

EUROPEAN CENTRAL BANK

A new suite of measures

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- Key rates have each been cut 10 basis points. The interest rates on the main refinancing operations, marginal lending facility and deposit facility stand at 0.05%, 0.30% and -0.20% respectively.
- An asset-backed securities purchase program (ABS) will begin in October; the details will be unveiled at the next monetary policy meeting.
- A third covered bond purchase program will also start in October, and the details will also be shared at the next meeting.
- The forecasts for economic growth in the euro zone have been revised downward for 2014 and 2015, to 0.9% and 1.6% respectively. The forecast for 2016 has been upgraded to 1.9%.
- The 2014 inflation forecast has been downgraded to 0.6%. The forecasts for 2015 and 2016 remain unchanged, at 1.1% and 1.4% respectively.

COMMENTS

The ECB surprised markets today when it announced a new set of measures to reverse inflation's worrisome trend and stimulate credit and the economy in the euro zone. The latest economic figures released in August came in below expectations, forcing the ECB to downgrade its forecasts for inflation and growth. At the press conference, Mario Draghi also revisited his concerns for inflation expectations, which he had discussed at the Jackson Hole Symposium in August. Several indicators for these expectations have dropped, which poses a greater threat to the aim of price stability in the medium term.

We expected the ECB to give an overview of the next actions it could take, similar to what it did in May before announcing several measures in June. This time, the ECB decided to be more explicit, officially announcing in its statement that it would begin security purchases next month. However, important details have yet to be revealed. Among other things, it will be interesting to see the amounts to be spent

on ABS and covered bond purchases. The ECB indicated that its entire package of measures, including its targeted long-term refinancing operations (TLTRO) program, will have a considerable impact on the size of its balance sheet.

It may seem useless to lower key rates by just ten basis points, especially as the last time the ECB had more or less stated that it had reached its lower limit. In fact, the door only remained open for technical adjustments. Mario Draghi had an interesting argument in favour of this rate cut. There were fears that some financial institutions would scale back their participation in TLTRO if there was a chance that key rates would be lowered again. The lending conditions for TLTRO are fixed according to key rates, and it is understandable that financial institutions would try to obtain the best conditions possible, even waiting a few more months. Mario Draghi clearly indicated that the lower limit had now been reached, which should eliminate this uncertainty for financial institutions.

Implications: The impact of today's announcements hit the euro particularly hard, and it now stands close to US\$1.30. Nevertheless, we must wait until October to see the true scope of these new measures. The euro could therefore remain quite volatile until then. Also, note that the addition of a covered bond purchasing program can be interpreted as a way to buy time before adopting a true quantitative easing program. The fact that today's measures were not unanimously adopted is another sign that such a program is not imminent.

Hendrix Vachon
Senior Economist

François Dupuis
Vice-President and Chief Economist

Mathieu D'Anjou
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Schedule 2014 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
9	European Central Bank	s.q.	0.25	1	Reserve Bank of Australia	s.q.	2.50
9	Bank of England	s.q.	0.50	3	European Central Bank	s.q.	0.15
15	Bank of Brazil	+50 b.p.	10.50	3	Bank of Sweden	-50 b.p.	0.25
21-22	Bank of Japan	---	---	10	Bank of England	s.q.	0.50
22	Bank of Canada	s.q.	1.00	11	Bank of Mexico	s.q.	3.00
29	Reserve Bank of New Zealand	s.q.	2.50	14-15	Bank of Japan	---	---
29	Federal Reserve	s.q.	0.25	16	Bank of Brazil	s.q.	11.00
31	Bank of Mexico	s.q.	3.50	16	Bank of Canada	s.q.	1.00
FEBRUARY			AUGUST				
3	Reserve Bank of Australia	s.q.	2.50	23	Reserve Bank of New Zealand	+25 b.p.	3.50
6	European Central Bank	s.q.	0.25	30	Federal Reserve	s.q.	0.25
6	Bank of England	s.q.	0.50	SEPTEMBER			
13	Bank of Sweden	s.q.	0.75	2	Reserve Bank of Australia	s.q.	2.50
17-18	Bank of Japan	---	---	3	Bank of Brazil	s.q.	11.00
26	Bank of Brazil	+25 b.p.	10.75	3	Bank of Canada	s.q.	1.00
MARCH			OCTOBER				
3	Reserve Bank of Australia	s.q.	2.50	3-4	Bank of Japan	---	---
5	Bank of Canada	s.q.	1.00	4	European Central Bank	-10 b.p.	0.05
6	European Central Bank	s.q.	0.25	4	Bank of England	s.q.	0.50
6	Bank of England	s.q.	0.50	4	Bank of Sweden	s.q.	0.25
10-11	Bank of Japan	---	---	5	Bank of Mexico		
12	Reserve Bank of New Zealand	+25 b.p.	2.75	10	Reserve Bank of New Zealand		
19	Federal Reserve	s.q.	0.25	17	Federal Reserve		
20	Swiss National Bank	s.q.	0.00	18	Bank of Norway		
21	Bank of Mexico	s.q.	3.50	18	Swiss National Bank		
27	Bank of Norway	s.q.	1.50	NOVEMBER			
31	Reserve Bank of Australia	s.q.	2.50	3	Reserve Bank of Australia		
APRIL			DECEMBER				
2	Bank of Brazil	+25 b.p.	11.00	1	Reserve Bank of Australia		
3	European Central Bank	s.q.	0.25	3	Bank of Brazil		
7-8	Bank of Japan	---	---	3	Bank of Canada		
9	Bank of Sweden	s.q.	0.75	4	European Central Bank		
10	Bank of England	s.q.	0.50	4	Bank of England		
16	Bank of Canada	s.q.	1.00	5	Bank of Mexico		
23	Reserve Bank of New Zealand	+25 b.p.	3.00	10	Reserve Bank of New Zealand		
25	Bank of Mexico	s.q.	3.50	11	Bank of Norway		
30	Bank of Japan	---	---	11	Swiss National Bank		
30	Federal Reserve	s.q.	0.25	16	Bank of Sweden		
MAY			NOVEMBER				
6	Reserve Bank of Australia	s.q.	2.50	17	Federal Reserve		
8	European Central Bank	s.q.	0.25	18-19	Bank of Japan		
8	Bank of England	s.q.	0.50	DECEMBER			
8	Bank of Norway	s.q.	1.50	1	Reserve Bank of Australia		
20-21	Bank of Japan	---	---	3	Bank of Brazil		
28	Bank of Brazil	s.q.	11.00	3	Bank of Canada		
JUNE			DECEMBER				
3	Reserve Bank of Australia	s.q.	2.50	4	European Central Bank		
4	Bank of Canada	s.q.	1.00	4	Bank of England		
5	European Central Bank	-10 b.p.	0.15	5	Bank of Mexico		
5	Bank of England	s.q.	0.50	10	Reserve Bank of New Zealand		
6	Bank of Mexico	-50 b.p.	3.00	11	Bank of Norway		
11	Reserve Bank of New Zealand	+25 b.p.	3.25	11	Swiss National Bank		
12-13	Bank of Japan	---	---	16	Bank of Sweden		
18	Federal Reserve	s.q.	0.25	17	Federal Reserve		
19	Bank of Norway	s.q.	1.50	18-19	Bank of Japan		
19	Swiss National Bank	s.q.	0.00				

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively.