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December 12, 2019

Neither Hawk Nor Dove: The ECB's Lagarde Suggests the Wisdom of an Owl

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Those who were banking on an “easy Lagarde put” walked away disappointed from Christine Lagarde’s first press conference as President of the European Central Bank. After presiding over her first Governing Council (GC) meeting, President Lagarde successfully held the policy line, thereby forestalling speculation that the ECB may quickly engage in further easing. At the same time, she carved out flexibility under the upcoming strategic review, outlining its broad scope while appropriately refraining from taking any views on its potential findings, thus avoiding hints about potential policy changes and cementing the status quo, at least for now.

At the outset of her presentation, President Lagarde seemingly won over a new audience by emphasizing that she has her own communication style and suggesting that journalists refrain from seizing on any communication differences as an indication of meaningful policy change. This appeared to be a sensible insurance policy against possible communication slip-ups. After all, numerous central bankers have strayed in their early communication, only to consequently reverse course as a form of damage control.

On the most important issue at hand—the ECB’s upcoming strategic review—Lagarde stressed that it was overdue given that the last review was held in 2003. This observation also allowed her to indirectly downplay speculation that the review, and its timing right at the beginning of her tenure, may foreshadow quick policy changes. Needless to say, the review will be comprehensive, and, among other things, it will take stock of the effectiveness of current policy tools. In this context, while she didn’t push back against questions about potential ECB equity purchases or even helicopter money, she let the audience reach its own assessment on the likelihood of such measures by suggesting that the GC will need to decide upon any of the review’s findings.

As often as journalists tried to lead her down the path of chiming in on the debate on the relative effectiveness of negative rates and asset purchases, they flat out failed. Instead, President Lagarde resorted to established ECB language and made it clear that she doesn’t favor one instrument over another and that both are part and parcel of a broader policy package, as decided upon in September. In this context, Lagarde suggested that she is “neither a dove, nor a hawk” and would strive to be an “owl” that would hopefully bring some wisdom to future policy decisions.

In an interesting hint about her leadership style, Lagarde made it clear that she would strive to seek decisions “as consensual as possible,” but also emphasized that once debated, “decisions stand” as those made by the central bank. This was a thinly veiled criticism of those in the GC who have vociferously opposed past policy decisions, especially the hawks on the GC who opposed the September decision to resume asset purchases.

Finally, policy remained on hold, as widely expected, and the accompanying statement was largely unchanged. The staff macro projections, revised on a quarterly basis, are also largely unchanged, except for some minor nuances. Policy was indeed a side note to Lagarde’s firm assumption of the helm at the ECB.

Source(s) of data (unless otherwise noted): PGIM Fixed Income as of December 2019.

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2019-6188