

Flash Comment

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Niels-Henrik Bjørn, +45 33441119, cell phone +45 25501527, niesre@danskebank.dk

ECB: Trichet indicates March hike

As expected, the ECB's Governing Council left key interest rates unchanged at today's meeting. However, at the press conference, ECB President, Jean-Claude Trichet, indicated that the ECB would raise rates on the March meeting.

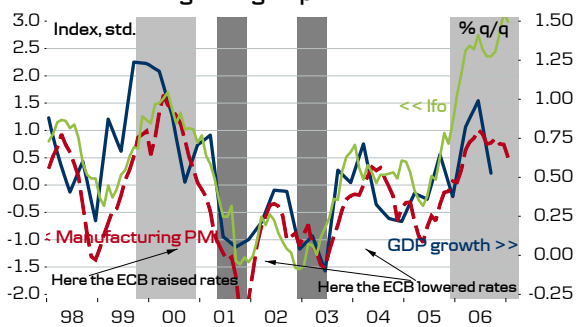
In the prepared statement Trichet gave the impression that the ECB is not contemplating ending the series of rate hikes even after the hike in March. Indeed he made a few changes in more hawkish direction:

1. Money growth was now called "vigorous" (earlier "very strong")
2. The short term risks to growth were now called "balanced" (earlier "mainly on the downside")
3. Credit growth was said to be on a sustained upward trend (in spite of clear signs of slowing in housing related credit growth)
4. The ECB would monitor wage developments very closely given very high levels of capacity utilisation (earlier this risk to price stability was not elaborated on)
5. Trichet played down the fact that inflation would go significantly below 2% during the coming months saying that inflation would rise again. Commenting this further, Trichet said that the ECB was dedicated to keeping inflation below 2% over the *medium* term - not just in 2007.

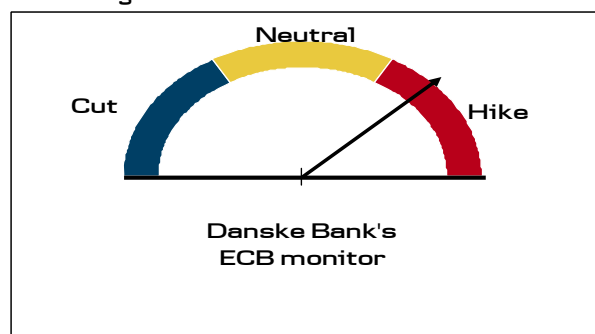
In the Q&A session Trichet did nothing to change the general impression that the ECB is still very alert and apparently does not see any strong arguments why to pause hiking rates.

Summing up, the ECB is likely to hike rates again in March. We suspect that falling business confidence and lower inflation forecasts will make the ECB more hesitant towards further rate hikes. We therefore stick to our view that the ECB will pause a little before raising rates again late this year. However, in our view the risk of a hike again in June has clearly risen.

Activity still strong enough for ECB to hike – but beginning to point down



Danske Bank's ECB monitor still in hike territory - although at the lowest level for 12 months



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