



EUROPEAN CENTRAL BANK

EUROSYSTEM

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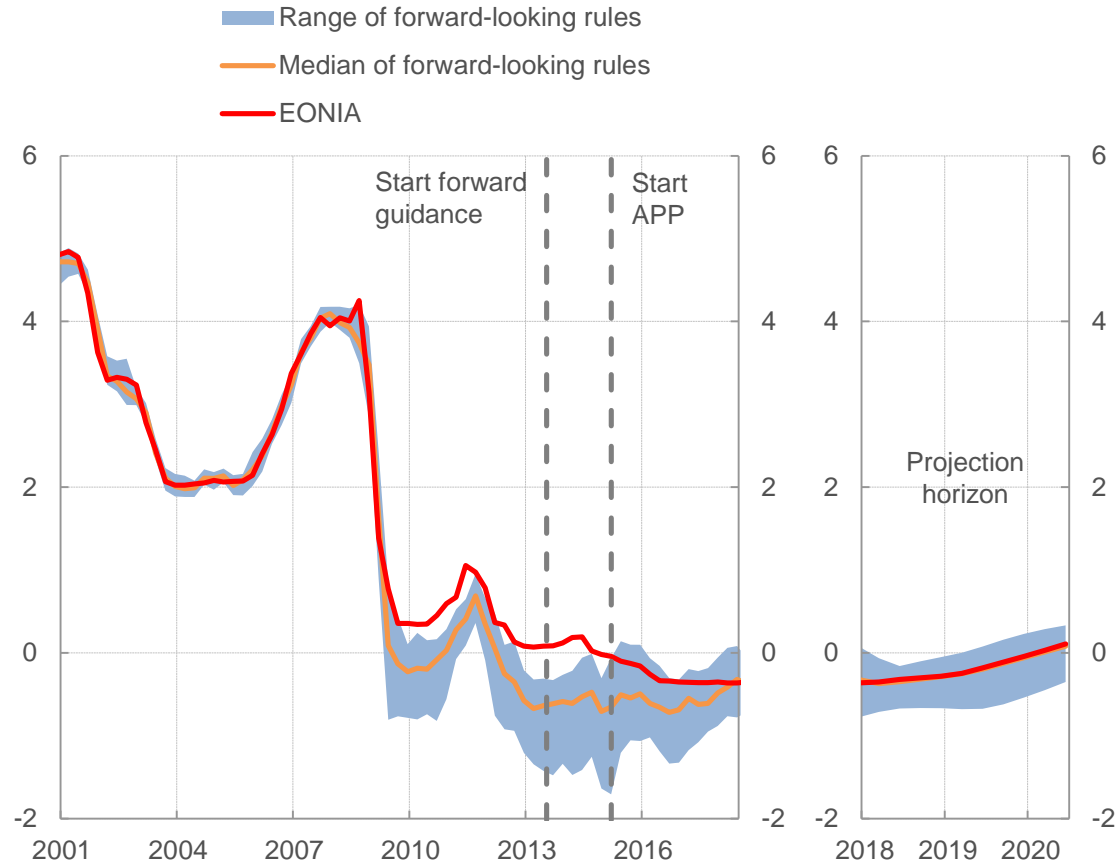
Member of the Executive Board

Forward guidance and policy normalisation

Berlin, 17 September 2018

Taylor-type policy rule prescriptions suggest policy void closing

Taylor-type policy rule prescriptions (percentage per annum)



Source: EC, ECB, ECB computations.

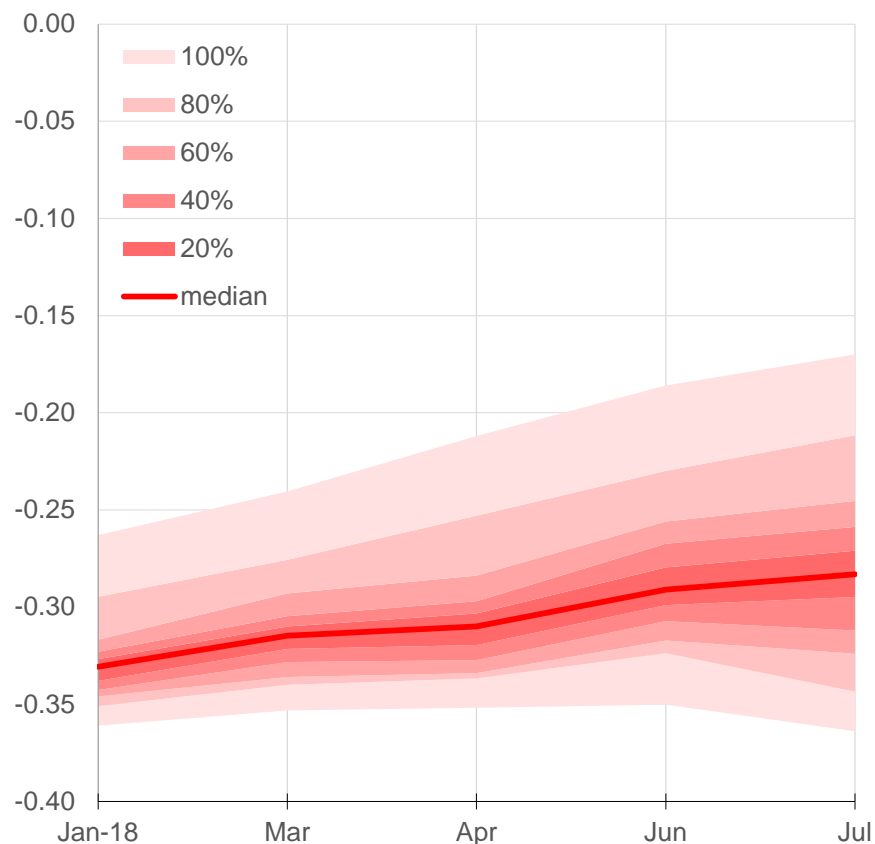
Notes: The estimated policy rules are derived using a real-time framework which estimates a variety of plausible specifications, using initially six measures of expected economic activity, four indicators of inflation expectations, and two of credit variables. The light blue range shows the resultant min/max range of all rules, which are estimated over the sample Q3 2000 to Q2 2008.

Last observation: 2018Q2, September 2018 MPE.

Large uncertainty around future path of short-term rates in 2018H1

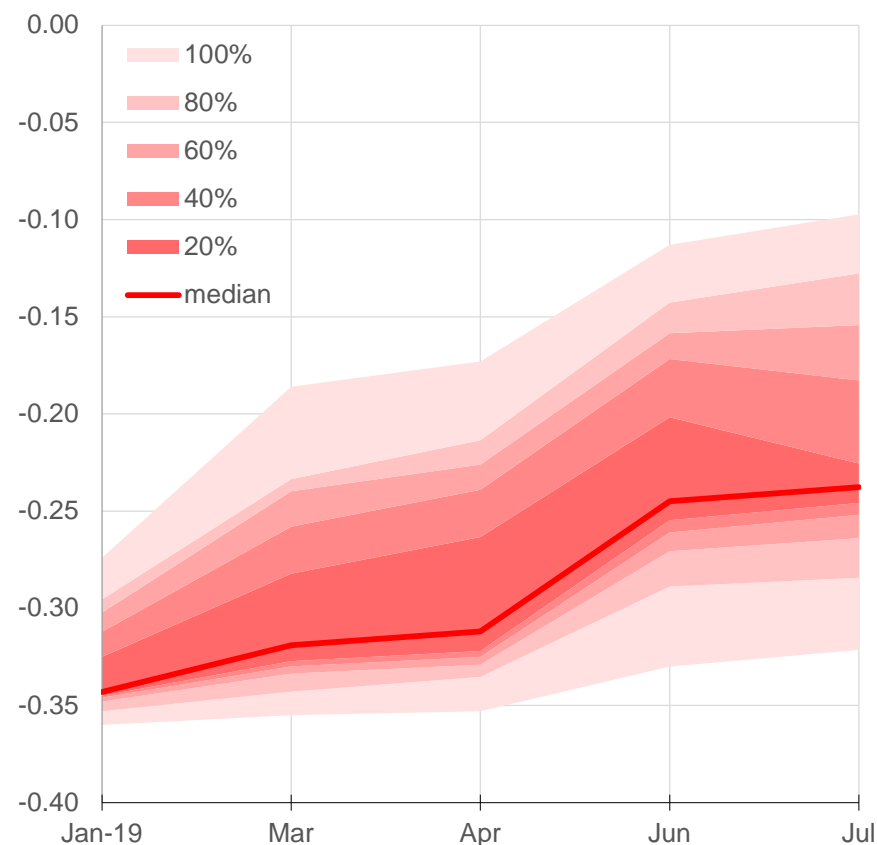
Daily yield distribution of OIS rates for 2018

(percentage per annum, traded during 1H 2017)



Daily yield distribution of OIS rates for 2019

(percentage per annum, traded during 1H 2018, up to 13 June)



Source: Bloomberg.

Notes: The chart shows the distribution of closing prices/yields of euro OIS forward contracts based on ECB maintenance periods observed during the first half of 2017 (2018) and referring to contracts maturing during the first half of 2018 (2019) for the LHS chart (RHS chart). The RHS chart stops on 13 June 2018, the day before ECB rate forward guidance was adjusted to 'through the summer'.

Markets expected fast policy removal earlier this year

Market-implied “well past” horizon (months)



Source: Bloomberg, Thomson Reuters, ECB.

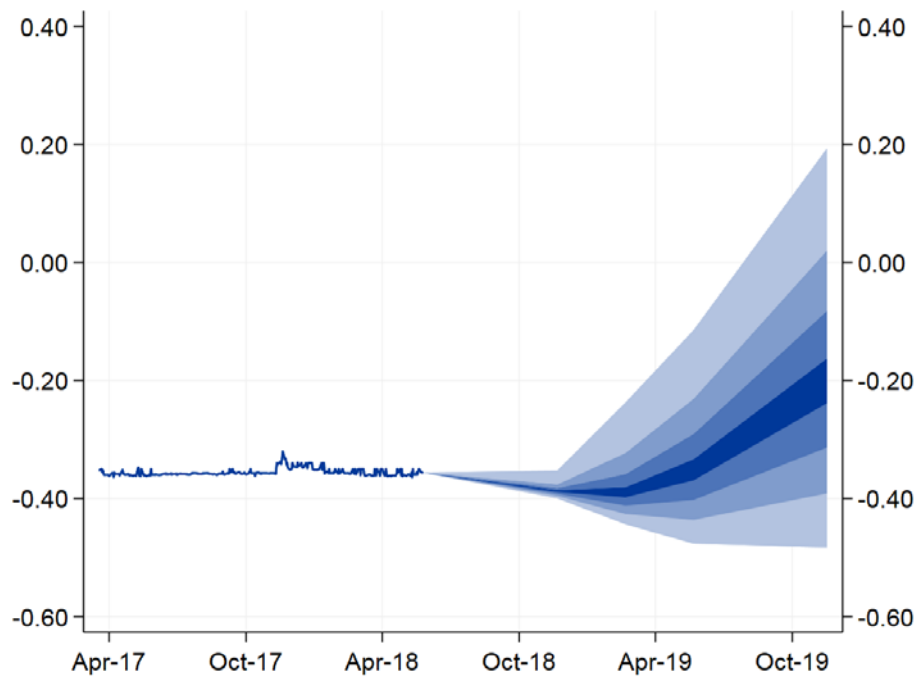
Notes: The "well past" horizon is defined as the difference between (1) the date at which the OIS forward curve exceeds the minimum of current EONIA and all OIS forward rates by 10 basis points and (2) the expected APP end date according to the median response in the most recent Bloomberg survey.

Latest observation: 13 September 2018.

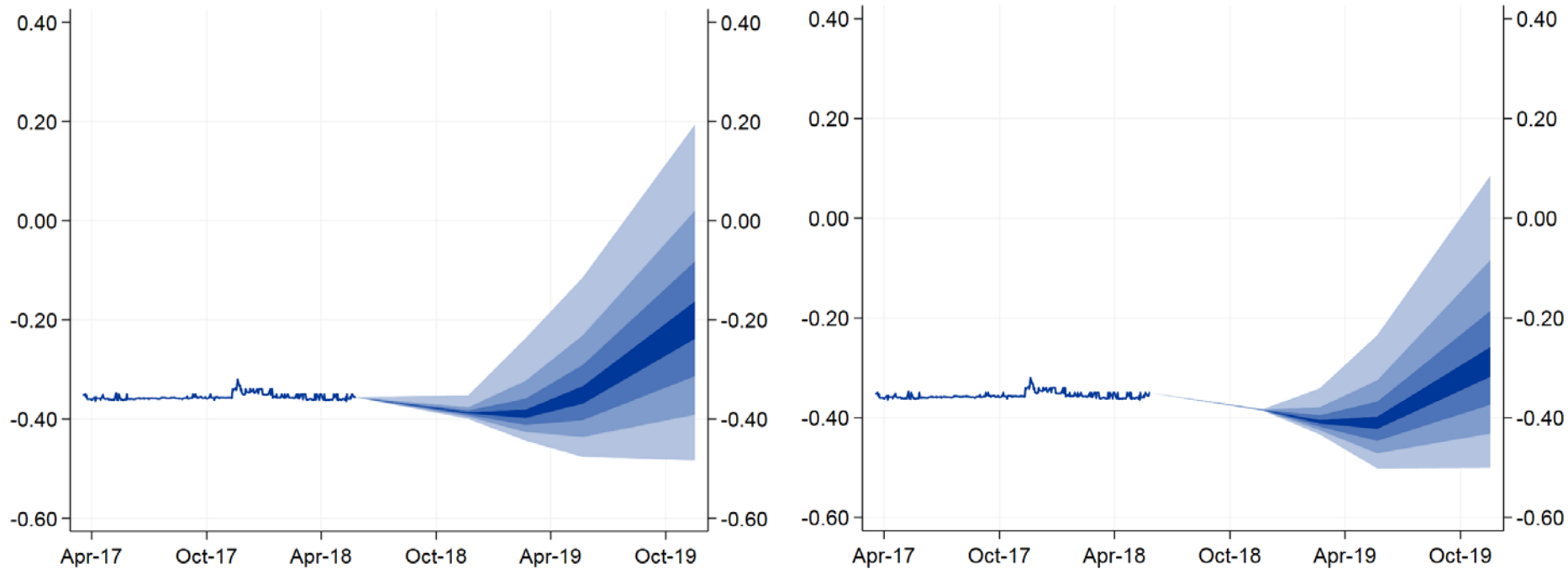
Enhanced forward guidance highly effective in reducing uncertainty

Options-implied densities of three-month EONIA forwards (percentage per annum)

13 June (pre-Governing Council)



14 June (post-Governing Council)



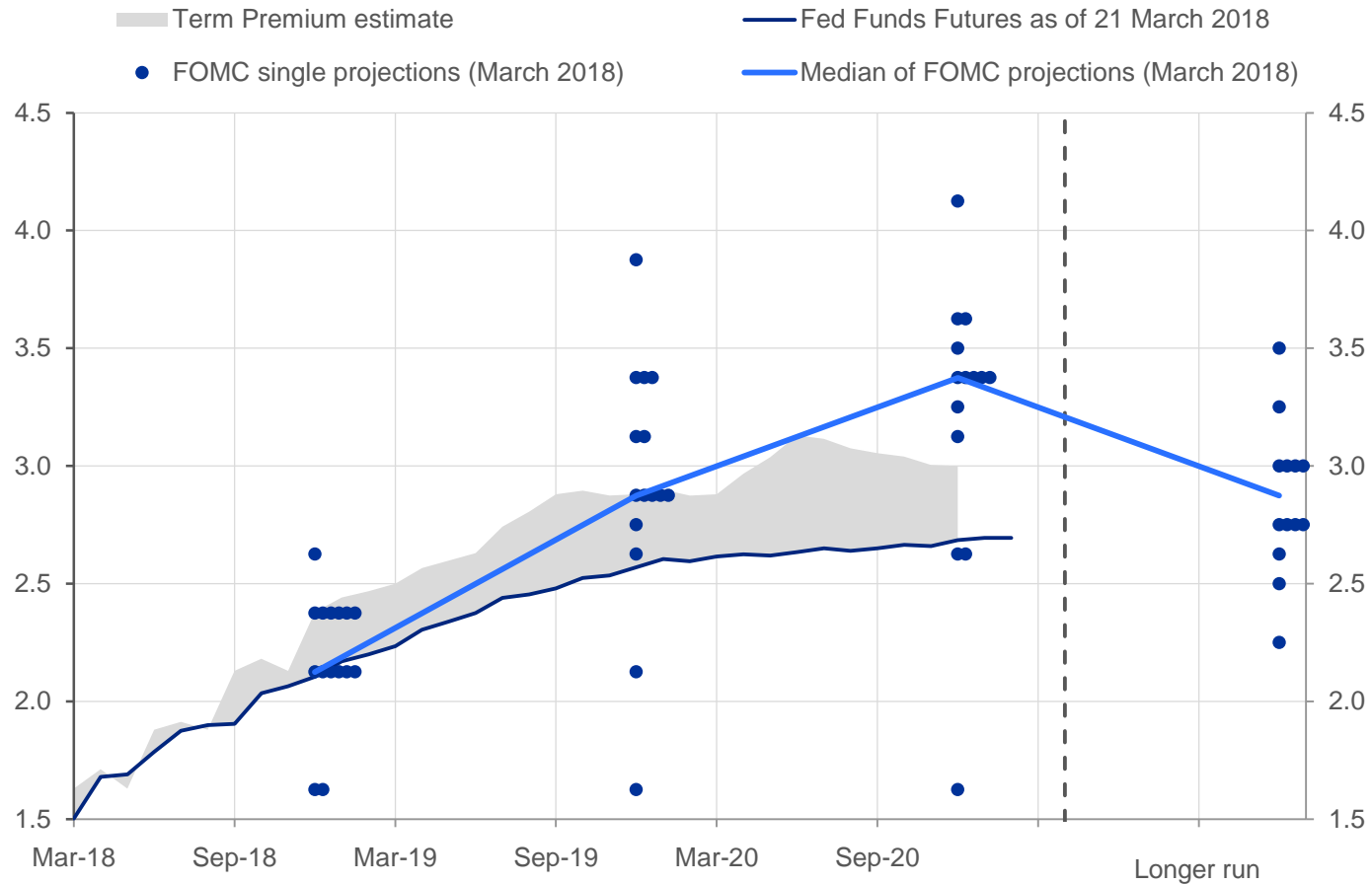
Source: Bloomberg and ECB calculations.

Notes: Option implied densities based on Euribor futures options, shifted forward by Euribor3M-OIS3M spread to better conform to 3m EONIA forwards. The blue shaded areas are the percentiles of the distributions (15-85th). The tails of the distributions are not plotted.

Term premia may complicate rate path guidance

US Fed Funds Futures and FOMC dot plot

(percentage per annum)



Source: Bloomberg.

Notes: The term premium is calculated as the difference between the nominal fed funds futures rates and the median fed funds rate projections in the FRBNY's Survey of Primary Dealers. This methodology is similar to [Crump, Eusepi and Moench \(2016\)](#).

Thank you