

June 4, 2009

EUROPEAN CENTRAL BANK

No further monetary easing in Europe

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- The key rate is unchanged at 1.00%, a level that the ECB judges to be appropriate given all of the available information and the enhanced credit support measures announced in May.
- Recent survey information indicates that, after two quarters of very negative growth, the euro zone's economy should contract much less steeply over the remainder of the year. After a stabilization phase, the economy is expected to return to growth by mid-2010.
- Price growth will be impeded over the medium range by the marked weakening of economic activity in the euro area and globally. Indicators of inflation expectations show that they are firmly anchored in line with the aim of keeping inflation below but close to 2%. The ECB judges that the risks to its inflation scenario are broadly balanced.

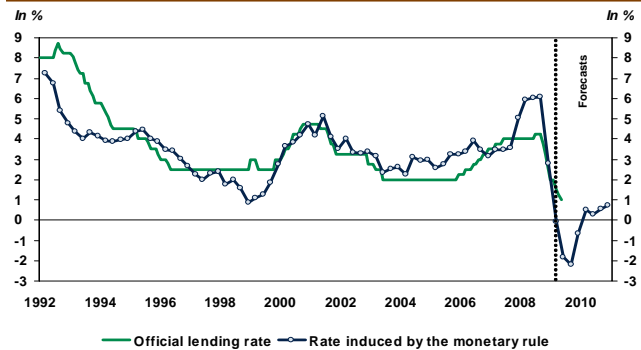
COMMENTS

As the vast majority of analysts had forecast, the ECB opted to leave its key rate unchanged this morning. Although President Trichet reiterated that 1.00% did not represent an absolute floor, it seems increasingly clear that it will take more substantial deterioration in economic and financial conditions to lower the key rate further still.

The ECB's decision is based on a relatively pessimistic economic scenario. The new projections by Eurosystem staff call for the zone's real GDP variation to be between -5.1% and -4.1% in 2009, followed by growth between -1.0% and 0.4% in 2010. Although some economic statistics have improved recently, growth is not expected to return until mid-2010. The inflation rate, which fell to 0% in May according to the flash estimate, should cross into negative territory in the next few months because of base effects. On average, the ECB's new scenario calls for annual inflation to be between 0.1% and 0.5% in 2009, and between 0.6% and 1.4% in 2010.

President Trichet also provided a few additional details on the purchase of covered bonds. He confirmed that the amount would be €60B and that the purchases would be made in the

Our monetary rule indicates that the ECB should ease its monetary policy further



Sources: Datastream and Desjardins, Economic Studies

primary and secondary markets. Designed to support credit, the program should run from July 2009 to June 2010. However, this does not constitute a quantitative measure. Answering questions regarding Chancellor Merkel's recent criticism of actions taken by the central banks, the President reported that he had spoken with the Chancellor and reaffirmed the ECB's independence.

Implications: Although the very weak outlooks for growth and inflation could justify a lower key rate and quantitative easing, the recent signs that the economy is stabilizing bolster the ECB's decision not to do anything more. Also, there was nothing new from the Bank of England this morning. In both cases, key rates should remain unchanged for several quarters.

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EXCERPT FROM THE EUROPEAN CENTRAL BANK PRESS RELEASE



[...] On the basis of its regular economic and monetary analyses, the Governing Council decided to leave the key ECB interest rates unchanged. The current rates are appropriate taking into account our decisions of early May, including the enhanced credit support measures, and all the information and analyses which have become available since then. We confirmed our expectation that price developments over the policy-relevant horizon will remain dampened by the marked weakening of economic activity in the euro area and globally. Recent survey information indicates that, following two quarters of very negative growth, economic activity over the remainder of this year is expected to decline at much less negative rates. After a stabilisation phase, positive quarterly growth rates are expected by mid-2010. This assessment incorporates adverse lagged effects, such as a further deterioration in labour markets, which are likely to materialise over the coming months. At the same time, available indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term. The outcome of the monetary analysis supports the assessment of moderate inflationary pressure, as money and credit growth have further declined on an annual basis. Against this background, we expect price stability to be maintained over the medium term, thereby supporting the purchasing power of euro area households. [...]

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
March 2008			
17	Bank of Japan	s.q.	0.10
18	Federal Reserve	s.q.	0.00 / 0.25
20	Bank of Mexico	-75 b.p.	6.75
25	Bank of Norway	-50 b.p.	2.00
April 2008			
2	European Central Bank	-25 b.p.	1.25
6	Bank of Japan	s.q.	0.10
7	Reserve Bank of Australia	-25 b.p.	3.00
9	Bank of England	s.q.	0.50
17	Bank of Mexico	-75 b.p.	6.00
21	Bank of Sweden	-50 b.p.	0.50
21	Bank of Canada	-25 b.p.	0.25
29	Reserve Bank of New Zealand	-50 b.p.	2.50
29	Bank of Brazil	-100 b.p.	10.25
29	Bank of Japan	s.q.	0.10
29	Federal Reserve	s.q.	0.00 / 0.25
May 2008			
5	Reserve Bank of Australia	s.q.	3.00
6	Bank of Norway	-50 b.p.	1.50
7	Bank of England	s.q.	0.50
7	European Central Bank	-25 b.p.	1.00
15	Bank of Mexico	-75 b.p.	5.25
21	Bank of Japan	s.q.	0.10
June 2008			
2	Reserve Bank of Australia	s.q.	3.00
4	Bank of England	s.q.	0.50
4	European Central Bank	s.q.	1.00
4	Bank of Canada	s.q.	0.25

s.q.: status quo; b.p. : basis points
Source: Desjardins, Economic Studies

**Table 2
Coming soon**

Date	Central Bank
June 2009	
10	Reserve Bank of New Zealand
10	Bank of Brazil
15	Bank of Japan
17	Bank of Norway
18	Swiss National Bank
19	Bank of Mexico
24	Federal Reserve
July 2009	
2	European Central Bank
2	Bank of Sweden
7	Reserve Bank of Australia
9	Bank of England
14	Bank of Japan
17	Bank of Mexico
21	Bank of Canada
22	Bank of Brazil
29	Reserve Bank of New Zealand
August 2009	
4	Reserve Bank of Australia
6	Bank of England
6	European Central Bank
10	Bank of Japan
12	Bank of Norway
12	Federal Reserve
21	Bank of Mexico
September 2009	
1	Reserve Bank of Australia
2	Bank of Brazil
3	European Central Bank

Source: Desjardins, Economic Studies