

March 6, 2014



EUROPEAN CENTRAL BANK

The status quo is being maintained despite weak forecast inflation

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- The interest rates on the main refinancing operations, marginal lending facility and deposit facility will remain unchanged at 0.25%, 0.75% and 0.00% respectively.
- Economic growth forecasts were slightly upgraded, to 1.2%, 1.5% and 1.8% for 2014, 2015 and 2016 respectively.
- The risks surrounding the economic outlook continue to be on the downside. Geopolitical uncertainty was added to downside risks.
- A long period of low inflation is forecast, but the situation should gradually correct itself. On average, inflation should reach 1.0% in 2014, 1.3% in 2015 and 1.5% in 2016. More specifically, inflation should reach 1.7% at the end of 2016.

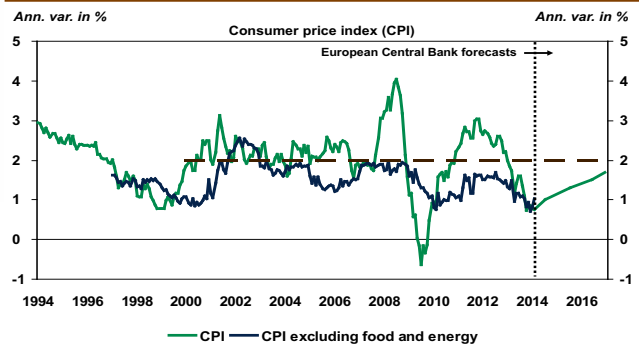
COMMENTS

Today's meeting was eagerly awaited because of the release of the ECB's new forecasts. In February, the ECB appeared to be on the verge of intervening, but indicated that it preferred to wait for more data, including its new forecasts. Mario Draghi had in fact reiterated that lowering key rates could be justified if the inflation forecasts were revised downwards. However, despite a weaker inflation forecast for 2014, and inflation failing to reach its target in 2015 and 2016, the ECB still maintained its status quo.

The ECB seems to find comfort in the latest data released in the euro zone. In particular, business and consumer confidence indicators suggest that the economic recovery is on track, though at a still moderate pace. Inflation was also less disappointing in February, with total inflation stabilizing at 0.8% and core inflation increasing to 1.0%. Even the labour market showed some encouraging signs, with the stabilization of the unemployment rate.

The statement indicates that the ECB's inflation forecasts are based on the assumptions that exchange rates will remain stable and that energy prices will go down. Mario Draghi emphasized this point in a press conference. These assumptions drastically limit the reliability of the

The European Central Bank forecasts that inflation will remain below its target until the end of 2016



Sources: Datastream and Desjardins, Economic Studies

forecasts. In fact, it is likely that during the coming years a depreciating euro or rising energy prices will further stimulate inflation. The exchange rate seems to be a particularly important factor. Mario Draghi noted that the strength of the euro actually reduces the inflation rate by 0.4 percentage points.

Implications: The ECB seems a little more optimistic about the economy, and seems to believe that inflation could return to its target over the medium term. Given the direct correlation between the exchange rate and inflation, the ECB could still become increasingly uncomfortable with the euro's appreciation and be forced to act. New financial strains or less encouraging economic data would also force the ECB's hand.

Hendrix Vachon
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Mathieu D'Anjou
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2014, Desjardins Group. All rights reserved.

Schedule 2014 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>	
JANUARY			JULY			
9	European Central Bank	s.q.	0.25	1	Reserve Bank of Australia	
9	Bank of England	s.q.	0.50	3	European Central Bank	
15	Bank of Brazil	+50 b.p.	10.50	3	Bank of Sweden	
21-22	Bank of Japan	---	---	10	Bank of England	
22	Bank of Canada	s.q.	1.00	11	Bank of Mexico	
29	Reserve Bank of New Zealand	s.q.	2.50	14-15	Bank of Japan	
29	Federal Reserve	s.q.	0.25	16	Bank of Brazil	
31	Bank of Mexico	s.q.	3.50	16	Bank of Canada	
FEBRUARY			AUGUST			
3	Reserve Bank of Australia	s.q.	2.50	5	Reserve Bank of Australia	
6	European Central Bank	s.q.	0.25	7	European Central Bank	
6	Bank of England	s.q.	0.50	7	Bank of England	
13	Bank of Sweden	s.q.	0.75	7-8	Bank of Japan	
17-18	Bank of Japan	---	---	SEPTEMBER		
26	Bank of Brazil	+25 b.p.	10.75	2	Reserve Bank of Australia	
MARCH			OCTOBER			
3	Reserve Bank of Australia	s.q.	2.50	2	European Central Bank	
5	Bank of Canada	s.q.	1.00	6	Reserve Bank of Australia	
6	European Central Bank	s.q.	0.25	6-7	Bank of Japan	
6	Bank of England	s.q.	0.50	9	Bank of England	
10-11	Bank of Japan			22	Bank of Canada	
12	Reserve Bank of New Zealand			23	Bank of Norway	
19	Federal Reserve			28	Bank of Sweden	
20	Swiss National Bank			29	Reserve Bank of New Zealand	
21	Bank of Mexico			29	Bank of Brazil	
27	Bank of Norway			29	Federal Reserve	
31	Reserve Bank of Australia			31	Bank of Japan	
APRIL			NOVEMBER			
2	Bank of Brazil			3	Reserve Bank of Australia	
3	European Central Bank			6	European Central Bank	
7-8	Bank of Japan			6	Bank of England	
9	Bank of Sweden			18-19	Bank of Japan	
10	Bank of England			DECEMBER		
16	Bank of Canada			1	Reserve Bank of Australia	
23	Reserve Bank of New Zealand			3	Bank of Brazil	
25	Bank of Mexico			3	Bank of Canada	
30	Bank of Japan			4	European Central Bank	
30	Federal Reserve			4	Bank of England	
MAY			NOVEMBER			
6	Reserve Bank of Australia			5	Bank of Mexico	
8	European Central Bank			10	Reserve Bank of New Zealand	
8	Bank of England			11	Bank of Norway	
8	Bank of Norway			11	Swiss National Bank	
20-21	Bank of Japan			16	Bank of Sweden	
28	Bank of Brazil			17	Federal Reserve	
JUNE			NOVEMBER			
3	Reserve Bank of Australia			18-19	Bank of Japan	
4	Bank of Canada			DECEMBER		
5	European Central Bank			1	Reserve Bank of Australia	
5	Bank of England			3	Bank of Brazil	
6	Bank of Mexico			3	Bank of Canada	
11	Reserve Bank of New Zealand			4	European Central Bank	
12-13	Bank of Japan			4	Bank of England	
18	Federal Reserve			5	Bank of Mexico	
19	Bank of Norway			10	Reserve Bank of New Zealand	
19	Swiss National Bank			11	Bank of Norway	

NOTE: 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.