

Flash Comment

ECB meeting: No new weapons on the battlefield

- The refinancing rate was kept unchanged at 1.0%. We expect the ECB to keep rates unchanged for a prolonged period before they begin to hike.
- The ECB did not bring any new weapons to the battlefield. Soon we should look for signals that the ECB is focusing on exit strategies.
- The ECB rhetoric on the economic situation was unchanged. They still expect that after a stabilisation phase, positive growth rates should emerge by mid-2010.
- Details on the covered bond purchase programme will be published at 17.00 today. The programme will start on Monday.

Policy rates to be kept unchanged for a long time

The refinancing rate was unchanged at 1.0% as expected. Trichet did not signal that further rate cuts are in the pipeline, although he did again say that the governing council had not decided that 1% is the lowest level. With inflation in negative territory and low money growth it could be argued that the ECB should take rates even lower, but we nevertheless believe that the next rate change will be upward. There have been plenty of signals from members of the governing council that they are reluctant to go below 1%. Only if economic prospects deteriorate again and the ECB starts to see a real risk of deflation will they lower rates.

We expect policy rates to be kept on hold for a long time. We do not see a rate hike within 12 months, but possibly shortly after (in Q3 2010). There is plenty of spare capacity in the economy and Trichet noted today that inflation is expected to remain subdued over the relevant period. Nevertheless the ECB will be careful to avoid keeping the policy rates low for too long, and when the economy starts to pick up we should watch out for signals of an early surprise move from the ECB.

Press conference

The ECB did not announce additional measures or top up on already announced measures, and in the Q&A Trichet said that “We had not envisaged any new, other measure or operation. We consider that what we are doing now is appropriate”. Trichet also noted that all that they have been doing have been designed to allow easy exit strategies.

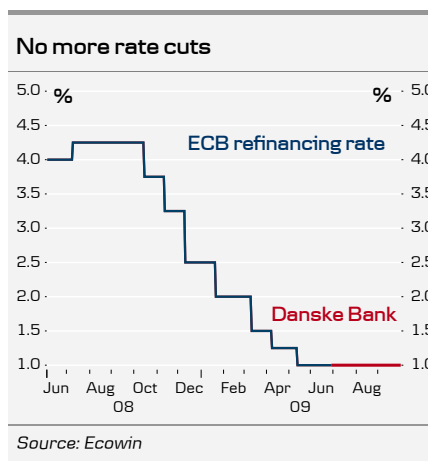
In the Q&A Trichet also said that he sees last week’s 12 month auction as an enormous success. He expects that the additional liquidity will help banks to increase lending to the corporate sector. No decision has been taken on whether to add a spread at the auctions in September and December.

Details on the covered bond purchase programme will be published at 17.00 today. The programme will start on Monday. Maturity can go from 3 to 10 years.

The ECB rhetoric is not yet becoming more positive. The ECB still expects that after a stabilisation phase, positive growth rates will emerge by mid-2010. A rising oil price was added as a downside risk. Confidence indicators have improved further during the last month and Asian hard data have continued to improve, but that is evidently not enough for the ECB to become more light-hearted as long as European hard data are only showing signs of a stabilisation at best. We think that the ECB is too negative.

| Interest rate (June) | | | | |
|----------------------|-------|-------|-------|-------|
| Act | DB | Con | Last | |
| Refi rate | 1.0% | 1.0% | 1.0% | 1.0% |
| Deposit rate | 0.25% | 0.25% | 0.25% | 0.25% |

Source: Ecowin



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Disclosure

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