

Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Draghi Obsessed With Emulating Childhood Hero

The Fed is the ECB President Mario Draghi's childhood hero (with 'childhood' being a metaphorical term for the infancy of the ECB's response to the 2008 financial crisis). **Time and again**, we've seen various forms of emulation. The Fed led the charge when it came to unprecedented stimulus efforts after the financial crisis, and it took the ECB years of growing pains and conflict before it was finally able to piece together its own semblance of Fed QE.

Like the Fed, there are voices within the ECB that vehemently oppose(d) quantitative easing. And like the Fed, the will of the decision makers trumped the grumbling of the naysayers. In other words, German officials have consistently tried to block the ECB's easing efforts much like Fed hawks argued against QE and rate cutting efforts in the US. Granted, the nuts and bolts are quite a bit different, considering the political structure of the European Union, but **the principles are the same:** the folks at the top want to fire the monetary bazooka and their more conservative peers are worried about the damage that could cause.

It has become clear after this morning's press conference with Mario Draghi that there were indeed voices within the ECB that have been talking about the tapering of ECB asset purchases. Draghi denied that the **GOVERNING COUNCIL** had any such discussion, but finally admitted (albeit indirectly) that **COMMITTEES** were having different discussions. In other words, committees have forwarded the idea of tapering and the governing council has said "shhh... we'll talk about that when we're ready." It's analogous to Fed hawks saying "we need to hike rates" followed by Yellen and the doves saying "we're gonna wait a bit more."

The ECB's **ultimate emulation** of the Fed came slightly later in the press conference when Draghi confirmed his recent comments on December being the month where the ECB would say something about tapering. December should ring a bell to anyone following the Fed for the past few years. That's the month that the Fed ultimately announced tapering, after 6 months of delay. And 2 years later, it was the month when the Fed finally cut rates, after at least as many months of delay.

In **less than 2 months**, December will once again become the month where the Fed pulls the trigger on a rate hike (probably). And after this morning's press conference, it looks like the month that the ECB will either extend its asset purchase program or announce its intention to slowly begin tapering

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asset purchases after the program expires in March. I don't think the ECB has decided on its course of action yet--only that it will have enough info to decide by December.

When the time comes (Dec 8th), the ECB's decision will likely have a lot to do with Fed rate hike expectations. (We should have a good idea by then. It's already looking highly likely). If the ECB makes any gesture toward tapering, it will then give the Fed a **green light to hike** the following week (Fed meeting ends on Dec 14th).

What does all this mean for bond markets? Simply that any of the major drama that might have happened today has been postponed with an official rain check for December--the ONLY month that the ECB's childhood hero has ever formally announced a tightening of post-crisis monetary policy.

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