

EUROPEAN CENTRAL BANK Euro zone key interest rates are lowered

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- The Eurosystem's interest rate for its main refinancing operations has been lowered by 25 basis points, to 0.25%.
- The interest rate for the marginal lending facility is reduced by 25 basis points, to 0.75%. The interest rate of the deposit facility remains unchanged at 0.00%.
- Special refinancing operations with a term of three months or less will proceed in unlimited quantities until July 2015 at least. This is a one-year extension.
- An extended period of low inflation is now forecast.
- The ECB remains prepared to adopt various measures if necessary. Key interest rates could be lowered further.

COMMENTS

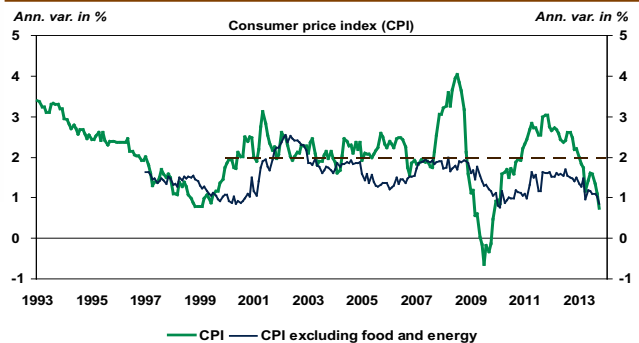
The ECB surprised most forecasters with today's decision, although they were anticipating that a signal would be given about an imminent intervention. It just came sooner than expected.

It should be pointed out that inflation was astonishingly low in October. The annual change in consumer prices stood at 0.7% last month, i.e. 0.4 percentage points below the September figure. This sudden drop is all the more disquieting because the change in prices excluding fresh food and energy also fell below the 1% mark. This tells us that the decline by inflation is quite widespread.

Officially, the ECB wishes to see an inflation rate below, but close to, the 2% mark. At less than 1%, inflation has strayed too far from that target. Last month, the ECB still believed that inflation would climb back up sufficiently in the medium term so that it would not need to take action. But its forecast has now changed.

It would be reasonable to think that the appreciation of the euro, which reached a 2-year peak of US\$1.38 in October, is not helping matters. A stronger currency increases disinflationary pressures by lowering the prices of imports and curbing exports. The ECB did not allude directly to

The decline by inflation finally convinced the ECB to take action



Sources: Datastream and Desjardins, Economic Studies

the appreciation of the euro in its press release, but it did mention, in its downside economic risks, that exports might be lower than forecast.

Implications: The euro has reacted to today's decision. The currency had already started a pullback in anticipation that the ECB would soon take steps. The fact that the Federal Reserve has postponed its reduction of securities purchases, contributing to a weakening of the U.S. dollar, may have increased the pressure on the ECB. The door has been left open to further interventions. The options of lowering deposit rates into negative territory and of announcing new long-term refinancing operations (LTRO) are still on the table. The latter option appears quite credible in the short term, given that requirements for longer-term financing are still evident.

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Schedule 2013 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
10	European Central Bank	s.q.	0.75	2	Reserve Bank of Australia	s.q.	2.75
10	Bank of England	s.q.	0.50	3	Bank of Sweden	s.q.	1.00
16	Bank of Brazil	s.q.	7.25	4	European Central Bank	s.q.	0.50
18	Bank of Mexico	s.q.	4.50	4	Bank of England	s.q.	0.50
21	Bank of Japan	s.q.	0.10	10	Bank of Brazil	+50 b.p.	8.50
23	Bank of Canada	s.q.	1.00	11	Bank of Japan	s.q.	0.10
30	Reserve Bank of New Zealand	s.q.	2.50	12	Bank of Mexico	s.q.	4.00
30	Federal Reserve	s.q.	0.25	17	Bank of Canada	s.q.	1.00
FEBRUARY			AUGUST				
4	Reserve Bank of Australia	s.q.	3.00	1	European Central Bank	s.q.	0.50
7	European Central Bank	s.q.	0.75	1	Bank of England	s.q.	0.50
7	Bank of England	s.q.	0.50	6	Reserve Bank of Australia	-25 b.p.	2.50
13	Bank of Sweden	s.q.	1.00	8	Bank of Japan	s.q.	0.10
13	Bank of Japan	s.q.	0.10	28	Bank of Brazil	+50 b.p.	9.00
MARCH			SEPTEMBER				
4	Reserve Bank of Australia	s.q.	3.00	3	Reserve Bank of Australia	s.q.	2.50
6	Bank of Brazil	s.q.	7.25	4	Bank of Canada	s.q.	1.00
6	Bank of Canada	s.q.	1.00	5	European Central Bank	s.q.	0.50
6	Bank of Japan	s.q.	0.10	5	Bank of England	s.q.	0.50
7	European Central Bank	s.q.	0.75	5	Bank of Sweden	s.q.	1.00
7	Bank of England	s.q.	0.50	5	Bank of Japan	s.q.	0.10
8	Bank of Mexico	-50 b.p.	4.00	6	Bank of Mexico	-25 b.p.	3.75
13	Reserve Bank of New Zealand	s.q.	2.50	11	Reserve Bank of New Zealand	s.q.	2.50
14	Bank of Norway	s.q.	1.50	18	Federal Reserve	s.q.	0.25
14	Swiss National Bank	s.q.	0.00	19	Bank of Norway	s.q.	1.50
20	Federal Reserve	s.q.	0.25	19	Swiss National Bank	s.q.	0.00
APRIL			OCTOBER				
1	Reserve Bank of Australia	s.q.	3.00	1	Reserve Bank of Australia	s.q.	2.50
4	European Central Bank	s.q.	0.75	2	European Central Bank	s.q.	0.50
4	Bank of England	s.q.	0.50	4	Bank of Japan	s.q.	0.10
4	Bank of Japan	s.q.	0.10	9	Bank of Brazil	+50 b.p.	9.50
17	Bank of Sweden	s.q.	1.00	10	Bank of England	s.q.	0.50
17	Bank of Brazil	+25 b.p.	7.50	23	Bank of Canada	s.q.	1.00
17	Bank of Canada	s.q.	1.00	24	Bank of Norway	s.q.	1.50
23	Reserve Bank of New Zealand	s.q.	2.50	24	Bank of Sweden	s.q.	1.00
26	Bank of Japan	s.q.	0.10	25	Bank of Mexico	-25 b.p.	3.50
26	Bank of Mexico	s.q.	4.00	30	Reserve Bank of New Zealand	s.q.	2.50
MAY			NOVEMBER				
1	Federal Reserve	s.q.	0.25	30	Federal Reserve	s.q.	0.25
2	European Central Bank	-25 b.p.	0.50	31	Bank of Japan	s.q.	0.10
7	Reserve Bank of Australia	-25 b.p.	2.75	DECEMBER			
8	Bank of Norway	s.q.	1.50	2	Reserve Bank of Australia	s.q.	2.50
9	Bank of England	s.q.	0.50	4	European Central Bank	-25 b.p.	0.25
22	Bank of Japan	s.q.	0.10	7	Bank of England	s.q.	0.50
29	Bank of Brazil	+50 b.p.	8.00	21	Bank of Japan		
29	Bank of Canada	s.q.	1.00	27	Bank of Brazil		
JUNE			DECEMBER				
4	Reserve Bank of Australia	s.q.	2.75	2	Reserve Bank of Australia		
6	European Central Bank	s.q.	0.50	4	Bank of Canada		
6	Bank of England	s.q.	0.50	5	European Central Bank		
7	Bank of Mexico	s.q.	4.00	5	Bank of England		
11	Bank of Japan	s.q.	0.10	5	Bank of Norway		
12	Reserve Bank of New Zealand	s.q.	2.50	5	Bank of Mexico		
19	Federal Reserve	s.q.	0.25	6	Bank of Mexico		
20	Bank of Norway	s.q.	1.50	11	Reserve Bank of New Zealand		
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				17	Bank of Sweden		
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