Bundesbank chief Weidmann to step down

MARKETS CAN LARGELY EXPECT POLICY CONTINUITY

IN A NUTSHELL

- The resignation of Bundesbank President Weidmann comes as a surprise. What is particularly striking is the timing of the announcement
- We do not expect major change in the monetary policy direction of the ECB
- The immediate implications for financial markets look limited

Surprise resignation at the Bundesbank

Bundesbank President Weidmann today surprisingly announced his resignation at the end of 2021 and gave personal reasons for this decision. Jens Weidmann was considered a proven monetary-policy hawk within the Governing Council of the European Central Bank (ECB). During his 10-year tenure, he had repeatedly expressed his skepticism, especially about the ECB’s securities purchase program. That said, recent changes in the ECB’s monetary-policy strategy with the new symmetrical inflation target of 2% have been supported by the Bundesbank.

The timing is particularly striking. It is possible that Weidmann wanted to wait for the strategy review to end - he was also seen as a skeptic when it came to considering ecological aspects in monetary policy. The outcome of the federal election could also have played an indirect role in his considerations. After all, Weidmann was a close confidante of Angela Merkel. In the changed political climate, he could probably have expected even less backing from Berlin for any looming battles within the Governing Council.

We do not expect major changes in the monetary-policy direction of the ECB

After Weidmann's resignation, it will be up to the new German government to appoint a successor. At the moment, all signs point to a so called traffic-light coalition, of Social Democrats (SPD), Greens and Liberals (FDP). As Germany is the largest member state of the euro area, whoever represents it will have an important voice in the ECB’s Governing Council. However, we do not expect any major changes in the monetary policy direction of the ECB. We continue to assume that the ECB will recalibrate its monetary policy in December 2021 - when Bundesbank President Weidmann is still in office. We expect it to significantly reduce its bond purchase program in 2022. One can only speculate about who the successor might be. However, it is questionable whether he or she will publicly take a similarly hawkish stance. This might make the ECB Council even more pragmatic than it already is. In any case, we do not assume that Jens Weidmann’s decision to withdraw at the end of this year will have a significant impact on interest rates in the euro area.

The immediate implications for financial markets look limited

Jens Weidmann was known for his less than supportive attitude towards asset purchases. In this respect, he was certainly not a typical representative of the current majority view in the Governing Council. That seems to have left him isolated at times. When it comes to the question of succession, it is not only interesting which views the successor brings to the office, but also how sensitive he or she will be in reaching out to other members. That would probably be the best way to ensure that all arguments are heard and properly reflected. But it will also take some time before the markets can form a judgment on that.
Fixed Income & Currencies: There was hardly any reaction to the news of Weidmann’s resignation in either Bunds or foreign-exchange markets. This is probably due to the fact that Euroland-specific news (including with regard to monetary policy) currently only play a subordinate role for the exchange rate between the euro and the dollar. Rather, the relative and global growth outlook are currently the more important drivers.

Equities: In the stock markets too, plenty of other concerns are currently more prevalent. Of course, that could change if the Weidmann succession did result in any big surprises after all.

ESG impact: In this area, the ECB is still only at the beginning of what is likely to be a long journey for market participants and central bankers alike. The immediate effects should therefore remain limited for the time being.

Glossary

The Alliance 90/The Greens, also referred to as the “Greens,” is an environmentalist political party in Germany that is considered center-left in the German political landscape.

The Bundesbank is the central bank of Germany.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

The US Dollar is the common currency of the United States of America and is the most held reserve currency in the world.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

Investors increasingly take environmental, social and governance (ESG) criteria into account when analyzing companies in order to identify non-financial risks and opportunities.

The Free Democratic Party (FDP), also referred to as the “Liberals”, is a market-friendly and social-liberal political party in Germany that advocates human rights, civil and economic liberalism and that is considered centre-right in the German political landscape.

Hawks are in favor of a restrictive monetary policy.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank’s mandate).

The Social Democratic Party of Germany (SPD), also referred to as the “Social Democrats”, is a social-democratic political party in Germany that is considered center-left in the German political landscape.
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