

TRENDMACRO LIVE!

On the September ECB Policy Decision

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No rate change, no new guidance, no ideas -- Draghi lives up to low expectations.

The ECB left [rates unchanged](#) at today's monetary policy meeting. In his speech at the post decision press conference, Governor Mario Draghi tried to sound as dovish as possible, while failing to say anything of substance that might help the credit-creation problems facing the euro area (see "[Draghi's Creditspeak](#)" September 4, 2013).

- In the section of his [prepared speech](#) on monetary developments, Draghi again highlighted the negative growth in credit to the non-government sector, saying "underlying broad money (M3) and, in particular, credit growth remained subdued."
- But rather than offering a solution, he attempted to explain it away by saying, "Weak loan dynamics continue to reflect primarily the current stage of the business cycle, heightened credit risk and the ongoing adjustment of financial and non-financial sector balance sheets."
- He continued with the previous non-specific forward guidance to leave interest rates unchanged -- or lower -- for an extended period of time (see "[On the July ECB and BOE Policy Decisions](#)" July 4, 2013). In the Q&A he said that this guidance is not a change in the ECB's reaction function, rather it is an explanation of it. As the forward guidance has no objective thresholds, it remains as useless as ever.
- In an effort to sound as dovish as possible, Draghi emphasized that he does not share the enthusiasm for the recovery that he sees elsewhere.

Perhaps we are being a little hard on Draghi. After all, we have been pointing out for a few months that he is hamstrung by the coming German election (see "[Bundesblock](#)" June 19, 2013). But today's performance was utterly devoid of new ideas.

The single item of useful information that came from today's press conference concerned the single supervisory mechanism that will be introduced for euro area banks. Draghi promised a full communication on the bank asset quality review by mid-October. Considering the uncertainty caused by previous asset reviews of euro area banks, this is an event investors should keep in mind as a possible volatility event.

Update to strategic view

ECB, EUROPE BONDS:

Draghi said little of substance today. He sounded as dovish as he could this close to the German elections, but could provide no substance ahead of that event. We expect more substance from Draghi in October, but until then the euro area will remain in what is at best a weak recovery. In the meantime, with no systemic risk forcing the ECB to action, we expect bund yields to continue to back up, as they are doing today.

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So for now, with little changed in policy, we would expect little change in market dynamics already in motion. Indeed, today we are seeing a continued back-up in sovereign yields world-wide, including the supreme safe-haven German bund -- as we highlighted last month (see "[Germany Votes](#)" August 13, 2013). With less systemic risk in the world, there is nothing of urgency forcing Draghi to action. And safe-havens world-wide continue to become less valuable.

Bottom line

Draghi said little of substance today. He sounded as dovish as he could this close to the German elections, but could provide no substance ahead of that event. We expect more substance from Draghi in October, but until then the euro area will remain in what is at best a weak recovery. In the meantime, with no systemic risk forcing the ECB to action, we expect bund yields to continue to back up, as they are doing today. ▶

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