Essentials of the Monetary Policy



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September 4, 2014

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.

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Schedule 2014 of Central Bank meetings

		Decision	Rate
JANUA			0.05
9 9	European Central Bank Bank of England	s.q. s.q.	0.25 0.50
15	Bank of Brazil	+50 b.p.	10.50
21-22	Bank of Japan		
22	Bank of Canada	s.q.	1.00
29	Reserve Bank of New Zealand	s.q.	2.50
29	Federal Reserve	s.q.	0.25
31	Bank of Mexico	s.q.	3.50
FEBRU	ADV		
3	Reserve Bank of Australia	s.q.	2.50
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
13	Bank of Sweden	s.q.	0.75
17-18	Bank of Japan		
26	Bank of Brazil	+25 b.p.	10.75
MARCH			
3	Reserve Bank of Australia	s.q.	2.50
5	Bank of Canada	s.q.	1.00
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
10-11	Bank of Japan		
12	Reserve Bank of New Zealand	+25 b.p.	2.75
19	Federal Reserve	s.q.	0.25
20	Swiss National Bank	s.q.	0.00
21	Bank of Mexico	s.q.	3.50
27	Bank of Norway	s.q.	1.50
31	Reserve Bank of Australia	s.q.	2.50
APRIL			
2	Bank of Brazil	+25 b.p.	11.00
3	European Central Bank	s.q.	0.25
7-8	Bank of Japan		
9	Bank of Sweden	s.q.	0.75
10 16	Bank of England Bank of Canada	s.q.	0.50 1.00
23	Reserve Bank of New Zealand	s.q. +25 b.p.	3.00
25	Bank of Mexico	s.q.	3.50
30	Bank of Japan		
30	Federal Reserve	s.q.	0.25
MAY			
MA 1 6	Reserve Bank of Australia	6.0	2.50
8	European Central Bank	s.q. s.q.	0.25
8	Bank of England	s.q.	0.50
8	Bank of Norway	s.q.	1.50
20-21	Bank of Japan		
28	Bank of Brazil	s.q.	11.00
JUNE			
JUNE 3	Reserve Bank of Australia	s.q.	2.50
4	Bank of Canada	s.q.	1.00
5	European Central Bank	-10 b.p.	0.15
5	Bank of England	s.q.	0.50
6	Bank of Mexico	-50 b.p.	3.00
11	Reserve Bank of New Zealand	+25 b.p.	3.25
12-13	Bank of Japan		
18	Federal Reserve	s.q.	0.25
19	Bank of Norway	s.q.	1.50
19	Swiss National Bank	s.q.	0.00

		Decision	Rate		
JULY	Reserve Bank of Australia	s.q.	2.50		
3	European Central Bank	s.q.	0.15		
3	Bank of Sweden	-50 b.p.	0.25		
10	Bank of England	s.q.	0.50		
11 14-15	Bank of Mexico	s.q.	3.00		
14-15	Bank of Japan Bank of Brazil	 s.q.	11.00		
16	Bank of Canada	s.q.	1.00		
23	Reserve Bank of New Zealand	+25 b.p.	3.50		
30	Federal Reserve	s.q.	0.25		
	AUGUST				
5	Reserve Bank of Australia	s.q.	2.50		
7	European Central Bank	s.q.	0.15		
7 7-8	Bank of England Bank of Japan	s.q.	0.50		
7-0	Ballk of Japan				
SEPTE					
2	Reserve Bank of Australia	s.q.	2.50		
3	Bank of Brazil Bank of Canada	s.q.	11.00 1.00		
3-4		s.q.	1.00		
4	European Central Bank	-10 b.p.	0.05		
4	Bank of England	s.q.	0.50		
4	Bank of Sweden	s.q.	0.25		
5	Bank of Mexico				
10	Reserve Bank of New Zealand				
17 18					
18	Bank of Norway Swiss National Bank				
ОСТОВ					
2 6	European Central Bank Reserve Bank of Australia				
6-7					
9	Bank of England				
22	Bank of Canada				
	Bank of Norway				
28	Bank of Sweden				
29 29	Reserve Bank of New Zealand Bank of Brazil				
29					
31					
31	Bank of Mexico				
NOVEN	IBER				
3	Reserve Bank of Australia				
6	European Central Bank				
6	Bank of England				
18-19	Bank of Japan				
DECEMBER					
1	Reserve Bank of Australia				
3	Bank of Brazil				
3	Bank of Canada				
4 4	European Central Bank				
4 5	Bank of England Bank of Mexico				
10	Reserve Bank of New Zealand				
11	Bank of Norway				
11	Swiss National Bank				
16	Bank of Sweden				
17	Federal Reserve				
18-10	Bank of Janan				

Nore: 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.

18-19 Bank of Japan