of financial conditions and maintaining the flexibility of the PEPP envelope.
- A more fundamental decision on the future of PEPP is not expected until December. SEB maintains that the GC will opt to extend the duration by three months to mid-2022.
- As a result, the ECB could wait until March before announcing changes to the APP.
- No changes in policy rates are expected before 2024, which means that the APP may run well into 2023.
- However, if the ECB decides to end PEPP on schedule, the APP could be modified in December.

Société Générale

- The ECB may decide to reduce the pace of PEPP purchases in Q4 and drop reference to "significantly higher" from its communication, but will stress that this does not constitute tapering and that it can flexibly increase volumes again if needed.
- The inflation profile will be revised higher, albeit with medium-term inflation still below target. Growth forecasts can be pushed up for 2021, but potentially revised lower for 2022. This would not be sufficient to have any monetary policy implications.
- Discussion on ending PEPP will be shaped during the autumn with an announcement likely at the December meeting.

TD Securities

- The ECB is expected to announce a slower pace of PEPP purchases at the September meeting, which will be somewhere between EUR60-80bn/month.
- The GC will not provide any further indication of the PEPP lifespan at the September meeting, other than reiterating that it will not end before March 2022.
- The language around the PEPP pace could be changed to "higher" relative to Q1, from the currently "significantly higher", or to "a slightly slower pace than during recent months".
- The slowdown in purchases mean that the full PEPP envelope may not be used.
- Growth projections are likely to remain broadly intact, while the near-term inflation profile will be revised higher. However, the medium-term inflation forecast will remain below target.
- TD Securities expects the APP of EUR50bn/month from April 2022 onwards. A decision on APP could come at the January 2022 meeting.
- A decision on TLTROs could come in December.
- No change in policy rates is expected until 2025.

UBS

- The September decision on purchases under PEPP will be a balancing act. Economic growth and inflation have improved and financing conditions have become more favourable, but the ECB's forward guidance has

become more dovish, the Delta variant poses risks to economic activity and staff macroeconomic projections are likely to show medium term inflation still below target.
- Ultimately, UBS believes that the ECB will continue conducting the PEPP at a significant pace, but perhaps dropping its commitment to purchasing at a 'significantly higher' pace. This could give the ECB's decision a slight dovish tilt and would indicate that the ECB does not intend to prolong PEPP beyond March.
- The 2021 growth forecast is expected to be revised higher, while the 2022 projection will be nudged down and the 2023 figure will be left unchanged. Inflation forecasts for 2021, 2022 and 2023 are also expected to inch higher.
- A decision on the duration of PEPP is expected in December and UBS expects the programme to be wound down in March. The ECB will also announce that the APP will be beefed up to ensure continued monetary support.
- However, should the Delta variant trigger new mobility restrictions in the autumn, there is a risk of the ECB extending PEPP by 3-6 months and raising the envelope by EUR500bn.

UniCredit

- Easier financing conditions, higher inflation forecasts and lower sovereign issuance towards the end of the year will motive a moderate slowdown in the PEPP pace for Q4 – probably somewhere between the Q1 and Q2/3 levels.
- President Lagarde will stress that moderating the PEPP pace constitutes a technical adjustment rather than a tapering signal.
- Given upgrades to the growth and inflation forecasts, the GC seems convinced that March will be the appropriate date to conclude PEPP. However, further evidence of how the pandemic is evolving – particularly with respect to the Delta variant – will be needed before making such a decision, which suggests that December will be the announcement meeting.

ECB Communication: The Detail

ECB communication has been relatively limited since the July meeting, but the commentary that has emerged has indicated the divisions within the Governing Council over the direction of PEPP and risk to inflation. Regardless of whether or not there is a decision to adjust the purchase pace under PEPP at the September meeting, recent insights from the GC suggest that it could be a close call.

On the economic front, most agree that economic activity have improved recently, but that uncertainty remains high and that the economy still has some way to go before returning to pre-pandemic conditions.

Philip Lane offered a relatively balance assessment on August 25:

> "If you put all of that together -- the fact that the second quarter came in above what we expected and what the third and fourth quarters might look like -- I would say we're broadly not too far away from what we expected in June for the full year. It's a reasonably well-balanced picture."

On recent economic data releases, Luis de Guindos stated on September 1:

> "…one thing is clear: recent data are very positive."

And, pointing to upcoming staff macroeconomic projections, further reiterated:

> "The economy is performing better in 2021 than we expected, and this will be reflected in the projections that will be published in the coming days. The leading indicators are positive, and in the coming days we will see the actual figures."

Speaking on July 29, Fabio Panetta focused on the risks and headwinds facing the recovery:

> "The risks of an incomplete recovery are still high, while the risks of the economy overheating and high inflation are still contained. There is still ample slack in the European economy, with people out of work and production plants that have not reopened. We are still not back to the level of GDP that prevailed before the crisis; we'll only return to that level in the months between the end of this year and the start of the next year. And we are well below the pre-crisis growth path, namely the point we would have reached if the economy had not been hit by the pandemic."

While markets are focused on divergences of opinion on PEPP, more fundamentally, interpretations of the recent acceleration in inflation are also starting to diverge. The official line, reiterated by Yannis Stournaras on September 1, argues that the recent inflation burst is temporary:

> "According to most estimates, the recent jump in inflation is due to temporary factors related to various supply-side bottlenecks caused by the pandemic".

Fabio Panetta argued on July 29:

> "Inflation has risen because oil prices have been rising, but they can't rise indefinitely. Bottlenecks in production have also pushed the prices of certain goods up for a few months, until the economy returns to normal. There has also been a temporary boost owing to the recent increase in VAT in Germany following last year's cut. These are all transitory factors that will only have a temporary impact on inflation."

Philip Lane further stressed on August 25 that wage negotiations would be key in determining the path for inflation:

> "We need to observe whether the inflation readings we're seeing right now will influence wage negotiations. I don't see that at the moment, though there is often a lag in the wage negotiation system. You probably need to look across the full pandemic period because a lot of wage negotiations were postponed during the pandemic."

Jens Wiedmann, however, appears more concerned by the risks of higher inflation, stating on September 1:

> "We have to watch the risks to the outlook for prices. In my view, upside risks predominate,"

> "Accommodative monetary remains appropriate. But we shouldn't disregard the risk to too-fast inflation."

With respect to the recently reformulated monetary policy strategy, Fabio Panetta also argued that the ECB should be in no rush to normalise monetary policy:

> "When price dynamics approach 2% we'll be patient, however: we will only raise rates when we're convinced that inflation can be firmly anchored at 2% in the medium term according to a series of parameters which are clearly set out in the new forward guidance, for both expected and actual inflation."

> "In the past, impatience led the ECB to raise rates prematurely, keeping excessive downward pressure on inflation and stymying growth. So it's therefore clear to everyone that in order to guarantee price stability, it may be necessary to, as they say, "run the economy hot", to let it rev up a little."

Focus at the September ECB meeting will be on a possible reduction in the PEPP purchase pace. Referring to financial conditions, Philip Lane stated on August 25:

> "Any adjustment we make within the pandemic period is within the single philosophy: maintaining favourable financing conditions. If this can be done with lower purchases, we'll buy less. If favourable financing conditions require more purchases, we'll conduct more purchases.

François Villeroy de Galhau similarly indicated on August 30 that the recent improvement in financing conditions could allow the ECB to reduce the PEPP pace:

> "On monthly volumes, we are looking at the favorable financing conditions, and we should underline that they are more favorable than at our June meeting,"

And

> "Our discussions should take into account the improvement in financing conditions"

Robert Holzman stressed on August 31:

> "We are now in a situation where we can think about how to reduce the pandemic special programs. I think that's an assessment we share."
>
> "We have the opportunity to discuss how do we close the pandemic part and focus on the inflation part."
>
> "If enough people share my opinion, we will certainly advise the Executive Board to slow down purchases in the fourth quarter and more so in the first".

Klaas Knot stated that a decision should be taken which is not 'incompatible' with terminating PEPP in March and stressed:

> "That would imply a reduction in the purchase pace."

The more fundamental question on the lifespan of PEPP remains tied to the evolution of the pandemic, as stressed by Luis de Guindos on July 29:

> "The PEPP should end when the emergency is over and its dampening effect on inflation disappears."
>
> "It is a medical question first and foremost. It depends on whether the vaccination campaigns are successful in combating the delta variant and whether new, more resistant variants appear."

Mirroring the widely held assumption in markets that a decision when to conclude PEPP is unlikely to be made before December at the earliest, François Villeroy de Galhau indicated on August 30:

> "The discussion on what happens on PEPP and after the PEPP, what we call forward guidance, and the future of the normal asset purchases, APP, that is something for between now and the end of the year but probably not for September"

Furthermore, Philip Lane stated on August 25:

> "Asset purchases will continue after PEPP because we'll have our regular asset purchase programme (APP) running, as conditions to end APP are not there. That's why we still have time. If we were in a pure taper situation, going from supporting the market to finishing net purchases, then preparing the market is an issue. But that is not the situation here. Regardless of when PEPP might end, that's not the end of the ECB's role in terms of QE. This is why we don't need a huge lead time to think about it. Of course, we can't leave it too late either. But six months is quite a lot of time. In the autumn, we'll have to work through a lot of issues relating to what 2022 should look like."

Luis de Guindos has highlighted the need to avoid a cliff edge when PEPP ends:

> "There are a number of options. In my view, the main priority is to avoid a cliff effect when the PEPP expires. We will need substantial monetary support for the economy for some time to come. Even if recovery is successful, there is still a lot of uncertainty."

ECB Inter-Meeting Communication

Date	Time	Speaker	Event
27/07/2021	15:00	Pablo Hernandez de Cos	Opening remarks for the webinar "Remittance flows and their effects on macroeconomic and financial stability in Latin America during the Covid-19 crisis"
29/07/2021	12:30		ECB publishes account of July 7 strategy review meeting
29/07/2021		Luis de Guindos	Interview for Handelsblatt conducted by Frank Wiebe and Jan Mallien https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210729_1~fb3aa571cc.en.html
29/07/2021		Fabio Panetta	Interview for Corriere della Sera conducted by Federico Fubini https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210729~1d0a024e76.en.html
21/08/2021		Isabel Schnabel	Interview for Focus conducted by Carla Neuhaus on 17 August and published on 20 August 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210821~186713780d.en.html
24/08/2021	13:30	Isabel Schnabel	Speech "The rise of non-bank finance and its implications for monetary policy transmission" at the Annual Congress of the European Economic Association (EEA) https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210824~9ab47b501b.en.html
25/08/2021	09:30	Luis de Guindos	Participation in Europe's Summer Course III organised by Diario de Navarra
25/08/2021		Philip Lane	Interview for Reuters conducted by Balazs Koranyi and Frank Siebelt https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210825~db23a29fa6.en.html
26/08/2021	08:00	Olli Rehn	Opening remarks at the Esko Antola Lecture as the Europe Forum in Turku, Finland
26/08/2021	12:30		ECB Publishes Account of July 21-22 Meeting
26/08/2021	15:10	François Villeroy de Galhau	Speech at the Medef conference in Paris
26/08/2021	16:00	Isabel Schnabel	Participation in the Economist Roundtable on the ECB's strategy review https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210826~2ba2ad61cb.de.pdf?0edc2f14c8e049bf141100193af80fdb
30/08/2021	16:00	Isabel Schnabel	Chairing a lecture at an ECB Research Conference

31/08/2021	10:00	Robert Holzmann & Klaas Knott	Speech at a conference in Alpbach, Austria
31/08/2021		Isabel Schnabel	Contribution to the International Monetary Fund's magazine Finance and Development https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210831~7faff504fd.en.html
01/09/2021	13:00	Luis de Guindos	Interview for El Confidencial conducted by Miquel Roig and Jorge Zuloaga on 26 August and published on 1 September 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210901~15d0a74d1c.en.html
01/09/2021		Christine Lagarde	Interview for Time conducted by Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, on 30 August 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210901_1~171c7b19d0.en.html
01/09/2021	13:00	Jens Weidmann	Speech at a Bundesbank Symposium
03/09/2021	16:00	Christine Lagarde	Participation in the opening ceremony of the World Conservation Congress organised by the IUCN
04/09/2021	08:00	Christine Lagarde	Participation in the opening ceremony of the World Conservation Congress organised by the IUCN

MNI Policy Team

MNI SOURCES: ECB Bracing For September Debate On PEPP Future, 4 Aug 2021

(MNI) Frankfurt - The European Central Bank is likely to start considering at next month's Governing Council meeting an extension to its Pandemic Emergency Purchase Programme (PEPP) beyond March as fears grow over the spread of the Covid delta variant - with early suggestions that a further EUR 500 billion may be appropriate - sources told MNI.

But decisions on any extension are not expected until later in the autumn or even into next year in a bid to narrow substantial differences among policymakers over PEPP's duration and scale. Political uncertainty, in particular the looming German federal election, is also cited as a key factor while the UK's July reopening 'experiment' is also being closely watched.

"There could well be a debate around the future of PEPP - both expanding the envelope by another EURO 500 billion and extending the horizon - in September," one official said. "They could make a decision in September, but they will almost certainly have to by December."

NOT OUT OF THE WOODS

"It's not clear that we will be out of the woods from an epidemiological perspective by the end of the year, or even by March," the official continued. "Other variants could still emerge. But that is not the same thing as saying it is still an emergency, or that we require an emergency purchase programme."

"I'm pretty confident there'll be a discussion about it," agreed a second official, who pointed out that a decision could be taken later than December. A March 2022 end to PEPP is still the expected scenario, he said, but there is now reason to think that may change.

"Back in June, I would have said we'll probably end at the end of March," the official explained. "The path to exit will start to become clearer and clearer. As we stand today, with delta, that's less certain."

Boosting PEPP is not yet being discussed at Governing Council level, said a third official, with the recovery expected to continue as the second half of the year progresses. However, the possibility that Europe's return to a pre-pandemic growth trajectory could be delayed by new variants of the Covid virus is in the back of many Governing Council members' minds, he added.

A sixth-month extension of PEPP with a EUR 500 billion expansion of the envelope would be both the logical starting point and preferable to both a rejigged Asset Purchase Programme (APP) or a new tool, he said, after which a more permanent solution to the problem of uneven growth and low inflation would need to be found.

The possible addition of another EUR 500 billion coupled with a six-to-nine-months extension of the programme is plausible, a former senior Eurosystem official said, adding that a more ambitious increase of around EUR 650 billion to take the overall PEPP total to EUR 2.5 trillion would probably prove too politically sensitive. Any decision to increase the funds available would have to wait until after the German election takes place on September 26, this source said.

PEPP/APP NEXUS

With the future of Europe's pandemic-specific bond buying programme under the microscope, there is also speculation as to what will happen to the longer-run APP, as the ECB sets its sights on its new 'symmetrical' 2% inflation target.

"I would not be at all surprised to hear that Philip Lane and the doves would favour asset purchases at similar levels to today, post-PEPP," the first official opined.

Importing PEPP's flexibility into the more constrained APP might be desirable, but is impossible at present, the former senior Eurosystem official said. "Doves like (ECB Executive Board member Fabio) Panetta want to include that in the APP, and then the hawks say the pandemic has stopped so let's finish with the flexibilities," the source continued.

"So that's very contentious. If it's too controversial you have to push this discussion to December or October. There is another meeting in October, which is fine (as) it's after the German elections."

GUIDANCE WRANGLE

Discord is also brewing over forward guidance, according to several officials who spoke to MNI, with up to five Council members disagreeing with July's majority decision not to issue new forward guidance on QE as well as interest rates.

The position of those governors, such as National Bank of Belgium Governor Pierre Wunsch, who went on-the-record with the doubts over what some perceive to be a monetary policy of 'lower for longer', was "entirely reasonable," the second official cited above said.

"He felt it was too long a commitment to make. I have a slightly different view on what forward guidance is, which is perhaps slightly more realistic, which is that forward guidance signals a central bank's intentions as of today. What it isn't is a contractual promise that we're not going to do something for a very long time if the facts fundamentally change," this official explained.

Both the first two officials cited above were in favour of the ECB dropping its commitment to maintaining bond buying under APP - currently set at EUR 20 billion per month -until shortly before it starts raising the key ECB interest rates.

"Maybe the ECB should drop the 'shortly before' commitment," said the first official, "but it is probably too political to do so."

"I'm a great believer that central banks need to retain as much flexibility across the whole of their toolkit as they can," the second official said. "I think that that word, 'shortly', constrains us unnecessarily. I do believe that we're going to be stopping purchases before we raise rates, but 'shortly' gives the impression that it might be the week before."