# ECB Preview: February 2023

**Contents**



## Details:

**Monetary policy decision: 13:15BST/14:15CET, Thursday 2 February 2023**
**Press conference: 13:45BST/14:45CET, Thursday 2 February 2023**

## Expected links:

Monetary Policy Decisions:
https://www.ecb.europa.eu/press/govcdec/mopo/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):

**With 50bp Fully Priced For February, Focus Shifts To The March Meeting**

- The ECB is set to hike policy rates by 50bp at the February meeting – a position that has now been well telegraphed and fully priced by the market.
- There is unlikely to be any surprise policy innovation beyond some technical details on how QT will be implemented.
- Markets will look for any clues on the March policy rate decision and we believe it more likely than not that Lagarde will hint at a similar sized hike at that meeting.

There are unlikely to be any surprise policy innovations in the February meeting. The prospect of a further 50bp policy rate hike has been well telegraphed, while the bulk of the announcement on QT came at the December meeting and the next update to staff macroeconomic projections will be in March. The official communication will take centre stage, with President Lagarde likely to maintain a hawkish posture, even if she steers clear of future explicit guidance on the policy rate path.


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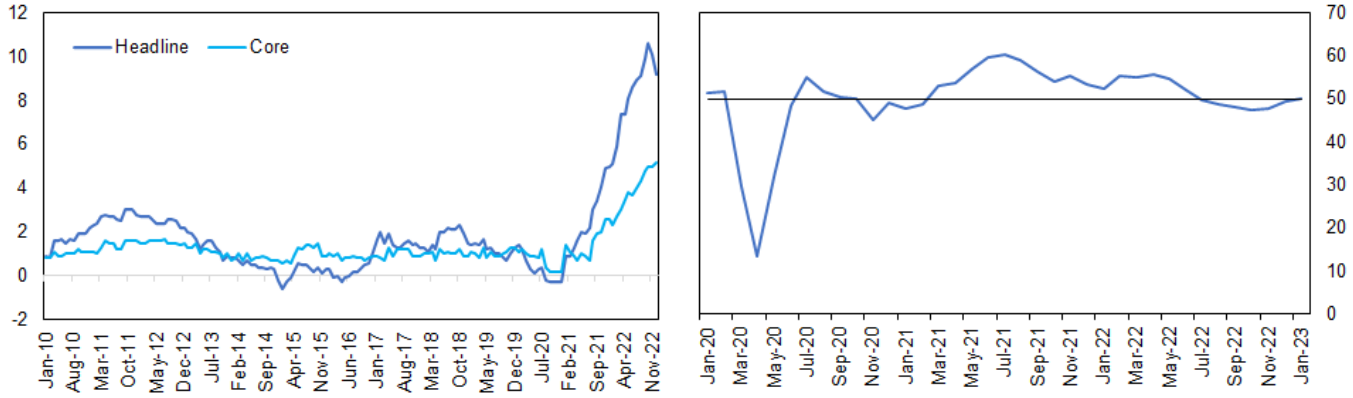
As we highlight below (see ECB Communication: The Detail), GC members appear united in backing a further 50bp hike in March – either explicitly or implicitly. There does not appear to be any dissenter calling for a smaller or larger hike. Markets will instead be focused on whether President Lagarde provides any firm signals on the March policy rate decision.

Headline inflation has dipped back into single digit territory, but remains a long way from target, while core inflation has proven resilient. In addition, the economy has fared better than expected and there are no obvious signs of a looming severe or prolonged recession. Even if headline inflation continues to edge lower in the coming months, it will take some time for a return to target and in the meantime the risk of inflation expectations becoming unanchored would remain.

As such, a slowdown in the pace of tightening from March would seem premature and certainly not something that the ECB would want to signal at this stage. This would otherwise require very strong conviction on an improving trend for headline and core inflation. Instead, the two most likely options for the ECB would be to guide markets towards another 50bp hike in March by indicating that the current pace of tightening will be maintained, or for greater flexibility the ECB could just vaguely assert that it will 'stay the course'. We think that the former is more likely given how far inflation remains from target and considering the core inflation has yet to stop rising.

**Fig 1. Eurozone Inflation % Y/Y (LHS) & Eurozone Composite PMI (RHS)**




*Source: MNI, Bloomberg*

On the QT front, we do not expect any major new policy announcements given that the main parameters were unveiled in December. At the last meeting the ECB indicated that beginning in March 2023 the APP portfolio will decline at a "measured and predictable pace' of EUR15bn/month on average until the end of Q223. Given that various GC members have indicated that QT should be as 'boring' as possible and effectively run in the background, and with the lack of any new developments to suggest altering the current course, there is no obvious need to materially adjust the parameters set out in December. It would also seem far too early to provide any additional guidance for the pace of QT in the second half of the year. However, the ECB could provide additional information on how the capital key will guide balance sheet run off and how the process will be implemented across the various programmes (CSPP, PSPP, ABSPP, CBPP3). We concur with the analysts below who argue that the ECB will want to give itself maximum flexibility in order to affect a smooth normalisation of the balance sheet.

**Baseline Scenario:** The ECB hikes by 50bp as signalled. We expect Lagarde to indicate that the current pace of tightening will be maintained in March, but no further signals will be provided for beyond then.

**Hawkish Scenario:** In addition to hiking by 50bp in February, Lagarde indicates that the 50bp hiking pace will be maintained through at least March. Lagarde stresses that despite the recent improvement in headline inflation, a return to target remains someway off and requires further sustained policy action to push rates into sufficiently restrictive territory.

**Dovish Scenario:** The ECB still hikes by 50bp but distances itself from speculation that this pace will be maintained in March, which would implicitly open the door to a slowdown towards 25bp.

# mni Central Bank Watch - ECB

30 January 2023

## 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 | 9.2 | 10.0 | ↓ | 8.6 | ↑ | | | | | 1.11 |
| Core Inflation | % y/y | 5.2 | 4.8 | ↑ | 3.7 | ↑ | | | | | 1.21 |
| Oil Prices | $ | 85.9 | 88.0 | ↓ | 114.8 | ↓ | | | | | -0.97 |
| 5y/5y Inflation Swap | % | 2.34 | 2.02 | ↑ | 2.06 | ↑ | | | | | 1.22 |
| **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 | 50.2 | 47.3 | ↑ | 49.9 | ↑ | | | | | -0.79 |
| Industrial Production | % y/y | 2.0 | 2.8 | ↓ | 1.6 | ↑ | | | | | 0.18 |
| Business Climate Indicator | Index | 0.54 | 0.81 | ↓ | 1.44 | ↓ | | | | | -1.13 |
| Consumer Confidence | Index | -20.9 | -27.5 | ↑ | -27.0 | ↑ | | | | | 1.43 |
| **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 | 0.6 | 5.6 | ↓ | 7.2 | ↓ | | | | | -2.26 |
| Broad Money (M3) | % y/y | 4.1 | 6.3 | ↓ | 5.8 | ↓ | | | | | -1.84 |
| Loans to Non-Fin Corps | % y/y | 5.5 | 8.0 | ↓ | 6.0 | ↓ | | | | | -1.11 |
| Loans to Households | % y/y | 3.8 | 4.4 | ↓ | 4.6 | ↓ | | | | | -1.71 |
| **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 | -2.8 | -1.4 | ↓ | 1.1 | ↓ | | | | | -0.98 |
| Unemployment Rate | % | 6.5 | 6.7 | ↓ | 6.7 | ↓ | | | | | -1.41 |
| Labour Costs (Quarterly) | % y/y | 2.9 | 2.5 | ↑ | 0.7 | ↑ | | | | | 0.41 |
| Employment (Quarterly) | % y/y | 1.8 | 2.4 | ↓ | -1.5 | ↑ | | | | | 0.19 |
| **Markets** | | **Current** | **3m ago** | **3m Chg** | **6m ago** | **6m Chg** | **2Y History** | **Hit / Miss** | **Vs Trend** | **Surprise Index** | **Z-Score** |
| Equity Market | Index | 4152 | 3318 | ↑ | 3455 | ↑ | | | | | -0.31 |
| Bund Yield | % | 2.29 | 2.11 | ↑ | 1.34 | ↑ | | | | | 1.48 |
| 10y BTP Spreads | % | 188.0 | 241.1 | ↓ | 192.8 | ↓ | | | | | -0.01 |
| EUR TWI | Index | 122.56 | 117.35 | ↑ | 119.78 | ↑ | | | | | 1.67 |

Source: MNI, Bloomberg

## Summary of Analyst Views

- Analysts unanimously expect a 50bp hike in February in line with the communication from GC members and market pricing.
- Most analyst expect the pace to be maintained at 50bp in March, while estimates of the terminal rate range from 3.00-3.75%.
- No material QT announcements are expected beyond some technical indications on how the programme will be implemented with analysts expecting the ECB to allow itself some additional flexibility.

## Analyst Views

**Barclays**

- Given the strength of core inflation and resilience of the economy, the ECB is expected to hike policy rates by 50bp at the February meeting.
- As this is widely expected, the focus of the meeting will be on future policy rate signals and any further details on QT.
- Barclays expects the ECB to stop reinvesting maturing private sector assets in the APP between March and June, while also scaling down PSPP reinvestments.
- While Barclays forecasts a further 50bp hike in March, they note that a smaller 25bp move cannot be ruled out.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**Bank of America**

- The ECB will hike all policy rates by 50bp at the March meeting and reiterate that its December message is consistent with at least another 50bp hike in March.
- BofA targets a terminal rate of 3.5% in June with risks tilted to the upside.
- While BofA does not expect any hawkish surprises with respect to QT, they do expect some indication that while the APP could be reduced proportionally, initially across different programmes over time, CSPP will play a more significant role.
- The official communication delivered at the February meeting could mark an upside surprise, which could include a signal that rate hikes will extend until the end of the summer, or a signal that the 50bp hiking pace could extend beyond March.

**BNP Paribas**

- With a 50bp hike at the February meeting appearing to be a done deal, the most interesting aspect of this week's meeting will be the prospect of any signals on the March policy rate decision.
- Ultimately BNP expects a further 50bp hike in March.
- Technical details on the parameters for reducing the APP holdings could include the ECB giving itself a fair amount of flexibility in its reinvestment policy such as short-term deviations from the capital key and market neutrality.

**Commerzbank**

- A 50bp hike at the February meeting should be a done deal. Commerzbank note that by their count 13 of the 18 voting Council members have already explicitly called by a 50bp hike.
- An announcement on QT could include the reduction in different portfolios or flexibility with the respect to the timeline.
- A further 50bp hike is likely in March, but the ECB is likely to slow the pace of hikes to 25bp in May.
- Upon reaching a terminal rate of 3.25%, the ECB will probably leave rates unchanged for some time. Commerzbank believe it is unlikely that there will be rate cuts later in the year.

**Danske Bank**

- A 50bp hike in February has been well telegraphed and markets will be focused on guidance for further hikes beyond then.
- With underlying inflation only to return to 2% in 2024, President Lagarde will send hawkish signals for further tightening. More specifically, Danske expects Lagarde to indicate that there will be at least one more 50bp hike in March with a slowdown in the pace of tightening only coming after March.
- Following the 50bp hike in February, Danske expects another 50bp hike in March followed by 25bp in May, which would take the deposit rate to 3.25%. Furthermore, they see risks of further hikes beyond 3.25%.
- The ECB will want to make the QT process as 'boring' as possible and will opt for a broadly proportionate implementation of the APP reinvestments across asset classes and jurisdictions.
- Moreover, Danske expects the ECB to reinvest maturing bonds in the WAM of the asset class/portfolio where the given bond falls due, therefore not actively shortening the WAM of the APP portfolio. The exception to this will be the ECB favouring green bonds over conventionals.

**Goldman Sachs**

- Given persistent inflation pressures and recent hawkish communication, GS believes that a 50bp hike in February is a done deal.
- More constructive commentary on the economic outlook is expected given recent data, lower gas prices and China's reopening. The outlook for inflation is more mixed.
- President Lagarde will reiterate that the ECB will "stay the course" with respect to policy normalisation and that rates need to rise into restrictive territory.
- GS forecasts another 50bp hike in March and a final 25bp hike in May, which would take the deposit rate to 3.25%.

**HSBC**

- A 50bp hike remains the base case for the February meeting.
- The focus at this week's meeting will be on rate guidance beyond February and specifically whether the "steady pace" and "significant" rate rise terminology will remain.
- Despite some reports of a smaller 25bp move in March, HSBC believes that the ECB will want to avoid signalling a slowdown in March.
- HSBC instead expects another 50bp hike in March before the ECB pauses.
- The ECB should announce that QT will take place according to the capital key and could also raise the possibility of greening the portfolio. The ECB is not expected to announce the pace of QT beyond Q2 before March and HSBC believes that it will maintain the same pace in H2.

**ING**

- The ECB will deliver a 50bp hike at the February GC meeting and ING notes that there has not been a single ECB member on record with a dissenting view.
- As long as core inflation remains high and the core inflation forecasts are above 2%, the ECB will continue hiking rates.
- ING believes that market expectations for ECB rate cuts in 2024 are premature.

**J.P. Morgan**

- The ECB is almost certain to hike by 50bp at the February meeting, as well as providing additional details on quantitative tightening.
- While JPM believes that the GC could signal a further 50bp hike in March, a clear signal beyond that is unlikely. The next expected move is a 25bp hike in May, which for JPM marks the end of the current hiking cycle.
- While a decision on the QT pace in Q322 is unlikely at this stage, the ECB could indicate at the February meeting how it will manage uneven maturities and prevent shifts in the capital key allocation of holdings.

**Morgan Stanley**

- Given that in December President Lagarde pre-announced a 50bp hike in February, rates guidance for the March meeting and beyond will be the main focus.
- MS expects the ECB to hike by an additional 50bp in March and will slow the hiking pace to 25bp in May, which would take the deposit rate to a terminal level of 3.25%.
- At the February meeting the ECB could announce more details on how the decline in reinvestments will be distributed between the different APP programmes and jurisdictions. Guidance on tapering through 2023 is likely to be general.
- Looking further ahead, MS forecasts two 50bp cuts in Q224 at the forecast meetings, followed by one 25bp cut at the end of 2024. This is underpinned by the view that the euro area economy will grow below potential in 2024 with commensurate implications for the inflation outlook.

**NatWest**

- A 50bp hike in February is a done deal, while the decision on whether to hike by another 50bp in March or slow the pace to 25bp will depend on the January inflation print.
- In the absence of a clear downside surprise in inflation, NatWest expects the ECB to opt for another 50bp hike in March.
- The base case scenario targets a terminal rate of 3.0% with risk to the upside.
- The ECB is not expected to change its hawkish communication before March at the earliest.
- With respect to QT, NatWest expects all programmes to be unwound with some flexibility with the capital key used for guidance.

**Nomura**

- The ECB is expected to hike policy rates by 50bp at this week's meeting.
- Nomura expected a further 50bp hike in March and targets a terminal rate of 3.50%.
- On the issue of QT, the ECB is expected to provide details on the portion of APP portfolio redemptions which will be reinvested. The ECB will likely allow itself some flexibility with respect to reinvestment as it has done with PEPP.
- President Lagarde is expected to maintain a hawkish stance during the press conference, particularly if markets price in fewer rate hikes following the publication of the flash January headline CPI.

**SEB**

- With expectations aligned for a 50bp hike in February and the ECB outlining the QT plans in December, the focus at this week's meeting will be on signals for the next meeting in March.
- SEB sees two scenarios. The ECB could adopt a hawkish stance by indicating that another 50bp hike will be coming in March, which would suggest further hikes thereafter. Alternatively, a softer stance would involve President Lagarde emphasising data-dependency and the meeting-by-meeting approach, which could increase prospects for a smaller 25bp move in March.
- SEB believes that the ECB will opt for the hawkish option and they expect 50bp hikes in February and March, followed by a 25bp hike in May, which would take the deposit rate to a peak of 3.25%.

**Société Générale**

- The ECB will hike by 50bp in February and President Lagarde will remain hawkish by trying to talk up rates.
- A further 50bp hike is expected in March before the ECB slows the pace of tightening to 25bp. Société Générale expect a terminal rate of 3.75% to be reached by July.
- The pace of AT is expected to pick up slightly by the end of 2023 with full PEPP reinvestments to end by mid-2024. No significant deviations from the capital key or maturity structures are expected apart from discretionary allowances to average flows over time.

**Swedbank**

- The ECB is expected to hike all policy rate by 50bp at the February meeting.
- This will be followed by three 25bp hikes in March, May and June.
- Swedbank believes that policy rates above 3% are sufficiently restrictive. Furthermore, they expect the ECB to begin cutting rates early next year with 125bp of cumulative cuts by end-2024.
- However, should inflation decline faster than expected or signs of weaker economic growth emerge, this would spur the ECB to slow the pace of tightening and could even lead to rate cuts in March.

**TD Securities**

- The February ECB meeting should be relatively straightforward given that the GC has almost universally signalled a 50bp hike, which markets have fully priced in.
- The GC will also reiterate that QT will start in March at a pace of EUR15bn/month.
- TDS expects the press conference to be more hawkish than expected with lower headline inflation and higher growth interpreted as a medium-term upside risk to underlying inflation.
- Going forward the ECB is expected to deliver a further 50bp hike in March and May, with a final 25bp hike in June, which would take the deposit rate to a terminal level of 3.75%.

**UniCredit**

- The ECB is expected to hike by 50bp at the February meeting and will signal a similar move for March.
- Furthermore, the ECB could show a strong bias for further hikes in Q223.
- UniCredit expects the ECB to announce that the reduction of the APP portfolio will be conducted proportionately across classes and that the capital keys will guide the run-off.
- The ECB could also consider outright sales of bonds that are very close to maturity.

# ECB Communication: The Detail

**Economic Outlook**

While there remains significant uncertainty around the economic outlook owing to the challenging inflation picture and ongoing war in Ukraine, the eurozone economy has nonetheless fared better than expected.

Luis de Guindos warned on December 27 that the euro area faces a:

> "very difficult economic situation"

And that:

> "The high inflation rates that we are seeing across Europe are coinciding with an economic slowdown and low growth."

Nonetheless, the prospect of a deep or prolonged recession was downplayed, with the eurozone instead facing a:

> "short-lived and shallow recession"

Madis Muller also suggested on December 20 that there was likely to be a

> "relatively light recession"

This sentiment was echoed by Klaas Knot who stated on December 26 that a eurozone recession would be:

> "short and shallow"

Mario Centeno struck a similarly positive note on January 17:

> "The economy has been surprising us quarter after quarter."
>
> "The fourth quarter in Europe will be most likely still positive. Maybe we'll be surprised also in the first half of the year."

François Villeroy de Galhau added on January 17:

> "The good resistance of the economy today gives us the means to raise rates in a pragmatic, reasonable way, and therefore to beat inflation"

**Inflation Outlook**

Despite a tentative stabilisation in headline inflation, a return to the inflation target remains someway off. While some GC members appear cautiously optimistic of a turning point in inflation, the more hawkish members continue to warn of a persistent overshoot that requires further normalisation.

Sounding somewhat upbeat on January 24, Fabio Panetta stated:

> "We had some good news on the inflation front, as it is likely that the supply shocks that have hit the economy in recent months are starting to reverse. We can afford to be 'anxiously optimistic', but we should be prudent and remain vigilant."

Luis de Guindos argued on December 22 that inflation will recede in 2023, while still indicating that further policy action is required:


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> "We think that over the course of the next two or three months inflation will be somewhere around its current level, then in the second quarter of next year it will see a drop to hover around 7% by the middle of the year. But that is still clearly above our price stability target, i.e. inflation of 2% over the medium term. We have no choice but to act."

> "Wages are catching up, and I think that's normal. Is it a wage-price spiral? Not at the moment. But it is very important that we don't lose our credibility, that's to say that inflation expectations do not start to become de-anchored."

François Villeroy de Galhau indicated on December 20 that it will take some time for inflation to return to target:

> "I want to say that we'll do what's necessary to bring inflation back to 2% in 2024,"

> "If there are unexpected factors that slow this down it could be 2025, but we are aiming for the end of 2024."

Meanwhile, Joachim Nagel warned on December 20:

> "Inflation is persistent. That's why we have to be more persistent."

Adding further on January 2:

> "Our monthly surveys of firms and households are showing a significant increase in long-term inflation expectations"

> "I firmly believe that we need to take further monetary policy action to halt and reverse this trend."

While stressing on January 23:

> "We will get inflation under control in such a manner that what many fear does not occur, namely that is does not come to a recession in the euro area,"

Peter Kažimír argued on January 23:

> "What's currently the most authoritative from my point of view is the core-inflation trend."

> "Its development confirms the need to continue on the path taken."

Robert Holzmann had also stated on January 11:

> "As long as core inflation isn't peaking, the change in headline inflation won't make a change in our determination."

Mārtiņš Kazāks added on January 13:

> "It is possible for core inflation to continue trending up even as headline inflation is coming down, for instance, due to swings in energy prices"

> "In my view, core inflation currently is a key gauge for inflation persistence and policy decisions."

Klaas Knot stated on January 19:

> "Core inflation has not yet turned the corner in the euro area."

And suggested that there are:

> "no signs of abating of underlying inflationary pressures"

Knot was also particularly cautious in interpreting the recent inflation data, stressing on January 22:

> "In the December data, we saw a first decline in headline inflation, but that was entirely due to base effects and lower energy inflation,"

> "We focus on core inflation where, unfortunately, there is no good news. Because it is still on the rise. Underlying inflationary pressures show no signs of abating yet."

Boštjan Vasle warned on December 20 that an economic slowdown in 2023 would not

> "significantly lower euro-zone inflation and bring it close to the 2% target soon"

And that:

> "This isn't the time to let up in our efforts to control inflation"

**Policy Normalisation**

Despite slowing the pace of policy rate tightening at the last meeting, the ECB has been keen to stress that the normalisation process is not over yet. Preside Lagarde stated on December 16:

> "We have more ground to cover, we have longer to go, and we are in for a long game"

Adding further on January 20:

> "We have to also stay that course of resilience that we observed in 2022"

And on January 23:

> "We have made it clear that ECB interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive, and stay at those levels for as long as necessary."

In response to still high inflation, Mario Centeno stated on January 10:

> "We should respond with a monetary policy that has no alternatives for its path other than to carry out the process of normalization and increasing interest rates that started at the end of 2021."

Boris Vujčić stated on January 13:

> "The ECB's response should be to continue to tighten monetary policy"

Joachim Nagel argued on December 19 for further policy rate hikes:

> "I do think that the central banks in the euro system, the ECB, we have already acted strongly in the course of the year with four interest-rate hikes now and the interest-rate hikes will continue"

And stressed that given the lag of monetary policy:

> "that's why I have to ask for patience at this point"

Madis Müller suggested on December 16 that policy rate hikes could exceed levels expected by the market:

> "…we will have to raise interest rates further in the future and probably higher than the financial markets have expected so far".

Adding further on December 20:

> "Looking at the forecast released last week, I think it cannot be said that the pace at which inflation is slowing there is sufficient"


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> "So we need to raise rates more than the market expectations that were taken as assumptions in the forecast."

Olli Rehn stressed on January 18 that further policy action was required to keep inflation expectations anchored:

> "It is necessary to continue acting consistently so that inflation expectations remain anchored."
>
> "Significant interest rate hikes in the near-term monetary policy meetings are justified in order to keep inflation expectations under control."

Isabel Schnabel argued on December 25 that the risk of a policy overaction by the ECB:

> "continues to be limited, as real interest rates are still very low"

Adding further on January 10:

> "Interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to our 2% medium-term target"
>
> "Inflation will not subside by itself,"

Pablo Hernández de Cos indicated on January 16 that interest rates would continue to be raised:

> "…until reaching levels that allow us to ensure that inflation will return to the target"

**Normalisation pace**

The tentative stabilisation in headline inflation and shift to a slower hiking pace in December has reduced the probability of 75bp hikes in the near future, with 50bp hikes now becoming the new baseline for the hawks. Communication on the normalisation pace ranges from those using the vague language of raising rates "significantly" and President Lagarde's 'staying the course' mantra, to those explicitly calling for additional 50bp hikes.

Pablo Hernández de Cos indicated on January 11:

> "We plan to continue increasing interest rates significantly in the next meetings"

Olli Rehn similarly stated on January 16:

> "We will stay the course. Ceteris paribus, this means significant rate hikes in the following meetings"

Boris Vujčić commented on January 13:

> "I won't speculate if 50 basis points will be the right measure, but I can say that, once we have reached the 50 basis points path, it's a reasonable path to expect"

Mario Centeno stated on December 16:

> "A return to a 75 basis-point increase is an event with a very low probability taking into account the projections that we have"
>
> "As we decide meeting by meeting and based on data, nothing is decided — not even for February,"
>
> "But if the numbers we have on the table are confirmed, it is very likely, almost as likely that there will be a rate hike in February identical to the one we just decided"

Mārtiņš Kazāks suggested on January 3:

> "In the next two meetings I think we can still do quite large steps"
>
> "Of course the steps may become smaller as necessary as we find the level appropriate to bring the inflation down to 2%."
>
> "Currently I would see that at the February and March meetings we will have significant rate increases"

Madis Müller implied on December 20 that the 50bp hike should be maintained:

> "We've given a clear message that in the next meetings interest rates need to continue to be raised significantly and at a steady pace, meaning that we should not reduce the speed of rate hikes"

Joachim Nagel meanwhile stated on December 20 that the previous week's 50bp hike was:

> "robust""

And

> "From today's perspective, more robust steps need to follow"

Luis de Guindos argued on December 19:

> "We have to take additional measures to increase interest rates at a speed similar to that of this last 50 basis-point increase"

Further adding on December 22:

> "First, increases of 50 basis points may become the new norm in the near term. Second, we should expect to raise interest rates at this pace for a period of time. And third, our interest rates will then enter into restrictive territory. The steps we have taken so far are going to have an impact on inflation, but we still need to do more."

François Villeroy de Galhau stressed on January 5

> "We need to be pragmatic and guided by observed data, including underlying inflation, without fetishism for increases that are too mechanical."

While appearing to confirm the 50bp hiking pace on January 18

> "Let me remind you of the words of President Lagarde at her last press conference in December: We should expect to raise rates at a pace of 50 basis points for a period of time. Well, these words are still valid today."

Robert Holzmann stated on January 11:

> "Whether it will be done by another four times 50 basis points or not, it will be shown"
>
> "But quite definitely we're there to act quickly, in time and in a determined manner."

Adding on January 20:

> "We reduced the most recent rate move to 50 basis points from 75 under the assumption that we will hold this pace for a while".
>
> "My idea is that we repeat this step several times, at least in the first half of the year."

Kazimir Jan 23

> "We need to deliver two more 50 basis-point moves."


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> "The fall in inflation for two months in a row is positive news. But there's no reason to slow the pace of rate hikes."

Knot Dec 26 argued that 50bp hikes would result in:

> "quite a decent pace of tightening"

Adding more concretely on January 19:

> "Our president has already announced that most of the ground that we have to cover we will cover at a constant pace of multiple 50 basis-point hikes"
>
> "So we will continue that at a steady pace. Based on the information that we have available today, that predicates another 50-basis-point rate hike at our next meeting, and possibly at the one after that, and possibly thereafter, but everything will also be determined by the review of data. So don't assume that it's a one-shot 50; it's more than that."
>
> "It will not stop after a single 50 basis-point hike — that's for sure."
>
> "Core inflation has not yet turned the corner in the euro area."

Knot further stated on January 22:

> "We made a step down in December from 75 to 50 basis points — that will be the pace for a multiple number of meetings"
>
> "So that means at least the two in February and March."
>
> "I do think that we will continue to be in tightening mode until the summer."

And argued that during the first half of the year, risks to the inflation outlook would become more balanced and that:

> "would also be a time in which we could make a further step down from 50 to 25 basis points."
>
> "But we are still far away from that. I want to re-emphasize that this is not in sight for the upcoming meetings."

Stournaras' comments were somewhat more dovish on January 23:

> "The adjustment of interest rates needs to be more gradual, taking into account the slowdown in euro area economic growth, taking into account the smooth transmission of monetary policy in each country of the euro area."

**Restrictive Territory & The Terminal Rate**

While most GC members continue to steer clear of estimating the terminal rate, there are now notably more voices arguing that policy rates will need to enter restrictive territory in order to return inflation to target.

Madis Müller stated simply on December 20:

> "It's important that we reach levels that are sufficiently restrictive."

While Olli Rehn argued on December 16:

> "Interest rates will still have to rise significantly to reach levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% medium-term target"


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> "Raising interest rates to restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations"

Pablo Hernández de Cos suggested on January 11 that policy rate hikes will continue:

> "…until reaching sufficiently restrictive levels to ensure that the inflation returns to the 2% target over the medium term"

President Lagarde stated on January 19:

> "We shall stay the course until such time when we have moved into restrictive territory for long enough so that we can return inflation to 2% in a timely manner"

Kazaks argued on January 13 that borrowing costs should rise

> "well into restrictive territory."

And dismissed the idea of cutting policy rates this year:

> "It would take a deep recession with a sizable jump in unemployment for inflation to sink and thus push for rate cuts"
>
> "But that is not likely, given the current macro outlook."

With respect to the terminal rate, François Villeroy de Galhau stated on January 5:

> "It would be desirable to reach the right 'terminal rate' by next summer, but it is too early to say at what level"

Adding on January 11:

> "By the summer we need to have reached what specialists call the terminal rate, which is the rate that will effectively bring inflation back toward 2%."

Commenting on December 16, Olli Rehn indicated that he is:

> "not fully convinced"

that market-implied pricing of a terminal rate around 3% by the end of 2023 would be high enough.

**Quantitative Tightening**

There has been little in the way of additional commentary on quantitative tightening, with the most notable being Klaas Knot's comments from January 22 in which argued that he expects the:

> "impact to be limited which would allow us to gradually increase the €15 billion to ultimately €26 billion."
>
> "I also think we should go there cautiously and gradually, because we have never done it before."


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# ECB Inter-Meeting Communication

| Date | Time | Speaker | Event |
|---|---|---|---|
| 16/12/2022 | 09:00 | Robert Holzmann | Presentation of the Austrian National Bank's economic forecasts in Vienna. |
| 16/12/2022 | 11:00 | Mario Centeno | Press conference for the presentation of the Bank of Portugal's December economic bulletin. |
| 16/12/2022 | 11:30 | Klaas Knot | Speech in Amsterdam. |
| 19/12/2022 | 08:00 | Luis de Guindos | Speech at the Nuevo Economía Forum in Madrid. https://www.nuevaeconomiaforum.org/eventos/luis-de-guindos-4 |
| 19/12/2022 | 08:00 | Gediminas Šimkus | Presentation of Lithuanian economic forecasts in Vilnius |
| 20/12/2022 | 09:00 | Peter Kažimír | Presentation of economic forecasts for Slovakia in Bratislava |
| 20/12/2022 | 09:00 | Madis Müller | Speech in Tallinn. |
| 22/12/2022 | | Luis de Guindos | Interview with Le Monde conducted by Éric Albert on 15 December and published on 22 December https://www.ecb.europa.eu/press/inter/date/2022/html/ecb.in221222~54ec2a74e3.en.html |
| 24/12/2022 | | Isabel Schnabel | Interview with Frankfurter Allgemeine Zeitung conducted by Gerald Braunberger and Christian Siedenbiedel on 16 December 2022 https://www.ecb.europa.eu/press/inter/date/2022/html/ecb.in221224~633aa8f002.en.html |
| 27/12/2022 | | Luis de Guindos | Interview with Spanish Confederation of Young Entrepreneurs' Associations (CEAJE) conducted on 16 December 2022 https://www.ecb.europa.eu/press/inter/date/2022/html/ecb.in221227~9f563af0f7.en.html |
| 31/12/2022 | | Christine Lagarde | Interview with Jutarnji List conducted by Marina Klepo on 19 December 2022 https://www.ecb.europa.eu/press/inter/date/2022/html/ecb.in221231~16c85cd5a3.en.html |
| 06/01/2023 | 10:35 | Mario Centeno | Speech at a conference organized by newspaper Expresso in Lisbon. https://expresso.pt/sociedade/2023-01-04-Marcelo-Mariana-Vieira-da-Silva-Guterres-Centeno-Dino-e-RAPna-Conferencia-dos-50-anos-do-Expresso-d9884e9e |
| 06/01/2023 | 16:15 | Philip Lane | Presentation by Philip R. Lane, Member of the Executive Board of the ECB, in panel discussion "Global Economic Outlook" organised by the National Association for Business Economics (NABE) at 2023 ASSA Annual Meeting, New Orleans https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230106~1729730341.en.pdf?019faea1352ad8e9034150c002c21305 |
| 10/01/2023 | 10:10 | Isabel Schnabel | Speech by Isabel Schnabel, Member of the Executive Board of the ECB, at the International Symposium on Central Bank Independence, Sveriges Riksbank, Stockholm |


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|---|---|---|---|
| | | | https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230110~21c89bef1b.en.html |
| 10/01/2023 | 15:35 | Pablo Hernández de Cos & Klaas Knot | Speech at Sveriges Riksbank event in Stockholm |
| 10/01/2023 | 16:30 | Mario Centeno | Parliamentary hearing in Lisbon. |
| 11/01/2023 | 08:35 | Robert Holzmann | Speech "Challenges for Monetary Policy" at a euromoney conference in Vienna. https://custom.cvent.com/15D3DB3BF65342FCB902F7924267A693/files/event/8bb3d23384ac453195c529abb3c770c7/daf78bf4b01c4b1485f1cd986f9e1fad.pdf |
| 11/01/2023 | 10:00 | François Villeroy de Galhau | Speech at the French Senate's Finance Committee |
| 11/01/2023 | 14:00 | Olli Rehn | - |
| 11/01/2023 | 19:15 | Pablo Hernández de Cos | Speech in Madrid. https://www.bde.es/bde/en/secciones/prensa/Agenda/pablo-hernandez-de-cos--xiii-edicion-del-spain-investors-day.html |
| 12/01/2023 | 09:00 | | ECB Economic Bulletin |
| 16/01/2023 | 18:00 | Pablo Hernández de Cos | Speech in Madrid |
| 17/01/2023 | | Philip Lane | Interview with the Financial Times conducted by Martin Wolf on 12 January 2023 https://www.ecb.europa.eu/press/inter/date/2023/html/ecb.in230117~1ab0df6f3d.en.html |
| 17/01/2023 | 07:30 | Mario Centeno | Participation in World Economic Forum discussion "Staying Ahead of a Recession" https://www.weforum.org/events/world-economic-forum-annual-meeting-2023/sessions/driving-out-the-coming-recession |
| 17/01/2023 | 09:15 | Madis Müller | Speech at HR conference in Estonia |
| 18/01/2023 | 09:15 | François Villeroy de Galhau | Participation in World Economic Forum discussion "Banking in the Eye of the Storm" https://www.weforum.org/events/world-economic-forum-annual-meeting-2023/sessions/banking-in-the-eye-of-the-storm |
| 18/01/2023 | 12:15 | François Villeroy de Galhau | Participation in World Economic Forum discussion "The Role of Finance in a Recovery" https://www.weforum.org/events/world-economic-forum-annual-meeting-2023/sessions/benefiting-from-hindsight-the-role-of-finance-in-a-recession |
| 19/01/2023 | 10:30 | Christine Lagarde | Participation in a World Economic Forum panel in Davos |
| 19/01/2023 | 12:30 | | ECB Publishes Account of December 2022 Policy Meeting |
| 19/01/2023 | 14:00 | Klaas Knot | Participation in World Economic Forum discussion "Finding the Right Balance for Cyrpto" https://www.weforum.org/events/world-economic-forum-annual-meeting-2023/sessions/finding-the-right-balance-for-crypto |


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| | | | |
|---|---|---|---|
| 20/01/2023 | 10:00 | Christine Lagarde | Participation in a World Economic Forum panel in Davos |
| 23/01/2023 | 10:45 | Boris Vujčić | Speech in Zagreb |
| 23/01/2023 | 13:30 | Ignazio Visco | Speech in Rome |
| 23/01/2023 | 14:30 | Fabio Panetta | Speech in the European Parliament on the digital euro. https://www.europarl.europa.eu/committees/en/exchange-of-views-with-fabio-panetta-mem/product-details/20230116CAN68395 |
| 23/01/2023 | 16:00 | Robert Holzmann | Book presentation organised by OeNB: : |
| 23/01/2023 | 17:45 | Christine Lagarde | Speech "New challenges in a changing world" at the Deutsche Börse Annual Reception in Eschborn https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230123_1~2d9786eedf.en.html |
| 24/01/2023 | | Fabio Panetta | Interview with Interview with Handelsblatt conducted by Andreas Kröner, Jan Mallien and Frank Wiebe https://www.ecb.europa.eu/press/inter/date/2023/html/ecb.in230124~f50d72e488.en.html |
| 24/01/2023 | 08:10 | Klaas Knot | Speech at the Future of the Financial Sector conference in Frankfurt. |
| 24/01/2023 | 09:00 | Boris Vujčić | Participation in the panel `The Euro as a Guarantee of Resilience' in Zagreb |
| 24/01/2023 | 09:45 | Christine Lagarde | Video message for the panel `The euro as  a guarantee of resilience' at conference in Zagreb |
| 30/01/2023 | 13:15 | François Villeroy de Galhau | Speech at a climate conference |

# MNI Policy Team

MNI SOURCES: ECB Doves Eye Smaller Hikes As Inflation Falls 11 January 2023

(MNI) London - While 50-basis-point rate increases are set to be the starting point for discussion at the next two European Central Bank meetings at least, more dovish officials are prepared to seize on an expected slide in headline inflation from the spring to argue for a slowdown in the pace of tightening, Eurosystem officials told MNI.

Base effects and easing energy prices could take harmonised consumer price inflation to as low as 2.7% by the end of the year, below the ECB's current 3.6% projection, according to one source, while noting that core inflation is set to prove stickier, and that the Ukraine war and the effect of China's reopening from Zero Covid policies could still provide upside shocks.

Slowing headline price increases should take pressure off wage demands, though hawkish officials who insist that more significant tightening will be necessary to reduce inflation to the 2% target will be able to point to easing concerns over recession as energy prices fall back. One prominent hawk, Austria's central bank governor Robert Holzmann, said on Wednesday that core prices had yet to peak and that rates still had some distance to rise, while another source saw a shift down to 25bp hikes only possible from around mid-year. (See MNI INTERVIEW: Need Strong ECB Hikes For Early CPI Win -Kazaks)

***LAGARDE'S 50-POINT GUIDANCE***

But more dovish officials expressed discontent with ECB President Christine Lagarde's explicit December guidance for rates to increase at a 50-point tack several times more.

"We knew that she was going to say that, but we would have preferred a less aggressive tone," one official said, stressing that the ECB's stance could still change if the data changes.

"We have a meeting-by-meeting approach. While we have a base case scenario, 50 points, that could change with new data, new information."

Another official noted that doves will see lower inflation readings as an opportunity.

"Once we get past the peak in headline, I think that the balance of power between the hawks and doves shifts a little bit," the official said. "As long as the headline is up around 10% the hawks can just keep banging away at it, but once we see that falling to 7% or 6% - even if core remains quite robust at 4 or 5 say – at that point I think that the argument that the hawks can just keep pushing is going to get weaker."

While a change in the centre of gravity within the Governing Council would not mean an end to hikes, it would mean that "the relentless hawk push is going to be harder to sustain," the source said.

***QT CONCERNS***

Doves are also alive to the effect of quantitative tightening, via the reduction in reinvestments of the ECB's stock of assets, which is initially set at EUR15 billion per month from March.

"Maybe it would have been good to have some communication on QT, on that the impact will be monitored and that could influence rates, but not everyone sees it this way," a source said. "We think that QT has an impact on monetary policy, therefore on rates, even if we make clear that rates will remain as the main instrument. That would allow some optionality, and would make the message much easier to understand."

Headline inflation fell to 9.2% last month, and could dip to 6-8% by March or April, officials suggested. Core inflation hit 5.2% in December and is projected to be still above target, at 2.4%, in 2025. The hardest part of the inflation battle might be getting it down to the 2% target from levels around 3%, said another source, a former senior official.

“We are expecting bad numbers for January and February, so the big question is where are we are at the end of March and the beginning of April? It would be great to see in March that the numbers are softening,” one official said.

So far officials are pleased with how markets have responded to their messaging, with investors pricing in a peak deposit rate of about 3.4% by July, but several sources said communications would become more challenging if a reduction in inflation coincides with higher unemployment and sluggish growth, even if the eurozone as a whole avoids outright technical recession.

“Markets already assume [an economic] slowdown,” a source said, adding “We might have in the end to overshoot.”

An ECB spokesperson declined to comment.

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**MNI INTERVIEW: ECB Communications Errors Risk Market Selloff** **27 January 2023**

*By Luke Heighton*

(MNI) LONDON - (Corrects Stefan Gerlach's status in the Governing Council)

The European Central Bank must make its language clearer if it is to retain the confidence of markets, a former attendee at Governing Council meetings told MNI, warning that communication errors could prompt a blowout in peripheral bond spreads if rates continue to rise steeply.

December’s guidance by President Christine Lagarde suggesting at least two half-point hikes to come after that month’s increase by the same amount was inconsistent with the Governing Council’s stated commitment to data-dependency, former Central Bank of Ireland deputy governor Stefan Gerlach said in an interview.

“It’s contradictory to say that ECB will be driven by the data, but then say that it will raise rates three times by 50 basis points. There is, plainly, concern among financial market participants about the inconsistencies in [Lagarde's] communication,” Gerlach said.

His remarks chimed with recent comments by Executive Board member Fabio Panetta, but Gerlach said that Governing Council doves are unlikely to contest the current "draconian" rate path until new Eurosystem staff growth and inflation projections are available in March.

“They have said so much now that they essentially have to continue to raise rates by 50 basis points [from December to March]. Anything else will look as if they are backtracking and will further erode credibility. So it’s unsettling when policy is managed according to a constraint on policy you yourself set previously.

***MARCH PROJECTIONS KEY***

“The projections in March will be very important,” he continued. “If they are weak, they offer the ECB an opportunity to backtrack on Madame Lagarde’s pre-announced course, and conversely if they are strong.” (See MNI SOURCES: ECB Doves Eye Smaller Hikes As Inflation Falls)

December also saw the ECB decide to reduce reinvestments from its asset purchase programme by EUR15 billion per month from March 2023, with a detailed announcement on how the bank will shrink its balance sheet set for next week.

However Gerlach - now Chief Economist at EFG Bank in Zurich - doubted how much more information policymakers could give, with any communications miss-step on quantitative tightening likely to have consequences for more heavily-indebted member states.

“They will have to say something, since they have promised to do it. That wasn't necessarily so wise. This is, I think, in many ways a more important announcement than the interest rate announcement on its own,” he said. “I am worried what could happen to bond yields in the periphery of Europe if it is communicated badly or is seen as too rigid by the markets. That is a key issue.”

One option would be to announce the Council’s intention to reduce its corporate debt holdings. Another, though not important for monetary policy, would be to redirect reinvestments from the stock of its remaining debt into green bonds, Gerlach said.

“Central banks can always say that they do not want to hold much private debt on their balance sheets. This is for the markets to deal with. What they strategically would need to signal is that they are not going to be selling Italian, Portuguese, Spanish government bonds into a weakening market. We will see how it is phrased. This is one of the things that I worry was not well thought through.”