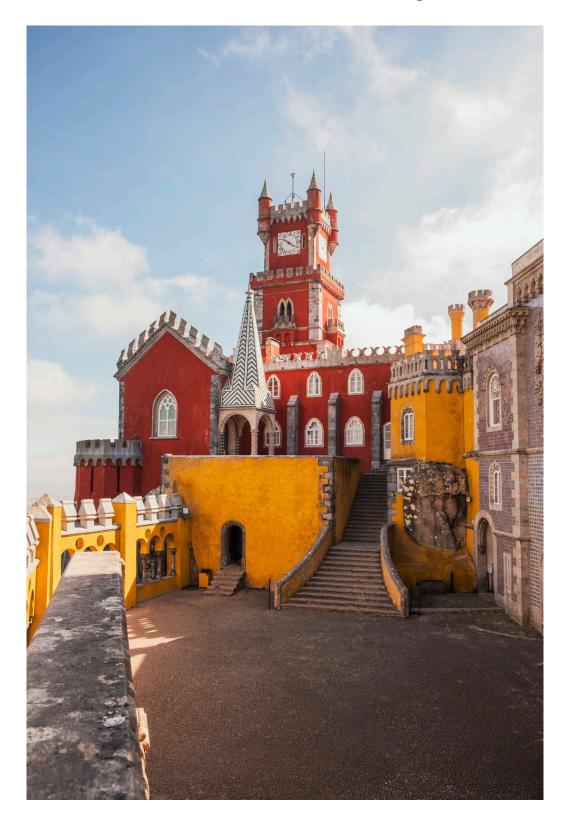


June 30, 2022

Sintra Summary



This week, the ECB held its annual central banking forum in Sintra, Portugal. The overarching theme this year was "challenges for monetary policy in a rapidly changing world". Investors watched the event closely, hoping for further clues about the path of monetary policy, but with markets pricing in 150bp of ECB tightening by year-end, the bar for a hawkish surprise was set quite high.

The key takeaways from the event were as follows:

- ECB Chair Christine Lagarde said that inflation in the eurozone is "undesirably high" while price pressures are "broadening and intensifying". Currently Eurozone inflation is at an all-time high of 8.1% and wage growth is expected to double to 4% by year-end.
- Lagarde pledged to contain price rises by going "as far as necessary" to bring inflation back down to the 2% target and added that the ECB will normalise policy gradually, but with the asterisk that it will "act decisively" should the outlook for price growth deteriorate in the medium-term.
- Prior to the meeting, the ECB had already laid out quite a clear roadmap with regard to
 its tightening campaign signaling a 25bp hike for July, the first increase since 2011,
 before a bigger move in September unless there is a rapid improvement in the inflation
 outlook.
- As tightening ensues, Lagarde pledged to prevent unwarranted bond market fragmentation (contrary to her 2020 comment that the central bank was "not here to close spreads") by using flexibility in the way the ECB reinvests the proceeds of bonds that mature in the €1.7tn PEPP portfolio.
- While the ECB has revised down its growth forecasts for the next two years, Lagarde played down recession fears citing domestic buffers.
- Federal Reserve Chair Powell commented that the US economy is well positioned to handle tighter policy, though orchestrating a soft landing will be quite a challenge. He

believes markets are largely aligned with the Fed's intentions.

Discussions beyond near-term policy included central bank digital currencies, the globalisation and robotization of the services sector, energy price volatility and energy sources in Europe, real estate boom and bust cycles, global value chains and supply bottlenecks.

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