

# ECB Preview: January 2021

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## Details:

**Monetary policy decision: 12:45BST/13:45CET, Thursday 21 January 2021**

**Press conference: 13:30BST/14:30CET, Thursday 21 January 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](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](https://www.ecb.europa.eu/press/tvservices/webcast/html/webcast_pc_youtube.en.html)

Bloomberg: MEDI <Go>

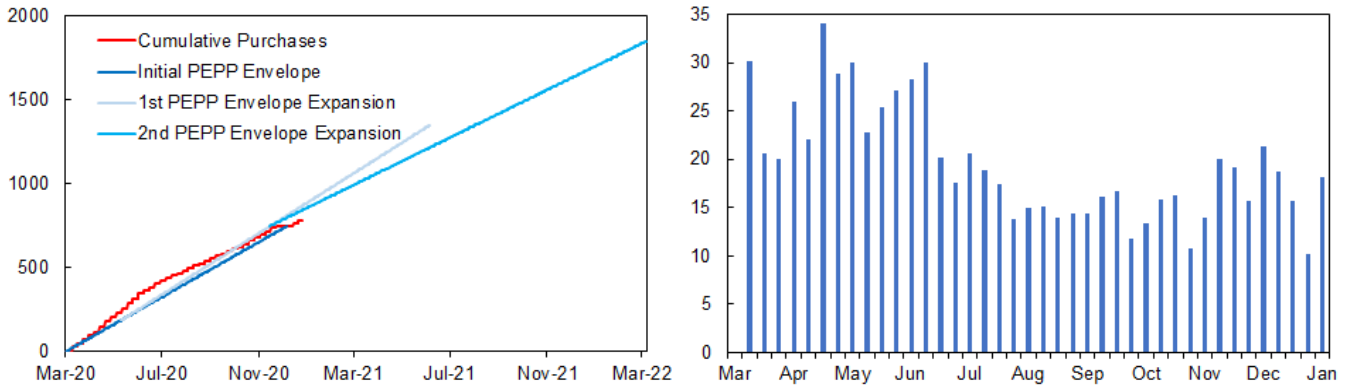
## MNI Point of View (POV):

### ECB On Autopilot

The January ECB meeting will likely be a non-event given that the GC delivered a significant easing package in December. With staff macroeconomic projections also updated at the December meeting and few additional data inputs since then, there is little for the ECB to react to for now. While it is the case that lockdown measures have been tightened across Europe, the path of Covid-19 remains inherently uncertain, making it difficult to tailor monetary policy. The ECB will take time to assess incoming data in order to gauge the impact on economic conditions of the latest Covid setback. In any case, the December PEPP expansion gives the ECB a sufficient buffer to maintain favourable financing conditions in the coming months even if economic activity is dealt a further heavy blow.

With no material policy developments expected, the focus will instead be on the press conference. Front and centre will be questions about the impact of the latest Covid social restrictions on economic activity. It will be difficult to fully assess the damage at this stage, with President Lagarde instead likely to assert that risks are tilted to the downside and that the ECB stands ready to adjust all of its policy instruments if necessary. There are likely to be questions on recent political developments in Italy and the Netherlands, but as is customary the ECB will not be drawn into any specific discussion on these.

PEPP Trajectory, EURbn (LHS) & Weekly PEPP Purchase Rate, EURbn (RHS)



Source: MNI, Bloomberg, ECB

The euro remains a hot topic for policymakers in light of the currency's lingering strength. However, the ECB is only likely to reassert that it continues to monitor exchange rate developments and that it targets inflation, not the exchange rate. Given that the rally lost momentum since the beginning of the year, the ECB is under less pressure to try and talk down the euro.

Any questions on PEPP are likely to focus on the sufficiency of the latest envelope expansion/extension. Speculation about when the Federal Reserve will taper asset purchases, the tentative shift among European governments from pandemic spending to eventual fiscal consolidation, and noises from some in the ECB indicating that the new PEPP envelope should be viewed as a ceiling, all suggest that market attention will increasingly focus on the ECB's exit strategy.

mni Central Bank Watch - ECB

27 October 2020

| MNI ECB Data Watch List         |       |         |        |        |        | 2Y History | Hit / Miss | Vs Trend | Surprise Index | Z-Score |
|---------------------------------|-------|---------|--------|--------|--------|------------|------------|----------|----------------|---------|
| <b>Inflation</b>                |       | Current | 3m ago | 3m Chg | 6m ago | 6m Chg     |            |          |                |         |
| HICP                            | % y/y | -0.3    | 0.3    | ↓      | 0.7    | ↓          |            |          |                | -2.02   |
| Core Inflation                  | % y/y | 0.2     | 0.8    | ↓      | 1.0    | ↓          |            |          |                | -1.75   |
| Oil Prices                      | \$    | 41.0    | 41.2   | ↓      | 22.7   | ↑          |            |          |                | 0.30    |
| 5y/5y Inflation Swap            | %     | 1.16    | 1.12   | ↑      | 0.96   | ↑          |            |          |                | 0.55    |
| <b>Economic Activity</b>        |       | Current | 3m ago | 3m Chg | 6m ago | 6m Chg     |            |          |                |         |
| Eurozone PMI (Comp)             | Index | 49.4    | 54.9   | ↓      | 13.6   | ↑          |            |          |                | 0.15    |
| Industrial Production           | % y/y | -7.2    | -20.4  | ↑      | -2.1   | ↓          |            |          |                | 0.48    |
| Business Climate Indicator      | Index | -1.19   | -2.24  | ↑      | -0.24  | ↓          |            |          |                | 0.23    |
| Consumer Confidence             | Index | -15.5   | -15.0  | ↓      | -22.0  | ↑          |            |          |                | 0.09    |
| <b>Monetary Analysis</b>        |       | Current | 3m ago | 3m Chg | 6m ago | 6m Chg     |            |          |                |         |
| Narrow Money (M1)               | % y/y | 13.8    | 12.6   | ↑      | 10.4   | ↑          |            |          |                | 1.94    |
| Broad Money (M3)                | % y/y | 10.4    | 9.2    | ↑      | 7.5    | ↑          |            |          |                | 1.08    |
| Loans to Non-Fin Corps          | % y/y | 6.5     | 6.5    | ↔      | 4.9    | ↑          |            |          |                | 0.50    |
| Loans to Households             | % y/y | 3.5     | 3.2    | ↑      | 3.3    | ↑          |            |          |                | 0.57    |
| <b>Consumer / Labour Market</b> |       | Current | 3m ago | 3m Chg | 6m ago | 6m Chg     |            |          |                |         |
| Retail Sales                    | % y/y | 3.7     | -2.6   | ↑      | 2.5    | ↑          |            |          |                | 0.65    |
| Unemployment Rate               | %     | 8.1     | 7.6    | ↑      | 7.3    | ↑          |            |          |                | 1.50    |
| Labour Costs (Quarterly)        | % y/y | 4.2     | 2.4    | ↑      | 2.4    | ↑          |            |          |                | 1.89    |
| Employment (Quarterly)          | % y/y | -3.1    | 1.1    | ↓      | 1.4    | ↓          |            |          |                | -2.41   |
| <b>Markets</b>                  |       | Current | 3m ago | 3m Chg | 6m ago | 6m Chg     |            |          |                |         |
| Equity Market                   | Index | 3089    | 3234   | ↓      | 2787   | ↑          |            |          |                | -0.50   |
| Bund Yield                      | %     | -0.59   | -0.45  | ↓      | -0.47  | ↓          |            |          |                | -0.29   |
| 10y BTP Spreads                 | %     | 129.0   | 171.2  | ↓      | 199.4  | ↓          |            |          |                | 1.19    |
| EUR TWI                         | Index | 124.89  | 122.33 | ↑      | 120.83 | ↑          |            |          |                | 1.06    |

Source: MNI, Bloomberg

## Summary of Analyst Views

- Analysts are unanimous in expecting no material change in monetary policy at the January meeting given that the ECB delivered a stimulus package in December.
- The focus will instead be on the press conference and, in particular, the ECB's interpretation of the economic outlook in light of recent lockdown measures, as well as the persistent strength of the euro and its impact on inflation.

### BMO:

- This week's ECB meeting will be closely watched for any commentary on the euro.
- Markets will be focused on any indications about how far the euro would need to appreciate for the ECB to consider easing monetary policy.

### Danske Bank

- This week's meeting will be an uneventful one with no new policy signals.
- The recalibration of the ECB's policy instruments in December mean there is no immediate urgency to do more.
- The ECB is unlikely to comment on the prospect of future tapering.
- Danske do not expect any additional signals regarding the strategic review.

### Goldman Sachs

- The January ECB meeting is unlikely to bring any significant news given the stimulus package delivered in December.
- The GC will reiterate that risks remain tilted to the downside and that it will continue monitoring the implications of persistent euro strength.

### HSBC

- The PEPP expansion in December provides sufficient ammunition for the ECB to maintain low borrowing costs for the eurozone during 2021. As a result, HSBC does not expect any further changes this year.
- Any concern about the level of the euro would likely be addressed verbally rather than with policy action.
- HSBC warns that if market conditions and fiscal deficits take the PEPP close to full capacity, markets may start to worry about a possible cliff edge in March 2022 given that some Council Members see the current EUR1.85trn envelope as a ceiling.

### ING

- Following the December easing package, the ECB will now want to stay on the sidelines for as long as possible.
- By extending the degree of monetary accommodation to early 2022, there is little that the ECB can, and would want, do to.
- There are only two factors that could motivate policy action in the coming months: further rapid appreciation of the euro and an unexpected surge in market-based inflation expectations.
- The press conference will present President Lagarde with two communication challenges: how to respond to Italian political ructions and how to deal with a stronger euro.

**Natixis**

- Despite the heightened uncertainty over the growth and inflation outlook, an immediate policy response from the ECB is not required.
- The EUR500bn increase to PEPP in December provides a sufficient 'safety net' which will allow a degree of discretion for fiscal policy throughout the year.
- The ECB is expected to stress the short-term risks but reaffirm its constructive medium-term outlook.

**Nordea**

- No changes in monetary policy are expected with the market focused on President Lagarde's comments during the press conference.
- The ECB will want to move away from a constant monthly pace of asset purchases and adopt a more flexible approach which would allow a smaller volume of purchases to preserve easy financing conditions.
- Given that the effective EUR exchange rate index is lower than it was at the December GC meeting, the ECB will not feel that it needs to toughen its rhetoric on the currency.

**Scotia**

- Having delivered an easing package in December, the ECB is expected to leave policy unchanged at this week's meeting.

**Société Générale**

- The ECB will remain on hold in the near term and will instead focus on the strategic review.
- Société Générale argue that rather than aiming to reach the 2% inflation target in the next two-three years, the ECB should instead focus on maintaining favourable financing conditions at the lowest cost possible.
- The ECB will need to tread carefully in the second half of the year when it will need to communicate and implement an exit from PEPP in 2022 without stoking market volatility.

**Swedbank**

- No changes to monetary policy are expected at the January meeting
- Asset purchases will continue to be roughly the same size through to the summer, although there are voices within the ECB that are keen to scale down PEPP as soon as possible.

**TD Securities**

- Following the December easing package, this week's ECB meeting will be relatively uneventful.
- The focus of this meeting will be on the press conference. Questions are likely to centre around the near-term economic outlook, the exchange rate and the pace of PEPP purchases.
- TD looks for a message that the ECB will continue to provide sufficient policy support to maintain favourable financing conditions, while indicating that growth is likely to return later in the year.

**UBS**

- Having adjusted policy in December, this week's governing council meeting should be relatively uneventful.
- The press conference will focus on latest economic developments – particularly the tightening of Covid restrictions.
- Markets will be focused on the ECB's response to the latest lockdown measures and what contingencies are available if the economic outlook deteriorates further.
- During the Q&A, President Lagarde is likely to be asked about the EU recovery fund, the Brexit deal, prospects of more active US fiscal policy and a potential tapering of Fed asset purchases.
- UBS believes that the ECB is effectively 'done' with respect to pandemic support measures. As such, PEPP is unlikely to be extended beyond March 2022.



- However, the APP could run for longer and potentially with increased flexibility.
- PEPP purchases will be front-loaded in H1 to cover EGB supply with the ECB absorbing all of the net EGB supply this year.
- The deposit rate is expected to remain at -0.5% for the foreseeable future

### UniCredit

- The policy package announced in December has left ECB policy on autopilot with no changes expected at this week’s meeting.
- The ECBs currency rhetoric is also unlikely to materially change. UniCredit argue that the euro has not hit the ECBs pain threshold and that the central bank does not have an effective tool to counter euro appreciation..

## ECB Inter-Meeting Communication

| Date       | Time (UK) | ECB Member             | Location | Event/Topic   |
|------------|-----------|------------------------|----------|---|
| 11/12/2020 | 09:00     | Robert Holzmann        | Vienna   | Presentation of the Austrian central bank's economic outlook  |
| 11/12/2020 | 15:00     | Pablo Hernández de Cos | Madrid   | Testimony before the Senate Budget Committee  |
| 14/12/2020 | 07:45     | Pablo Hernández de Cos |          | Presenting Minister of Inclusion, Social Security and Migrations Jose Escriva as a speaker at the Nueva Economía Forum  |
| 14/12/2020 | 09:45     | Fabio Panetta          | Online   | Speech at the Rome Investment Forum 2020<br><a href="https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201214~f98082db90.en.html">https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201214~f98082db90.en.html</a>   |
| 14/12/2020 | 13:30     | Isabel Schnabel        | Online   | Welcome address at the third roundtable on euro risk-free rates<br><a href="https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201214_1~49ae296dae.en.html">https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201214_1~49ae296dae.en.html</a>  |
| 15/12/2020 | 09:00     | Olli Rehn              | Helsinki | Speech on the outlook for the Finnish economy   |
| 15/12/2020 | 14:05     | Philip Lane            | Online   | Presentation at the ECB legal colloquium on Post-Pandemic Economic Governance<br><a href="https://www.ecb.europa.eu/press/key/date/2020/html/esb.sp201215~70e721ba43.en.pdf?37fadf96f9937c465033fac347d971d7">https://www.ecb.europa.eu/press/key/date/2020/html/esb.sp201215~70e721ba43.en.pdf?37fadf96f9937c465033fac347d971d7</a>  |
| 16/12/2020 | 09:00     | Madis Müller           | Tallinn  | Speech on the outlook for the Estonian economy.   |
| 16/12/2020 |           | Fabio Panetta          |          | Keeping cyber risk at bay: our individual and joint responsibility - Introductory remarks at the fifth meeting of the Euro Cyber Resilience Board for pan-European Financial Infrastructures<br><a href="https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201216~7042bffe07.en.html">https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201216~7042bffe07.en.html</a> |

|            |       |                             |         |  |
|------------|-------|-----------------------------|---------|--|
| 16/12/2020 | 15:30 | Luis de Guindos             | Cologne | Online discussion - Online Youth Dialogue - organised by the ECB and University of Cologne   |
| 16/12/2020 | 16:00 | Pablo Hernández de Cos      |         | Testimony before a parliamentary committee   |
| 16/12/2020 | 16:15 | Isabel Schnabel             | Hamburg | The importance of trust for the ECB's monetary policy - Speech as part of the seminar series "Havarie Europa. Zur Pathogenese europäischer Gegenwarten" at the Hamburg Institute for Social Research (Hamburger Institut für Sozialforschung)<br><a href="https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201216_1~9caf7588cd.en.html">https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201216_1~9caf7588cd.en.html</a> |
| 16/12/2020 | 17:00 | Jens Weidmann               | Berlin  | Speech at Humboldt University  |
| 17/12/2020 | 14:30 | Isabel Schnabel             | Online  | Interview on Twitter<br><a href="https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201218~4e77c2d9e6.en.html">https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201218~4e77c2d9e6.en.html</a>  |
| 17/12/2020 | 16:00 | Isabel Schnabel             |         | Climate change and monetary policy - Presentation and exchange of views with German economists on the coronavirus (COVID-19), organised by German Ministry of Finance<br><a href="https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201217~2ba78083cf.en.pdf?5e1547ca24c2bf6b6fad76bed62ffcf4">https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201217~2ba78083cf.en.pdf?5e1547ca24c2bf6b6fad76bed62ffcf4</a>             |
| 17/12/2020 | 17:30 | Luis de Guindos             |         | Participation in a book launch event   |
| 04/01/2021 | 20:45 | Philip Lane                 | Online  | Participation in ASSA virtual meeting  |
| 11/01/2021 | 10:00 | Boštjan Vasle               | Online  | Opening remarks at online investment conference  |
| 11/01/2021 | 14:40 | Christine Lagarde           |         | Moderating a panel discussion at the One Planet Summit   |
| 11/01/2021 | 17:20 | Pablo Hernández de Cos      | Online  | Participation in online discussion on how to raise productivity after the pandemic. Organised by the Cercle d'Economia.  |
| 12/01/2021 |       | Isabel Schnabel             |         | Interview conducted by Andras Szigétvari on 7 January 2021 und published on 12 January 2021<br><a href="https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210112~1c3f989acd.en.html">https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210112~1c3f989acd.en.html</a>   |
| 13/01/2021 | 08:30 | François Villeroy de Galhau | Paris   | Speech at a finance committee meeting at the French National Assembly  |
| 13/01/2021 | 09:00 | Christine Lagarde           | Online  | Participation in Q&A   |
| 14/01/2021 | 16:00 | Pablo Hernández de Cos      | Online  | Participation in the closing ceremony of the Spain's Investor's Day Forum  |
| 15/01/2021 | 07:40 | Yannis Stournaras           |         | Participation in the 8th Banking Forum & FinTech Expo  |

15/01/2021 08:00 Ignazio Visco

Speech at a workshop of the EU's framework for dealing with banking crises.

## MNI Policy Team

**MNI SOURCES: ECB Dec Forecasts Stand, Signs Of Discord Ahead****19 January 2021***By Jason Webb*

MNI (London) - The European Central Bank's December staff growth and inflation projections remain in play despite surging Covid infections and fresh lockdowns, eurosystem sources told MNI, though one official's concerns over the length of time government spreads could be artificially compressed even as credit standards tighten may point to potential disagreements ahead.

While no monetary policy decisions are likely at Thursday's Governing Council meeting, officials expressed continued unease over the euro exchange rate and mentioned discussions over when to wind down the ECB's [Pandemic Emergency Purchase Programme](#) as a potential source of future friction.

Credit growth also "looks better than it really is," one senior policymaker told MNI, speaking before the release of the January 2020 bank lending survey which reported tightening credit standards coupled with declining loan demand in key sectors.

A build-up in lending towards spring 2020 was followed by much smaller flows over the summer, the official said, adding: "So in the next year, we will see quite a correction in terms of the base effects. And this lending channel, of course, is critical to the economy."

### **CLOSING SPREADS**

An uneven, K-shaped recovery across the eurozone could be "the next big monetary challenge," a second official said, though it was not impossible the ECB could begin discussions about the timing for winding down PEPP as early as the spring, in a bid to preserve firepower.

Another official said the ECB could not permit government financing costs to remain artificially low indefinitely.

"What Christine [Lagarde] said earlier in the year - 'We are not here to close spreads' - of course that was inappropriate at that time," the first official added. "But at some point it also means that we will not keep these spreads as they currently are. One should not. But let's deal with the current problem, and about the next steps let's talk later."

Other sources pointed to the potential for future communications hiccoughs, particularly as Italy heads into renewed political turbulence. Most, though, insisted that the end of stimulus was nowhere in sight.

"I don't think that today or even the first half of next year will be the right time to start discussions" about any PEPP tapering, said one.

Several officials were also doubtful of calls to be more specific about the "[favourable financing conditions](#)" pursued by the ECB.

"Maintaining easy financing conditions is a phrase we can all get behind. And it probably has enough ambiguity to hold a line across a spectrum of positions," one official said.

## EXCHANGE RATE

December's growth and inflation projections remain valid, in line with comments by President Lagarde last week, officials said. Council members also show "only limited willingness to make a big further step, unless things turn really much worse," one added.

"Q4 with lockdowns and Q1 are going to be very difficult, as we expected," another official said. "Q2 again will be mixed at best and the bulk of the pickup will be in H2. From that point, there is no difference to December. Maybe a little worse in size, but not so much as to affect where we saw the direction."

"We expect to get the pandemic under control in spring and that it will be over in 2022," another source said, with exports and investments growing at a rapid pace thereafter, alongside a gradual resumption of consumption and an only partial reversal of the greater propensity to save observed since the pandemic began.

The euro's level against a basket of currencies, will "undoubtedly be a focus in both the statement and the press conference," even if the "big picture" is no different to that in December, an official said.

Another predicted a "stocktaking" announcement on the status of the ECB's strategic review could be made as soon as February. Discussions are likely to include a clearer definition of what most officials agree is the bank's symmetrical inflation target.

## MNI INTERVIEW: ECB Needs Tightening Debate After Covid-Kazaks

6 January 2021

*By Luke Heighton*

Discussions within the European Central Bank over when and how monetary conditions should start to tighten will come into increasing focus as the Covid-19 crisis eases, Bank of Latvia governor Martins Kazaks told MNI.

"There is no need to lower the yields at the current moment, but we must preserve current favourable financing conditions," Kazaks, a member of the ECB's Governing Council said in a recent interview.

"But when Covid will gradually move out of the picture there needs to be endogenous tightening as the economy recovers and inflation prospects improve. And that, of course, will happen before we raise the rates. What is the timescale? We will see, because it is data dependent."

Should the current outlook for vaccination rates remain valid, Kazaks said, Governing Council discussions over how it sees the acute phase of the Covid crisis ending should happen in the spring, rather than the autumn.

"What we can very clearly say is that one needs to understand that there needs to be discussion of what favourable financing conditions mean," he added. "And with the crisis passing, we will need to allow for endogenous tightening as the economy strengthens. It needs to happen."

Even then, Kazaks emphasised, the scarring caused by the crisis "is not going to disappear just like that. It's going to have repercussions." The ECB's [December decision](#) to recalibrate the terms of its targeted longer-term refinancing operations (TLTRO III) not only helps provide funding access and lower lending rates, he said, it should also support bank-based monetary policy transmission at a time when lenders are having to cope with increasing levels of non-performing loans.



**EXCHANGE RATE**

Kazaks repeated ECB president Christine Lagarde's assertion that policymakers are closely monitoring the euro exchange rate and stand ready to adjust all policy tools as appropriate, starting, he added, with the communication channel.

Asked whether any further adjustments in the policy package can be expected over the coming months, Kazaks, who spoke to MNI via video link on Dec. 29, said it was time to let the already-announced measures take effect, coupled with the fiscal support offered via the EU's Next Generation programme. "Then we'll see," he added.

"There are still plenty of options available," he said. "Both with respect to the current instruments, but also regarding the Covid crisis. The most important thing is that it's data-driven, we act when it's necessary, and we can fine tune [the policy package] at any time if it's needed."

Looking ahead to the outcome of the ECB's strategic monetary policy review, Kazaks said he hoped for a clearer picture of how both the crisis and its aftermath will unfold before the final report is published.

**INFLATION TARGET**

"By and large we have two stories that overlap," he said. "One is the Covid-inflicted hardships, and the other one is what comes after that. The latter is very much about the inflation target, which is continuously on our agenda but will again become more dominant in a post-Covid situation.

"We shall need to discuss what would be the measures, what would be the instruments, how we would be acting in those future post-Covid conditions. But we should not pre-commit ourselves at the current moment with too specific measures at very specific moments in time, because we should remain data dependent. We should remain open minded in terms of the instruments that we are to use. So the strategy review is appropriate to look at this in a comprehensive way."