

Moma Advisors See Divided ECB as Posing Difficulties to Future QE

Stockholm (HedgeNordic) – Daniel Pedersen (*pictured*), the CIO of Danish asset manager Moma Advisors, puts a serious question mark around the number of dissenters opposing a restart of quantitative easing following the ECB rate decision on Thursday.

“We think the (interest rate and QE) decision was basically in line with expectations. And expectations were quite high due to the comments by Olli Rehn a few weeks ago. The move by ECB is relatively aggressive. But what was not expected, in our opinion, was the significant amount of dissenters within ECB”, he says continuing:

“French, German and Dutch ECB Governors were all skeptical of this ECB QE resumption. And also the Austrian and Estonian Governors were dissenters. This makes it very difficult for Christine Lagarde to succeed Mario Draghi on November 1st 2019. If there were really this significant opposition to the ECB decision to relaunch QE, what is she going to do after November 1st? End the QE program that was just relaunched? Or continue with debt monetization with the support of Italy and Spain but with opposition from several large economies including Germany and France?”

Pedersen says that they have reduced risk in Europe a bit post ECB and suggest that every portfolio manager takes a good look at their respective portfolios while thinking about the fact that the central bankers at the core of the eurozone economies were opposed to the restart of QE.

“There are some other concerns here. Credit spreads in the Eurozone have come in significantly. We have reduced our risk in Europe today, post ECB. It is not clear that ECB will continue this QE program and it is also creating tensions towards US due to the very low EURUSD fx rate now at around 1.10.”

“The reaction of the EURUSD post ECB was also interesting. It dropped initially but it then went higher a few hours later when it became clear that this decision to relaunch QE was based on a narrow majority. France also opposed the ECB QE resumption. In our opinion, this is interesting. How is Christine Lagarde going to handle this internally divided ECB going forward?”, Pedersen wonders.