

## GIAM Macro & Market Research - Market Commentary

April 22, 2021

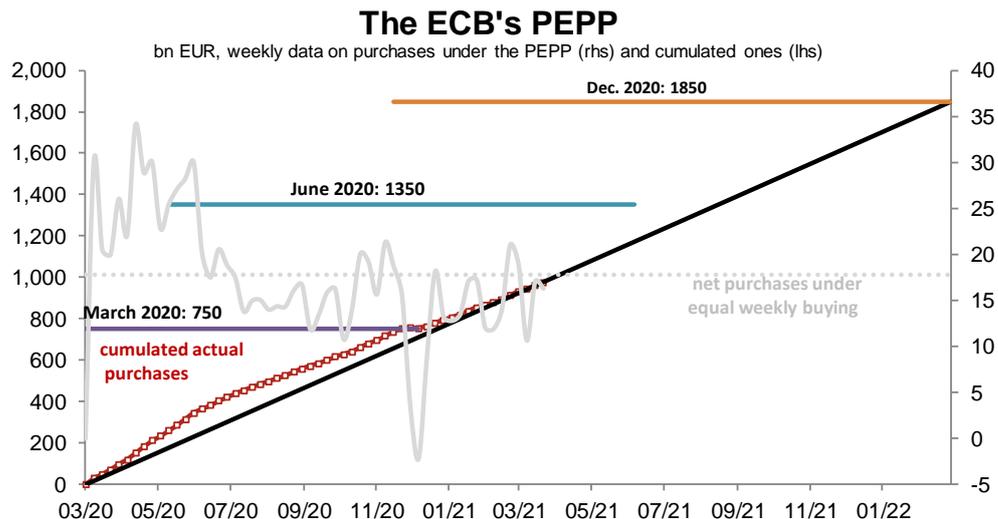
### ECB – all eyes on the June meeting

- At today's meeting, the Governing Council did not embark on any action, in line with expectations.
- The assessment of the situation remained broadly unchanged from the March meeting.
- PEPP purchases will be conducted at a "*significantly higher pace than during the first months of the year*", thereby reiterating the message from the March meeting.
- There was no discussion about the phasing out of the PEPP while exchange rate movements remain on the ECB's radar screen.
- All in all, the ECB adopted a wait-and-see stance. All eyes will be on the June 10 meeting when the macro outlook and the pace of PEPP purchases will be adjusted.

**An unsurprising wait-and-see message:** At today's policy meeting the Governing Council did not adjust its policy tools and adopted a wait-and-see stance. The April meeting thereby merely bridges the time until the June 10 meeting, At that time the update of the growth and inflation outlook, and other factors, might induce the ECB to become clearer about the exit from the extraordinary Covid-19 measures.

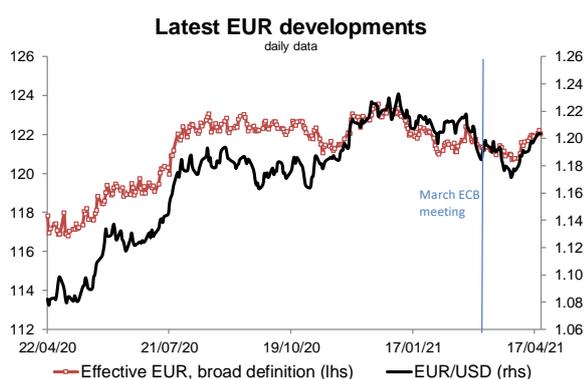
**Firm rebound of activity ahead:** The March updated ECB projections foresaw a "*firm rebound in economic activity in the course of 2021*" while the risks surrounding the outlook were viewed as more balanced. This view was maintained at today's meeting and President Lagarde stated in the Q&A session that the data confirm the March projections. The Governing Council continues to see the near-term risks tilted to the downside but more balanced in the medium-term risks.

**PEPP purchases to remain at a "*significantly higher pace*":** The Governing Council seems to be pleased with the evolution of financing conditions. Mrs Lagarde described them as "*broadly stable*" in the Q&A session. The ECB will continue to conduct PEPP purchases "*at a significantly higher pace than during the first months of the year*". For the assessment of the volume she urged to look at monthly rather than weekly numbers and referred to the difference between January/February and March when the ECB started to increase its purchases in the second half implying that monthly purchases would be up by € 20 bn compared to the first two months.



**Taper talks have not yet started in the Governing Council:** Publicly, the taper talks have started over the past weeks with several Governing Council members giving rise to expectations that the PEPP will be terminated in March 2022. President Lagarde adopted a more cautious tone as she still sees the economy on crutches. This discussion, however, was not brought to today's meeting and there was no discussion about a phasing out of PEPP. Lagarde stated that it is premature and that any decision will be data dependent. As she stated, a combination of the inflation outlook and financing conditions determines pace of purchases and it will be adjusted again in June.

**Exchange rate remains on the radar screen:** In its introductory statement the Governing Council stated that it will “continue to monitor developments in the exchange rate” thereby maintaining the wording from the previous meeting. While the euro has appreciated over the last weeks, it is still below the highs seen before. Maybe as a warning signal, Lagarde stated in the Q&A session that the ECB was not targeting exchange rates but monitor it very carefully and be very attentive to it.



**All eyes on the June meeting:** At today's meeting the ECB confirmed the policy stance adopted in March. But it refused to enter the discussion about PEPP tapering. Obviously, the Governing Council wants confirmation about the success of vaccination and the unwinding of lockdown measures before thinking seriously about reducing support. In the coming month this will become clearer and the updated macro outlook will serve as a basis for discussion. All eyes will hence be on the June 10 meeting.

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