

TRENDMACRO LIVE!

## On the August ECB Policy Decision

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What a difference a year makes. The ECB has earned the luxury of being boring.

Once again, the ECB [left rates unchanged](#) at today's monetary policy meeting. At the [press conference](#) following the rate decision there was very little news, with Draghi content to maintain a holding pattern ahead of September's German election.

- Mario Draghi's [prepared statement](#) did highlight continuing subdued credit growth in the euro area, reflected in the latest disappointing M3 growth [level of only 2.3%](#).
- He offered nothing by way of an immediate solution to this lack of credit growth. But we have been expecting no significant moves from the ECB ahead of the German election, so no solution *now* does not mean no solution *ever* (see ["Bundesblock"](#) June 19, 2013).
- Draghi continued the ECB's new tactic of non-guiding forward guidance (see ["On the July ECB and BOE Policy Decisions"](#) July 4, 2013), offering nothing new in terms of what an "extended period" of low rates might be. He even managed to further confuse the issue by saying that the ECB would stop talking about forward guidance once the market has accepted its guidance.
- On interest rates, Draghi did say that the ECB is not at the lower bound on interest rates, and that there is still room to cut -- including cutting the deposit rate below its current 0%. But, as this is the third meeting in a row in which he has hinted at negative deposit rates, the market reaction was neutral to his comments.

Overall, little has changed since the last meeting. But it is worth highlighting how very much has changed since the August meeting of 2012 (see ["Draghi: Off the Reservation"](#) August 3, 2012).

- One year ago last week Draghi saved the world -- and we mean that literally -- when he promised in [an improvised London speech](#) that the ECB would do "whatever it takes" to preserve the euro currency (see ["On Draghi in London"](#) July 26, 2012).
- That promise turned at the next ECB meeting into the first hint of what would become Outright Monetary Transactions (OMT). The ECB made it official at the meeting after that (see ["On the September ECB Policy Decision"](#) September 6, 2012).

### Update to strategic view

**ECB:** As expected, today's ECB monetary policy meeting was a non-event. Some more hints at possible negative deposit rates, some more non-guiding guidance, but nothing of substance. That the ECB can be this boring is both a reflection of the effectiveness of the daring verbal intervention made one year ago, and of the proximity to the German election.

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- OMT has -- as Draghi promised -- been enough to pull the euro area back from what was turning into a critical systemic risk for the global economy (see "[US Fixed Income Strategy: The Fed Irrelevancy Hypothesis](#)" July 2, 2013).
- The genius of OMT is that as soon as it was apparent that just announcing worked well enough, Draghi stopped explaining what it is. A year on, and it's effect is easy to see -- while at the same time it is impossible to explain what it actually is in any great detail.
- While it could be argued that OMT is little more than the emperor's new clothes of monetary policy, our view is that for a central bank, a verbal intervention such as OMT is much more substantial than that. The OMT utilized what is any central bank's most important asset, and ultimately risks the one thing that any central bank cannot print more of: its credibility.

Today's non-event at the ECB is a reflection of constraints caused by future events -- the German election -- but also reflects the ECB's ability, under Draghi, to effectively respond to crises when they arise as we saw one year ago.

The market -- correctly, in our view -- sees that Draghi has "got this." This does not mean that the problems for the euro area are over -- far from it. But it does mean that Draghi has shown himself to be serious about "whatever it takes." So far, it has been enough.

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### Bottom line

As expected, today's ECB monetary policy meeting was a non-event. Some more hints at possible negative deposit rates, some more non-guiding guidance, but nothing of substance. That the ECB can be this boring is both a reflection of the effectiveness of the daring verbal intervention made one year ago, and of the proximity to the German election. ▶

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