

## EUROPEAN CENTRAL BANK

### A dovish tone that should put more pressure on the euro

#### ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- The interest rates on the main refinancing operations, marginal lending facility and deposit facility are unchanged at 0.05%, 0.30% and -0.20% respectively.
- The volume of securities purchases is unchanged, but the issue share limit of 25% has been eased. The cap will go to 33%, subject to a case-by-case verification that this would not create a situation whereby the Eurosystem would have blocking minority power.
- The growth and inflation forecasts have been downgraded; the balance of risks is still negative.

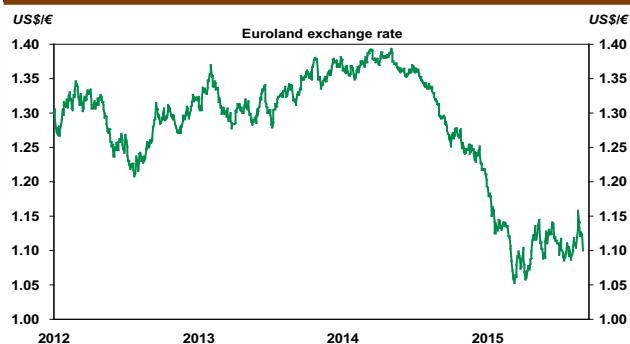
#### COMMENTS

Overall, today's statement can be characterized as dovish. The ECB noted recent developments in emerging nations and the further drop by commodity prices, particularly oil, and downgraded its macroeconomic forecasts. In concrete terms, the inflation forecasts go from 0.3% to 0.1% for 2015, 1.5% to 1.1% for 2016, and 1.8% to 1.7% for 2017. Previously, the ECB expected oil prices to rise above US\$70/barrel by the 2017 horizon; currently, its projections are calling for oil to be around US\$60 within two years. The softer economic growth the ECB is now projecting also has a negative impact on inflation outlooks.

However, the ECB thinks it is too early to increase the level of monetary stimulus. Its statement indicated that it was uncertain whether recent events would have a lasting or temporary impact on price trends and its ability to achieve its target over the medium range. At the press conference, Mario Draghi stated that there was no discussion of increasing securities purchases at today's monetary policy meeting.

Nonetheless, the ECB took a step in that direction by relaxing the 25 % issue share limit. The cap was apparently more problematic for purchases of German government securities, of which there are proportionately fewer on the market. By raising the cap to 33%, the ECB acquires

#### The euro could test March's low shortly



Sources: Datastream and Desjardins, Economic Studies

more credible leeway to increase its securities purchases, now around €60B a month. The reaction from the markets, among other things, took the euro down to US\$1.11.

**Implications:** The ECB is on hold, but today acquired the capacity to act. If the situation in emerging nations worsens, or commodity prices fall further, this could convince the ECB to increase its monetary stimulus in the months to come. This possibility, along with the still likely increase to interest rates in the United States, could get the euro to test last March's low.

**Hendrix Vachon**  
Senior Economist

**François Dupuis**  
Vice-President and Chief Economist

**Mathieu D'Anjou**  
Senior Economist

**Jimmy Jean**  
Senior Economist

**Hendrix Vachon**  
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

## Schedule 2015 of Central Bank meetings

|                 | <u>Decision</u>             | <u>Rate</u> |                  | <u>Decision</u> | <u>Rate</u>                 |          |       |
|-----------------|-----------------------------|-------------|------------------|-----------------|-----------------------------|----------|-------|
| <b>JANUARY</b>  |                             |             | <b>JULY</b>      |                 |                             |          |       |
| 8               | Bank of England             | s.q.        | 0.50             | 2               | Bank of Sweden              | -10 b.p. | -0.35 |
| 14              | Bank of Korea               | s.q.        | 2.00             | 7               | Reserve Bank of Australia   | s.q.     | 2.00  |
| 15              | Swiss National Bank         | -50 b.p.    | -0.75            | 8               | Bank of Korea               |          | 1.50  |
| 20-21           | Bank of Japan               | ---         | ---              | 9               | Bank of England             | s.q.     | 0.50  |
| 21              | Bank of Brazil              | +50 b.p.    | 12.25            | 14-15           | Bank of Japan               | ---      | ---   |
| 21              | Bank of Canada              | -25 b.p.    | 0.75             | 15              | Bank of Canada              | -25 b.p. | 0.50  |
| 22              | European Central Bank       | s.q.        | 0.05             | 16              | European Central Bank       | s.q.     | 0.05  |
| 28              | Reserve Bank of New Zealand | s.q.        | 3.50             | 22              | Reserve Bank of New Zealand | -25 b.p. | 3.00  |
| 28              | Federal Reserve             | s.q.        | 0.25             | 29              | Bank of Brazil              | +50 b.p. | 14.25 |
| 29              | Bank of Mexico              | s.q.        | 3.00             | 29              | Federal Reserve             | s.q.     | 0.25  |
|                 |                             |             |                  | 30              | Bank of Mexico              | s.q.     | 3.00  |
| <b>FEBRUARY</b> |                             |             | <b>AUGUST</b>    |                 |                             |          |       |
| 2               | Reserve Bank of Australia   | -25 b.p.    | 2.25             | 4               | Reserve Bank of Australia   | s.q.     | 2.00  |
| 5               | Bank of England             | s.q.        | 0.50             | 6               | Bank of England             | s.q.     | 0.50  |
| 12              | Bank of Sweden              | -10 b.p.    | -0.10            | 6-7             | Bank of Japan               | ---      | ---   |
| 16              | Bank of Korea               | s.q.        | 2.00             | 12              | Bank of Korea               | s.q.     | 1.50  |
| 17-18           | Bank of Japan               | ---         | ---              |                 |                             |          |       |
| <b>MARCH</b>    |                             |             | <b>SEPTEMBER</b> |                 |                             |          |       |
| 2               | Reserve Bank of Australia   | s.q.        | 2.25             | 1               | Reserve Bank of Australia   | s.q.     | 2.00  |
| 4               | Bank of Brazil              | +50 b.p.    | 12.75            | 2               | Bank of Brazil              | s.q.     | 14.25 |
| 4               | Bank of Canada              | s.q.        | 0.75             | 3               | European Central Bank       | s.q.     | 0.05  |
| 5               | European Central Bank       | s.q.        | 0.05             | 3               | Bank of Sweden              | s.q.     | -0.35 |
| 5               | Bank of England             | s.q.        | 0.50             | 9               | Reserve Bank of New Zealand |          |       |
| 11              | Bank of Korea               | -25 b.p.    | 1.75             | 9               | Bank of Canada              |          |       |
| 11              | Reserve Bank of New Zealand | s.q.        | 3.50             | 10              | Bank of England             |          |       |
| 16-17           | Bank of Japan               | ---         | ---              | 11              | Bank of Korea               |          |       |
| 18              | Bank of Sweden              | -15 b.p.    | -0.25            | 14-15           | Bank of Japan               |          |       |
| 18              | Federal Reserve             | s.q.        | 0.25             | 17              | Swiss National Bank         |          |       |
| 19              | Bank of Norway              | s.q.        | 1.25             | 17              | Federal Reserve             |          |       |
| 19              | Swiss National Bank         | s.q.        | -0.75            | 21              | Bank of Mexico              |          |       |
| 26              | Bank of Mexico              | s.q.        | 3.00             | 24              | Bank of Norway              |          |       |
| <b>APRIL</b>    |                             |             | <b>OCTOBER</b>   |                 |                             |          |       |
| 7               | Reserve Bank of Australia   | s.q.        | 2.25             | 5               | Reserve Bank of Australia   |          |       |
| 7-8             | Bank of Japan               | ---         | ---              | 6-7             | Bank of Japan               |          |       |
| 9               | Bank of England             | s.q.        | 0.50             | 8               | Bank of England             |          |       |
| 9               | Bank of Korea               | s.q.        | 1.75             | 14              | Bank of Korea               |          |       |
| 15              | European Central Bank       | s.q.        | 0.05             | 21              | Bank of Brazil              |          |       |
| 15              | Bank of Canada              | s.q.        | 0.75             | 21              | Bank of Canada              |          |       |
| 29              | Reserve Bank of New Zealand | s.q.        | 3.50             | 22              | European Central Bank       |          |       |
| 29              | Bank of Sweden              | s.q.        | -0.25            | 28              | Reserve Bank of New Zealand |          |       |
| 29              | Bank of Brazil              | +50 b.p.    | 13.25            | 28              | Bank of Sweden              |          |       |
| 29              | Federal Reserve             | s.q.        | 0.25             | 28              | Federal Reserve             |          |       |
| 30              | Bank of Japan               | ---         | ---              | 29              | Bank of Mexico              |          |       |
| 30              | Bank of Mexico              | s.q.        | 3.00             | 30              | Bank of Japan               |          |       |
| <b>MAY</b>      |                             |             | <b>NOVEMBER</b>  |                 |                             |          |       |
| 5               | Reserve Bank of Australia   | -25 b.p.    | 2.00             | 2               | Reserve Bank of Australia   |          |       |
| 7               | Bank of Norway              | s.q.        | 1.25             | 5               | Bank of England             |          |       |
| 11              | Bank of England             | s.q.        | 0.50             | 5               | Bank of Norway              |          |       |
| 15              | Bank of Korea               | s.q.        | 1.75             | 11              | Bank of Korea               |          |       |
| 21-22           | Bank of Japan               | ---         | ---              | 18-19           | Bank of Japan               |          |       |
| 27              | Bank of Canada              | s.q.        | 0.75             | 25              | Bank of Brazil              |          |       |
| <b>JUNE</b>     |                             |             | <b>DECEMBER</b>  |                 |                             |          |       |
| 2               | Reserve Bank of Australia   | s.q.        | 2.00             | 2               | Bank of Canada              |          |       |
| 3               | European Central Bank       | s.q.        | 0.05             | 3               | European Central Bank       |          |       |
| 3               | Bank of Brazil              | +50 b.p.    | 13.75            | 9               | Reserve Bank of New Zealand |          |       |
| 4               | Bank of England             | s.q.        | 0.50             | 10              | Bank of England             |          |       |
| 4               | Bank of Mexico              | s.q.        | 3.00             | 10              | Bank of Korea               |          |       |
| 10              | Bank of Korea               | -25 b.p.    | 1.50             | 10              | Swiss National Bank         |          |       |
| 10              | Reserve Bank of New Zealand | -25 b.p.    | 3.25             | 15              | Bank of Sweden              |          |       |
| 17              | Federal Reserve             | s.q.        | 0.25             | 16              | Federal Reserve             |          |       |
| 18              | Bank of Norway              | -25 b.p.    | 1.00             | 17              | Bank of Norway              |          |       |
| 18              | Swiss National Bank         | s.q.        | -0.75            | 17              | Bank of Mexico              |          |       |
| 18-19           | Bank of Japan               | ---         | ---              | 17-18           | Bank of Japan               |          |       |

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. \* To be determined.