mni

All Signal, No Noise

MARKET ANALYSIS

ECB Preview: September 2020

Contents

Details:

Monetary policy decision: 12:45BST/13:45CET, Thursday 10 September 2020

Press conference: 13:30BST/14:30CET, Thursday 10 September 2020

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>

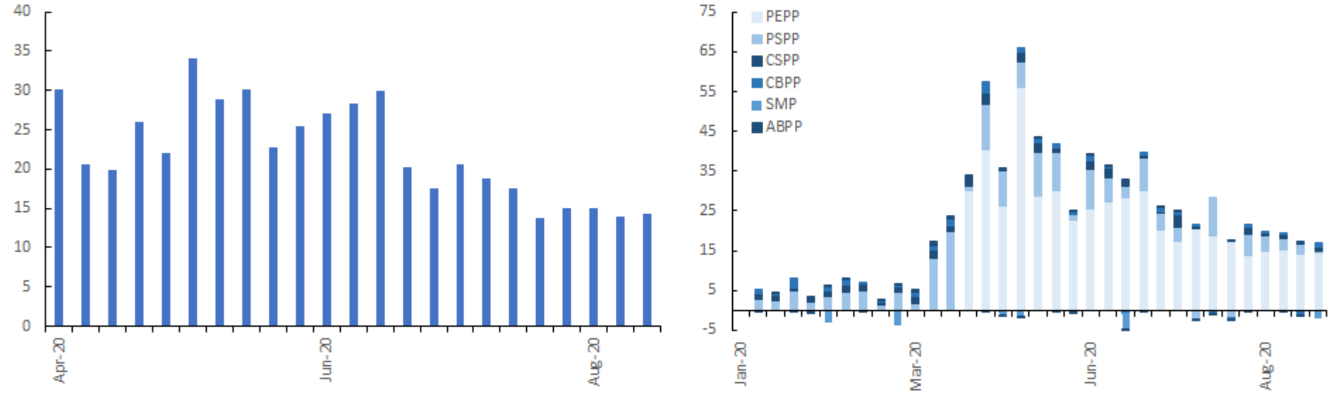
MNI Point of View (POV)

Uneventful, But Still 'Live'

- No material changes in monetary policy are expected at this week's GC meeting.
- Markets will be focused primarily on the ECBs response to recent EUR strength and the Fed's adoption of AIT.
- While there may be some adjustment to the staff macroeconomic projections, provided that the baseline is still intact there will be no urgency to ease further at this stage.
- The ECB will likely need to readdress its monetary stance by end-year with PEPP being the first port of call for delivering further stimulus.

This week's Governing Council meeting should be relatively uneventful, but still 'live'. Having successfully quashed financial fragmentation risks through successive upgrades to the PEPP and with economic uncertainty still high, the ECB is likely to sit on the sidelines for now until there is more clarity on the recovery path. However, issues such as the recent EUR strength, build-up in excess liquidity and the sufficiency of the current PEPP envelope, suggest that the risks for this meeting are still tilted towards further easing.

Weekly PEPP (LHS) & Asset Purchases (RHS), EURbn



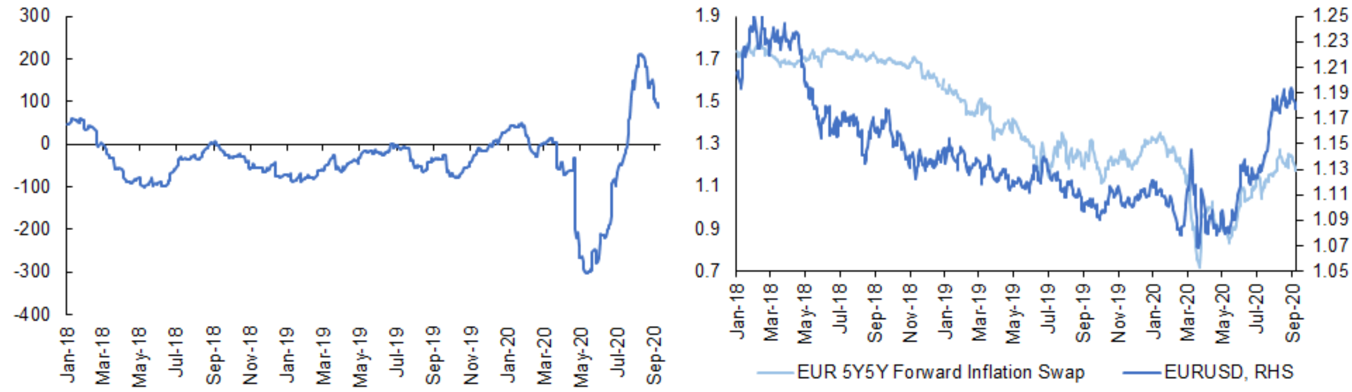
Source: MNI, Bloomberg

On the issue of euro appreciation, President Lagarde will at most resort to verbal intervention. Recent GC speakers have restressed that the ECB targets inflation, not the exchange rate, but that the currency does impact prices. In other words, while the ECB cannot deny that a stronger currency would impact the inflation trajectory, policymakers want to curb speculation that the exchange rate is a primary focus or that there is a hard level which would trigger further easing. In any case, there is perhaps little that the ECB could do at this stage. The experience of negative interest rates in the euro area has been hailed a success recently by Isabel Schnabel, but there appears to be little appetite to push further into the red. It is also not clear whether further easing via PEPP would weaken the euro given that peer central banks have similarly ramped up asset purchases.

Speculation over a rise in the tiering multiplier continues to linger, but appears to be have been downgraded in importance by the market. Given that the build-up in excess liquidity is a byproduct of the purchase programmes, an adjustment to the tiering multiplier is both warranted and likely at some point. This would represent more of a technical adjustment rather than significantly contributing to the monetary stance.

There will invariably be a lot of focus in the press conference on the Fed's recent adoption of an average inflation target. Lagarde will note the development but will not want to speculate on what this means for the ECBs strategic review, which has not been concluded. For the time being, consensus opinion still favours a formal adoption of a symmetrical inflation target. However, given the far-reaching remit of the strategic review, the difficulty in reviving inflation following an unprecedented economic shock, and the Fed's decision to change the way it meets the price stability objective, the prospect of the ECB following in the footsteps of the Fed cannot be entirely ruled out.

Eurozone Economic Surprise Index (LHS) & EURUSD Vs EUR 5Y5Y Forward Inflation Swap (RHS)



Source: MNI, Bloomberg, Citi

Looking ahead, it is more likely than not that the ECB will need to ease monetary policy further at some point. Inflation has pushed back into negative territory; economic momentum has recently appeared to wane and surging coronavirus infections in some areas threaten to trigger fresh local lockdowns at a time when the recovery is more fragile. Even with the latest expansion of the PEPP envelope, the ECB's own forecasts do not project inflation returning to target over the forecast horizon. As such, with risks still tilted to the downside, any deterioration in the baseline assumption would necessitate additional monetary accommodation. It is more likely that the ECB will readdress its monetary stance in December once there is more visibility on the recovery and the next round of staff macroeconomic projections will be available. Both an expansion and extension of PEPP would be the first response.

mni Central Bank Watch - ECB

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	-0.2	0.1	↓	1.2	↓					-2.10
Core Inflation	% y/y	0.4	0.9	↓	1.2	↓					-2.06
Oil Prices	$	40.4	35.3	↑	50.5	↓					0.42
5y/5y Inflation Swap	%	1.20	0.98	↑	1.12	↑					1.13
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	51.9	31.9	↑	51.6	↑					0.37
Industrial Production	% y/y	-12.3	-13.5	↑	-3.3	↓					-0.18
Business Climate Indicator	Index	-1.80	-1.95	↑	-0.15	↓					-0.63
Consumer Confidence	Index	-14.7	-18.8	↑	-6.6	↓					-0.15
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	13.5	11.9	↑	7.9	↑					2.39
Broad Money (M3)	% y/y	10.2	8.2	↑	5.2	↑					1.35
Loans to Non-Fin Corps	% y/y	6.5	6.0	↑	2.6	↑					0.89
Loans to Households	% y/y	3.3	3.0	↑	3.7	↓					-0.35
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	0.4	-19.3	↑	2.2	↓					-0.02
Unemployment Rate	%	7.9	7.4	↑	7.4	↑					1.89
Labour Costs (Quarterly)	% y/y	3.4	2.7	↑	2.6	↑					2.28
Employment (Quarterly)	% y/y	-3.1	1.1	↓	1.4	↓					-2.41
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	3303	3050	↑	3329	↓					-0.21
Bund Yield	%	-0.50	-0.45	↓	-0.61	↑					1.24
10y BTP Spreads	%	150.3	192.3	↓	170.9	↓					0.85
EUR TWI	Index	125.14	121.33	↑	119.36	↑					1.53

Source: MNI, Bloomberg

Summary of Analyst Views

- No change in monetary policy is expected at this week's meeting.
- The recent deterioration in inflation and euro appreciation will likely motivate some verbal intervention from the ECB. Further cuts to the deposit rate are not expected.
- Revisions to the staff macroeconomic forecasts will be minimal.
- Questions during the press conference are likely to focus on the euro rally and the ECB's response to the Fed's adoption of an average inflation target.
- An expansion and extension of the PEPP by end-year, or 2021, is widely expected.

Barclays

- The ECB is expected to leave policy unchanged at this week's meeting despite some recent data suggesting that the rebound in economic activity is running out of steam.
- There will be some attempt to talk down the euro by exhibiting an explicitly dovish stance. This could be the result of emphasising the downward bias of forward guidance and clarification on the full use of the PEPP envelope.
- Although a deposit rate cut is not expected, recent ECB speeches and the Fed's adoption of AIT suggest such a move cannot be discounted at a later stage.
- A continuation of recent economic trends would point towards additional easing by year-end through an expansion and extension of PEPP.

Citi

- The ECB will want to avoid appearing hawkish by default versus the Fed at this week's meeting.
- As such, the ECB will indicate the need for persistent monetary accommodation, its capacity to provide more accommodation, the importance of the euro for monetary policy and the need for a broad-based strategic review.
- Asset purchases will be expanded over time, but probably not before later this year.
- Citi continues to expect the ECB to adopt a symmetrical inflation target at the end of the strategic review and not follow the Fed in adopting 'flexible inflation averaging'

Danske

- The ECB will not act at this week's meeting, but will signal a readiness to do so if needed.
- Recent commentary may point to building disagreement within the GC as Chief economist Lane reaffirmed his cautious remarks, while Schnabel and Weidmann indicated that Covid-related stimulus would end once the pandemic is over.
- A stronger euro will not prompt the ECB to cut rates.
- The Fed's AIT announcement will be addressed in the press conference, but President Lagarde will not make pre-emptive conclusions of the ECB strategic review. Danske expect that the review will lead to confirmation of a symmetric inflation target.

Goldman Sachs

- Monetary policy will be unchanged at this week's meeting given the substantial easing in June, lingering economic uncertainty and mixed communication.
- Limited changes to the growth forecasts are expected. The 2020-21 inflation forecasts will be revised slightly lower while 2022 will be left unchanged.
- The ECB will acknowledge the recent appreciation of the euro, but the bar for policy action is relatively high. Verbal intervention to talk down the euro is expected.
- The ECB will stress the downside risks associated with a resurgence of Covid cases and withdrawal of fiscal support.
- Looking ahead, the APP is expected to be stepped up significantly as PEPP ends in mid-2021.

HSBC

- No policy change is expected at this week's meeting. However, given how far inflation has fallen below target, the September policy meeting is still 'live' and there is a risk of a further expansion of PEPP.
- The subdued inflation outlook could warrant an expansion of the regular APP in December when the staff macroeconomic forecasts will be extended to 2023 and the temporary EUR120bn APP envelope expires.
- Further appreciation of the EUR could prompt the ECB to consider additional modest rate cuts later in the year.

ING

- No change in policy is expected at the September meeting, but there is likely to be some focus on the recent appreciation of the euro during the press conference.
- The ECB will acknowledge the V-shaped rebound in economic activity since the easing of lockdown restrictions, but will still stress the heightened level of uncertainty. Any downward revision to the 2022 inflation forecast would increase the likelihood of additional monetary stimulus.
- Recent EUR strength could be the trigger for another downgrade to the inflation forecasts.
- Although the Fed announced a shift to average inflation targeting, no additional insights to the ECB's strategic review are expected at this week's meeting. ING still expect the ECB to move to a symmetrical inflation target, changing the definition of price stability to 'around 2%'.

JP Morgan

- No change in monetary policy is expected at this week's meeting despite new staff macroeconomic forecasts likely confirming a large and long undershoot of the inflation target.
- There is a chance of some changes to the TLTRO-III terms, but conviction on this is relatively low.
- Staff forecasts may show an upward revision to the recent GDP level and a slightly upward revision to inflation.
- At this stage the impact of the recent euro appreciation on inflation is being countered by other factors. Some verbal intervention is likely as the decision to not cut the deposit rate earlier in the year suggests that further cuts have fallen out of fashion.
- PEPP is expected to be extended again later this year.

Morgan Stanley

- Monetary policy will be unchanged at this week's meeting, but the ECB will indicate its willingness to ease further if needed.
- The ECB will continue to stress that uncertainty remains high and risks are skewed to the downside.
- Better growth prospects and higher oil prices will be offset by a stronger euro, leading to an inflation forecast that is little changed and still well below target.
- PEPP will likely be expanded and extended in 2021, with risks of an earlier top-up in December.
- Given that the recent euro appreciation has been driven by a better outlook and reduced tail risks, the exchange rate will be less of a constraint for growth and inflation. As a result, the ECB is not expected to act in response to recent strength.

Natixis

- The ECB will remain on hold at this week's meeting.
- Data suggests that the eurozone economy is recovering, but at a slower pace.
- While the appreciation of the euro has not yet got to the point where the ECB will act, verbal intervention is expected.
- Questions during the press conference will likely focus on the Fed's shift to AIT.

Nomura

- Monetary policy will be left unchanged at this week's meeting
- There is likely to be some discussion around recent inflation data and euro appreciation.
- The ECB is unlikely to act on disappointing inflation just yet. When it does, PEPP would be the preferred tool rather than further policy rate cuts.
- Nomura do not expect any policy rate cuts within their forecast horizon (to end-2022).
- No substantial changes are expected in the updated staff macroeconomic forecasts.

Nordea

- Monetary policy is expected to remain unchanged at this week's meeting, but it is a close call with risks skewed towards more easing.
- The ECB will want to avoid a repeat of the disappointing March meeting and will promise further action to come.
- Additional easing could come in the form of a further expansion and extension of PEPP, which is expected to be announced at the December meeting.
- Easier TLTRO terms, additional refinancing options and changes to the forward guidance could also be considered.

Rabobank

- No major policy change is expected.
- Revisions to staff forecasts for GDP will probably be slightly positive for this year.

- Lowering the inflation projections on the back of a stronger EUR would reinforce the message of prolonged monetary accommodation without creating immediate policy expectations.
- Rabobank believes it unlikely that the ECB will be able to end its net PEPP purchases by mid-2021. Instead, PEPP will be extended through end-2021 and may be accompanied by an expansion to the purchase envelope. A December announcement is most likely, but this could be delayed until March if the incoming data is sufficiently positive.
- Any possible adjustment to the tiering multiplier would likely only occur once more of the PEPP envelope has been used.

RBC

- Following the previous expansion and extension of PEPP, there is no urgency for the ECB to take further policy action at the September meeting.
- The tiering multiplier is likely to be raised either at this meeting or an upcoming meeting.
- Updated staff forecasts are unlikely to show any meaningful changes.
- Focus at this meeting will be on the strategic review.

Saxo Bank

- Monetary policy is expected to remain unchanged at this week's meeting.
- Markets will be focused on the new macroeconomic projections, any discussion around the euro exchange rate and the strategic review.
- There is little appetite for further rate cuts to counter euro strength.
- Given lingering economic uncertainty, weak inflation and a surge in coronavirus cases, an expansion of the PEPP envelope by EUR500bn is expected by end-year (probably December).

SEB

- No change in policy is expected at this week's meeting, with the ECB broadly comfortable with the current monetary stance. With 40% of the PEPP envelope used and financial conditions significantly improved since June, there is little immediate pressure for the ECB to ease further. The possibility of a further PEPP extension is likely to be assessed in December.
- Questions on average inflation targeting and the recent EUR appreciation are expected. In the case of the latter, the Governing Council is unlikely to be too concerned by the level of the euro.
- SEB believes that the ECB sees great value in having a larger amount of liquidity (i.e. excess reserves) in the system at the moment and due to the TLTRO terms the need for increasing the tiering multiplier is low. However, a small increase (i.e. from 6x to 8x) in December cannot be ruled out. Such a small change would not be expected to have a material effect in the money markets.

Société Générale

- No change in monetary policy is expected at this week's meeting.
- Société Générale previously expected the PEPP to be extended to end-2021, but a decision is now expected by end-year with an additional EUR500bn envelope expansion.
- For now, EUR1.5trn is expected to be used in total, with some tapering expected by mid-2021.
- Data next year will determine to what extent the APP needs to be boosted as compensation.

Swedbank

- No major change in monetary policy is expected.
- However, strong verbal intervention is warranted given the stuttering economy, weak inflation and stronger currency.
- The Fed's decision to adopt an average inflation target strengthens the ECB's case for adopting a similar objective, but this decision is only likely to come next year.

TD Securities

- No major change in monetary policy is expected, although there are risks of a more dovish message.
- The recent slide in inflation and appreciation of the euro will be the focus for markets at this week's meeting.
- TD do not expect any significant changes to the ECB's GDP forecasts, despite some recent improvements on the data front.
- In terms of the staff forecast projections, a small upgrade to 2020 GDP growth is possible. However, this would likely come at the expense of 2021 growth. The ECB will show GDP failing to reach its pre-pandemic level by the end of the forecast period.
- Given the degree to which core CPI forecasts have already been revised lowers, the ECB will need to be quite sensitive to further adjustments. A 0.1pts reduction in HICP over the forecast horizon is expected.
- TD believes that despite the recent appreciation of the EUR, the exchange rate pass-through to inflation is less significant.
- There appears to be limited appetite for changing tiering multiples for now.

UBS

- No major policy decisions are expected at this week's meeting.
- An adjustment to the tiering multiplier is possible in the coming months, but unlikely at the September meeting.
- The ECB will remain in 'wait-and-see' model over the coming months before raising and extending the PEPP again in December. UBS expect the PEPP to be extended by another six months to end-2021
- The 2020 growth forecast may be slightly raised and the 2021 and 2022 inflation forecast increased by 0.1pts.
- At current levels, the ECB is unlikely to aggressive talk down the recent EUR appreciation.

UniCredit

- No change in monetary policy is expected.
- The new staff macroeconomic projections are unlikely to reveal any meaningful change in the trajectory of expected inflation
- Recent EUR appreciation strengthens the case for an expansion of PEPP before year, which will probably be in the order of EUR500bn and with the programme extended until end-2021.
- A policy rate cut is likely to remain a last resort.
- President Lagarde will likely to be asked to comment on the Fed's shift to average inflation targeting, but she is unlikely to reveal month given that the strategic review is still ongoing.

ECB Communication: The Detail

It has been a relatively quiet spell for communication, coinciding with August seasonality in the market. Isabel Schnabel and Philip Lane have been the most frequent speakers, with the former continually stressing the importance of the baseline economic scenario for determining the appropriateness of monetary policy as it is currently calibrated. On 21 July Schnabel stated:

> "We've now seen some upside surprises but they are not sufficient to make us change course from our baseline scenario, which projects an 8.7% drop in real GDP in 2020. There was hence no reason to revise our decision from the previous meeting."

And on whether the baseline could be revised in new staff projections, Schabel responded on 31 August:

> "I don't want to pre-empt that. At the moment, the baseline continues to look plausible.

And specifically referencing what this means for the PEPP envelope (21 July):

> "As long as we remain in the baseline scenario of our projections, it's likely that the envelope will be used in full. Of course, upside or downside surprises are both possible in a situation with so much uncertainty."

And again (31 August):

> "As long as the baseline scenario remains intact, there is no reason to adjust the monetary policy stance. Of course, the projections will play an important role going forward. But at the moment the PEPP envelope looks appropriate."

This sentiment was mirrored by Fabio Panetta on 27 July and further suggests that the ECB is in 'wait-and-see' mode for the time being:

> "When we approved the extension of the PEPP in June, our projections were no different from at present. So I expect we'll use the resources available under the programme in full unless there are significant upside surprises.
>
> "…The programme is working well, and I don't see any economic reasons to change our decisions or actions."

On the issue of PEPP and the capital key, Schnabel stated on 31 August:

> "We haven't discussed this. But as a rule of thumb I would say that the stronger the stance element of the PEPP, the smaller the capital key deviations. When it comes to the monetary policy stance, there is no need to deviate from the capital key. Deviations are driven by the need to counter the risk of fragmentation. As the risk of fragmentation is going down, there is less of a need to deviate from the capital key."

On the recent appreciation of the euro and what it means for inflation, Schnabel commented on 31 August:

> "We are not targeting the exchange rate, but we are monitoring foreign exchange developments. My reading of the depreciation of the US dollar is that it is also a sign of the return of global confidence. What we have seen is a reversal of previous safe-haven flows. This is actually a good sign"

And:

> "How all this translates into inflation is not entirely clear. We know that the pass-through of exchange rates depends very much on the circumstances and the underlying shocks. I would also be cautious in interpreting the exchange rate changes in isolation, because research shows that if there is a depreciation of the US dollar, this tends to boost global trade and global growth. So even though there may be a competitiveness effect for euro area corporates, there is an effect working through global trade, which may actually compensate for that. At the moment I am not worrying too much about exchange rate developments."

Philip Lane countered on Sep 1:

> "The euro-dollar rate does matter."

Lane further reiterated that the central bank targets inflation, not the exchange rate:

> "We have an inflation mandate and we care about the overall performance of the European economy."

And seemed to pass off the recent EUR move as little more than a correction:

> "We've seen a repricing in recent weeks."

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

On the efficacy of negative interest rates, Schanbel states on 26 August

> "negative rates strengthen the incentives of investors to rebalance their portfolios towards longer-dated securities. The propagation of a rate cut in negative territory was therefore materially stronger along the yield curve than for a conventional rate cut, which typically has very little impact on longer maturities."

On the issue of 'fallen angels', which appears to have been less of a market focus for the September meeting, Schnabel indicated on 21 July:

> "The truth is that, at least for the moment, we have not seen waves of rating downgrades for companies or countries that are on the brink of losing their investment grade ratings. So there is no urgency for us to discuss this now in relation to our asset purchases."

And

> "I would not rule out this possibility completely, but it's not on our agenda at the moment."

ECB Inter-Meeting Communication

Date	Time (UK)	ECB Member	Location	Event/Topic
17/07/2020	09:30	Isabel Schnabel	Frankfurt	"Never waste a crisis: COVID-19, climate change and monetary policy" speech at a virtual roundtable on "Sustainable Crisis Responses in Europe" organised by the INSPIRE research network. https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200717~1556b0f988.en.html
20/07/2020	09:00	Luis de Guindos		Participation in the panel "La respuesta europea frente a la crisis" organised by Universidad Complutense de Madrid
20/07/2020	15:30	Philip Lane		Participation in webinar on Dominant Currencies in Trade and Finance: Implications for External Adjustment, organised by the IMF
21/07/2020		Isabel Schnabel		Interview with Expansión conducted by Andrés Stumpf on 16 July and published on 21 July 2020 https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200721~eed22f9cd9.en.html
21/07/2020	14:30	Luis de Guindos		Participation in an online panel with the Bank of Greece governor and Greek Finance minister, organised by the Foundation for Economic and Industrial Research (IOBE)
22/07/2020		Luis de Guindos		Speech at the 18th annual symposium on "Building the Financial System of the 21st Century: an Agenda for Europe and the United States" organised by the Program on International Financial Systems and Harvard Law School (by videoconference)

				https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200722~338ac4a611.en.html
22/07/2020	13:15	Christine Lagarde		Video interview conducted live by David Ignatius for the Washington Post on 22 July 2020 https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200723~0606f514ed.en.html
23/07/2020	10:00	Luis de Guindos		Participation in online seminar "Salvemos el turismo" organised by Grupo Hotusa
26/07/2020		Luis de Guindos		Interview conducted by Casimiro García Abadillo on 21 July 2020 and published on 26 July 2020 https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200726~4e28b74d5e.en.html
27/07/2020		Fabio Panetta		Interview conducted by Tonia Mastrobuoni and published on 27 July 2020 https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200727~d371d43f40.en.html
31/07/2020		Christine Lagarde		Interview conducted by Dominique Lecoq and Marc Aubault on 29 July and published on 31 July https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200731~7df348b85b.en.html
04/08/2020		Philip Lane		ECB blog post https://www.ecb.europa.eu/press/blog/date/2020/html/ecb.blog200804~b2c0f2115a.en.html
18/08/2020	09:00	Luis de Guindos	Online	Participation in the online event "Consecuencias economicas de la crisis y medidas de recuperacion en espana y en la Union Europea" organised by Universidad Internacional Menendez Pelayo.
26/08/2020	08:00	Peter Kazimir	Bratislava	Speech in Bratislava
26/08/2020	12:30	Isabel Schnabel		Speech "Going Negative: The ECB's Experience" at the Roundtable on Monetary Policy, Low Interest Rates and Risk Taking at the 35th Congress of the European Economic Association https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200826~77ce66626c.en.html
26/08/2020	17:30	Francois Villeroy	Paris	Speech at the annual MEDEF Conference
27/08/2020		Philip Lane		Interview with CNBC https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200827~85bc4d877e.en.html
27/08/2020	16:50	Philip Lane	Online	Participation in a panel of the 44th Economic Policy Symposium "Navigating the Decade Ahead: Implications for Monetary Policy" organised by the Federal Reserve Bank of Kansas City
31/08/2020		Isabel Schnabel		Interview with Reuters https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200831~248a9cc4fe.en.html
09/01/2020	16:00	Pablo Hernandez de Cos	Online	Speech at the Universidad Internacional Menendez Pelayo

09/01/2020	17:00	Philip Lane	Online	Participation in a panel "International Currencies and the Monetary and Financial System" at the annual meeting of the Central Bank Research Association.
09/01/2020	19:00	Klaas Knot		Speech on the economic crisis and how to build a sustainable economy.
02/09/2020	18:00	Jens Weidmann	Online	Speech on "Government in Demand" at Ubersee-Club
03/09/2020	16:00	Isabel Schnabel	Online	Keynote lecture at the Fifth ECB Annual Research Conference
04/09/2020	10:25	Francois Villeroy	Giverny	Speech at the Forum de Giverny
04/09/2020	16:00	Philip Lane	Online	Chairing the Jean Monnet Lecture at the Fifth ECB Annual Research Conference

MNI Policy Team

MNI SOURCES: Pandemic Response, Not FX Rates ECB Policy Driver **14 August**

- Stronger Euro-Dollar Not Currently Seen As Concern, Sits Near Lifetime Average

LONDON (MNI) - The unpredictability of U.S. presidential election season and the wider priority of battling the pandemic's ongoing economic impact point to the European Central Bank maintaining a watching brief on the euro's rise against generalised dollar weakness, despite the inflation dampening implications for the eurozone, Eurosystem sources have told MNI.

"There is growing speculation around the strength of the euro," one Eurosystem source said. "For the time being, this is not very important, although it will not help inflation that's for sure," he added, without expanding on his inflation comment.

A second national central bank source agreed that the current strength of the euro "wasn't a big issue" and the sustainability of the rise was still questionable. While this source conceded that "here and there in the Eurosystem some people are getting a bit more nervous," it had to be remembered that the current exchange rate against the dollar "is still very much at its longer-term average."

--BELOW AVERAGES

The euro has risen by around 9% to around EUR1.1820 against the dollar since mid-February, but remains below the pair's lifetime average rate of EUR1.2035 and the past 10-year average of EUR1.2180.

Although again dismissing the current stronger euro as "no big worry", a third source, also from a Eurosystem constituent central bank, had certainly taken note of the single currency's deviation from its two-year moving average against the dollar, which stands at EUR1.1225.

"Clearly what matters here is, first of all, the fundamentals, the narrowed interest rate differential," this source said, but he also saw uncertainty surrounding November's U.S. presidential election as another source of generalized dollar weakness.

"Once there is a clear winner the dollar will rebound, but not yet," the source continued. At the same time he cautioned that in the event of no clear result, or President Donald Trump losing the election and disputing the outcome, "we may see further strengthening of the euro".

--ECB RATE CUT NOT FORESEEN

"I wouldn't link too directly the strength of the euro with monetary policy," this third source told MNI, stressing that the pandemic and the response to it was still the most important factor underlining the Governing Council's policy making.

"I recall Philip Lane when he said that we are not going to have a V recovery in Europe, which means that even with a stronger euro, against sterling or the dollar, ECB monetary policy will be there for the next few months," he elaborated.

"Clearly we are not going to have a drop in already-negative rates it[IF???] we have a stronger euro. But asset purchases, targeted liquidity, collateral easing, all these things will be there. More credit easing. Perhaps the PEPP will see more purchases."

The thinking was underlined by a fourth Eurosystem source, who agreed policy would not be dictated by the euro's level but may nonetheless run congruent with potentially undercutting euro strength.

"Our policy will be highly accommodative for the foreseeable future and there is always the possibility pandemic developments will push us to further easing. But that will be the policy driver, not the exchange rate," he said.

An ECB spokesperson declined to comment to MNI for this article.

MNI SOURCES: Pressure On ECB Seen Rising-Brussels Officials **3 August**

- Covid Upsurge Faster Than Expected
- Brussels Officials Expect Pressure For More Stimulus To Focus On ECB

By David Thomas

BRUSSELS (MNI) - European Union officials increasingly fear the bloc's economy will hit another air pocket as a Covid-19 resurgence hits earlier than expected, telling MNI that this could fuel calls for more European Central Bank QE despite a EUR750 billion pandemic recovery fund set to be legally finalised by the end of the year and disbursing funds by the second half of 2021.

EU countries still have to prepare detailed economic recovery plans over the next few months, which must be approved by EU institutions, a process which could take another five months, before they are eligible for EUR390 billion in grants and EUR360 billion in loans, officials told MNI.

While another EUR240 billion have been made available by the European Stability Mechanism, officials said fears of political stigma means the money will probably be left untapped, throwing the onus of any additional stimulus response back onto the ECB. Calls would rise for the central bank to expand its EUR1.35 trillion Pandemic Emergency Purchasing Programme, they said.

The economy could sag even if Covid-19 upsurges are contained without further generalised lockdowns.

"With the second wave now seeming to come earlier than expected, I am not sure about the foundations for that optimism. Look at Spain," one source said.

--ESM STIGMA

While tapping ESM money could save countries which run into trouble 100 basis points of borrowing costs, such a move would be politically toxic, officials said.

"Italy, Spain just can't tap it for political reasons. The opposition would say, 'we're being rescued by the ESM. It's just like the way Asian states don't call the IMF after (the Asian crisis of) 1997. The ESM has a branding problem. They are always the guys who provide austerity," one source said.

While the possibility of accessing ESM loans in itself might provide some reassurance to markets, officials noted that some in the EU are beginning to wonder whether the ESM itself has a future in its current form.

Should a fresh rise in Covid cases start to have a serious impact on economic growth, there will be pressure for national fiscal plans to be further enlarged and maybe even for countries to resort to the ESM. But officials reject as outlandish any idea that the Recovery and Resilience Facility, only agreed after a bitter tussle at an extended summit, could be enhanced.

"No, that's just completely out of the question, given how difficult getting an agreement at the summit was," said another EU source.

Meanwhile, other measures taken by the EU in the spring, including the EUR100 billion SURE instrument to fund support for employment and up to EUR100 billion in cheap loans from the European Investment Bank, should together with national policies help to shore up economic activity in the interim. The formal and final decisions on the SURE and EIB elements of the package are scheduled to be completed in September, with money starting to flow to states later in the autumn.

MNI SOURCES: EU Fund, Pact Talks To Reignite Fiscal Battles **17 August**

By David Thomas

The European Union is readying for fresh clashes between member states looking for renewed fiscal rigour and the more indebted beneficiaries of the EUR750 billion Recovery and Resilience Fund, with fiscal hawks set to argue for tough conditions to be attached to EU money and more realistic budgetary rules, sources told MNI.

With the RFF deal brokered in the summer, the European Commission and EU finance ministers are now working on detailed criteria for national recovery plans necessary to qualify for up to EUR390 billion worth of grants and EUR360 billion worth of loans.

At the same time, fiscal hawks and doves will open discussions on the future of the EU's wider fiscal framework, which had been put on hold by the Covid-19 outbreak and the subsequent decision to temporarily waive restrictions on government borrowing under the Stability and Growth Pact.

"The focus will now shift to conditions for the RRF loans and grants. Separate but related, is the discussion on what fiscal consolidation should look like once the SGP escape clause gets deactivated, which will not be before 2022," one source close to the upcoming talks said.

--STABILITY PACT

The Commission will hold internal discussions on the future of the Pact this autumn, with a broader debate involving EU institutions expected at the start of next year.

Both the broader fiscal talks, and particularly the discussions on conditions for obtaining money from the RFF will present a chance for renewed calls for fiscal consolidation by the so-called "Frugal Four", grouping the Netherlands, Sweden, Denmark and Austria, who had balked at an earlier plan to award EUR500 billion in pure grants to Covid-hit countries.

"Some countries will be keen to make sure that the reforms subsidised by the RRF benefit the cause of fiscal sustainability and they will assess them from this perspective," the source close to talks said.

Another senior EU official noted that conditions attached to previous structural funds for development of poorer regions have been criticised for being too lax and officials are aware that this was not an example to be followed.

"I think the conditions on RRF funding will be a lot more [restrictive]. Indeed, there is a fear that it could be a bureaucratic and slow process," the official noted.

--CHANGED TONE

At the same time, officials say the tone of the separate but linked debate on reform of the SGP has become more serious as a result of the Covid crisis, with an acceptance that future debt reduction strategies need to be better enforced, but also to be more realistic and sustainable.

"Pre-crisis, there was not much appetite for this (fiscal rules reform). But the tone has changed now, and I do believe there will be a serious discussion in the fall and particularly in the ECOFIN."

SGP reform ideas have now gone beyond the idea of a mere 'simplification' of the EU's often complex fiscal analysis of national budget plans and surveillance procedures, the senior official added.

"In the past debt-reduction strategies were unrealistically tough. Getting to 60% of GDP from 130% by way of 15 years of primary surpluses is not realistic," he said, adding: "But it's going to be a difficult issue."