Draghi seen taking Carney cue deferring ECB action for now

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Just like Mark Carney, Mario Draghi can afford to wait a bit before adding more monetary stimulus.

Economists in a Bloomberg survey predict the European Central Bank president will keep policy unchanged on Thursday but announce fresh measures before the end of the year. The meeting comes a week after the Bank of England, headed by Carney, opted not to cut rates in the immediate wake of the U.K.'s vote to quit the European Union, instead signaling that it will probably ease in August.

In the three weeks since the British referendum, Europe's central banks have calmed volatile markets with liquidity pledges that have bought them time to gauge the threat to companies and households. Draghi has predicted that growth in the euro area will slow, fueling speculation about how much further he can go with a stimulus package that already includes negative interest rates and a 1.7 trillion-euro ($1.9 trillion) asset-buying program.

"The ECB is still very much in easing bias and has admitted that the Brexit shock could knock a cumulative half percentage point off euro-zone growth over the next three years," said Alan McQuaid, chief economist at Merrion Capital in Dublin. "It will do whatever it takes to boost growth and push inflation up but, as with most countries, the onus is ultimately on fiscal policy to deliver the required sustained-recovery pill."

Calmer Markets

The ECB's Governing Council will meet in Frankfurt on Thursday and announce its decision on monetary policy at 1:45 p.m. Draghi will hold a press conference 45 minutes later where he'll give his economic view and is likely to reiterate his call for a global alignment of monetary, fiscal and regulatory regimes to boost growth.

The BOE's choice last week not to cut rates or resume quantitative easing reflects how quickly global markets recovered after the June 23 referendum. While the pound has stayed weaker, stocks have largely rebounded. That's in part due to offers by the U.K. central bank, the ECB and their peers to do what's needed to maintain financial stability.

The BOE offered additional liquidity and cut a capital buffer for banks. Still, most Monetary Policy Committee members expect to ease on Aug. 4, when fresh economic forecasts are published. Chief Economist Andy Haldane said on Friday they don't have the "luxury" of time and Gertjan Vlieghe, the only person on the MPC to vote for a rate cut at the last meeting, said in the Financial Times on Sunday that a range of measures is needed. Martin Weale said on Monday that he hasn't yet decided how to vote.

QE Extension

Nor might the ECB. It's shepherding the 19-nation euro area through a fragile cyclical recovery that could yet be derailed if the political uncertainty over the U.K. curbs regional trade and investment. Sixty percent of economists in the Bloomberg survey said the Governing Council will approve new measures at its Sept. 8 meeting, when it also publishes updated economic forecasts.

Of those who predict more stimulus, 97 percent said the central bank will extend its bond-buying program past the current end date of March 2017. Just under 40 percent said it'll cut the deposit rate, now at minus 0.4 percent. Less than 20 percent envisage an expansion in QE purchases above the current 80 billion euros a month.

“An extension of the program beyond March 2017 is more likely than an expansion,” said Elwin de Groot, a senior market economist at Rabobank in Utrecht, the Netherlands. “One reason is that we believe it is unavoidable that the ECB will have to introduce a phase-out period, rather than halting purchases ‘cold turkey’.”

More than 90 percent of respondents said the central bank will start tapering bond purchases, most likely next year, with a median estimate for a duration of 12 months.

“The ECB is close to its limit,” said Philippe de Gudin, chief European economist at Barclays Bank in Paris. “As the economy slows as a result of the impact of Brexit on the credibility of the European project, we think other policies will eventually need to be used, such as fiscal policy where it is possible and a deepening of euro-area integration.”

The silver lining for Draghi is that most economists still think he’ll reach his inflation goal before his term expires. The proportion predicting he’ll succeed in lifting the rate from 0.1 percent last month to just under 2 percent by October 2019 stood at 72 percent, only slightly below the 76 percent the last time the question was asked in May.