

EUROPEAN CENTRAL BANK

All possibilities are on the table, even another cut in interest rates

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- Interest rates remain unchanged for major refinancing operations, the marginal lending facility and the deposit facility, standing at 0.05%, 0.30% and -0.20% respectively.
- The volume of bond purchases remains unchanged at €60B per month. The indication of the probable timing of the end of the asset purchasing program is also unchanged, i.e. September 2016.
- The balance of risks for economic growth and inflation is on the downside, in particular due to the uncertainty emanating from the emerging countries.
- The degree of monetary easing will have to be re-examined in December, when the new Eurosystem staff macroeconomic projections will be available.

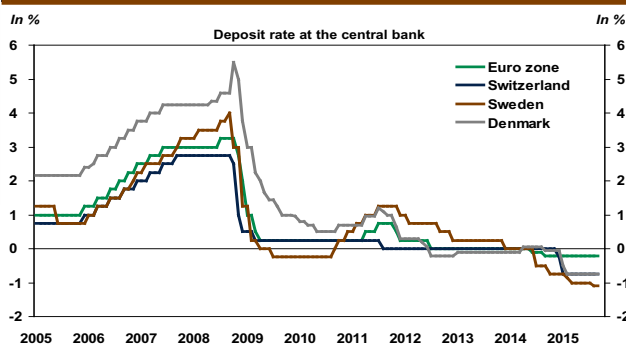
COMMENTS

The ECB opted for the status quo today, but clearly expressed a bias in favour of intervention in December. Keep in mind that, in September, inflation forecasts were revised downwards, casting doubt on the possibility of inflation returning close to 2% in the medium term. Future risk trends, in particular those from the emerging countries, could lead to another downward revision of those forecasts in December; this would constitute an imposing argument in favour of action.

More signs that the ECB is on the verge of an intervention: at a press conference, Mario Draghi indicated that some members of the Governing Council were prepared to take action today. Discussions were actually held on what methods should be used. On this point, Mario Draghi said that all options are on the table. The asset purchase program could be expanded in size and duration, or the composition of purchases could be adjusted. The lower bound of interest rates is also being called into question, opening the door to lowering interest rates further into negative territory.

Compared with some other central banks in Europe, the ECB has not ventured very far in terms of negative interest

Other central banks in Europe have already gone further in terms of negative interest rates



Sources: Datastream and Desjardins, Economic Studies

rates. At -0.20%, its deposit rate is high compared with those currently in effect in Denmark, Sweden and Switzerland. Sweden stands out in this regard with a deposit rate of -1.10% and a refinancing rate of -0.35%.

Implications: The signs of an intervention in December weakened the euro to below US\$1.12. The euro had strengthened recently due to a belief that the Federal Reserve (Fed) would defer monetary firming by several months. Given the close link between the exchange rate and inflation, the Fed's inaction could constitute an additional argument for an intervention by the ECB. Conversely, if the risks surrounding the economy and inflation decrease between now and December, the ECB could forego an intervention, while maintaining a very cautious stance to keep the euro from appreciating too much.

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Schedule 2015 of Central Bank meetings

| | <u>Decision</u> | <u>Rate</u> | | <u>Decision</u> | <u>Rate</u> | | |
|-----------------|-----------------------------|-------------|------------------|-----------------|-----------------------------|----------|-------|
| JANUARY | | | JULY | | | | |
| 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 | s.q. | 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 |
| FEBRUARY | | | AUGUST | | | | |
| 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 | --- | --- | | | | |
| MARCH | | | SEPTEMBER | | | | |
| 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 | -25 b.p. | 2.75 |
| 11 | Bank of Korea | -25 b.p. | 1.75 | 9 | Bank of Canada | s.q. | 0.50 |
| 11 | Reserve Bank of New Zealand | s.q. | 3.50 | 10 | Bank of England | s.q. | 0.50 |
| 16-17 | Bank of Japan | --- | --- | 10 | Bank of Korea | s.q. | 1.50 |
| 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 | s.q. | -0.75 |
| 19 | Bank of Norway | s.q. | 1.25 | 17 | Federal Reserve | s.q. | 0.25 |
| 19 | Swiss National Bank | s.q. | -0.75 | 21 | Bank of Mexico | s.q. | 3.00 |
| 26 | Bank of Mexico | s.q. | 3.00 | 24 | Bank of Norway | -25 b.p. | 0.75 |
| APRIL | | | OCTOBER | | | | |
| 7 | Reserve Bank of Australia | s.q. | 2.25 | 5 | Reserve Bank of Australia | s.q. | 2.00 |
| 7-8 | Bank of Japan | --- | --- | 6-7 | Bank of Japan | --- | --- |
| 9 | Bank of England | s.q. | 0.50 | 8 | Bank of England | s.q. | 0.50 |
| 9 | Bank of Korea | s.q. | 1.75 | 14 | Bank of Korea | s.q. | 1.50 |
| 15 | European Central Bank | s.q. | 0.05 | 21 | Bank of Brazil | s.q. | 14.25 |
| 15 | Bank of Canada | s.q. | 0.75 | 21 | Bank of Canada | s.q. | 0.50 |
| 29 | Reserve Bank of New Zealand | s.q. | 3.50 | 22 | European Central Bank | s.q. | 0.05 |
| 29 | Bank of Sweden | s.q. | -0.25 | 28 | Reserve Bank of New Zealand | s.q. | 3.00 |
| 29 | Bank of Brazil | +50 b.p. | 13.25 | 28 | Bank of Sweden | s.q. | 0.05 |
| 29 | Federal Reserve | s.q. | 0.25 | 28 | Federal Reserve | s.q. | 0.25 |
| 30 | Bank of Japan | --- | --- | 29 | Bank of Mexico | s.q. | 3.00 |
| 30 | Bank of Mexico | s.q. | 3.00 | 30 | Bank of Japan | s.q. | 3.00 |
| MAY | | | NOVEMBER | | | | |
| 5 | Reserve Bank of Australia | -25 b.p. | 2.00 | 2 | Reserve Bank of Australia | s.q. | 2.00 |
| 7 | Bank of Norway | s.q. | 1.25 | 5 | Bank of England | s.q. | 0.50 |
| 11 | Bank of England | s.q. | 0.50 | 5 | Bank of Norway | s.q. | 0.50 |
| 15 | Bank of Korea | s.q. | 1.75 | 11 | Bank of Korea | s.q. | 1.50 |
| 21-22 | Bank of Japan | --- | --- | 18-19 | Bank of Japan | s.q. | 1.50 |
| 27 | Bank of Canada | s.q. | 0.75 | 25 | Bank of Brazil | s.q. | 14.25 |
| | | | | 30 | Reserve Bank of Australia | s.q. | 2.00 |
| JUNE | | | DECEMBER | | | | |
| 2 | Reserve Bank of Australia | s.q. | 2.00 | 2 | Bank of Canada | s.q. | 0.75 |
| 3 | European Central Bank | s.q. | 0.05 | 3 | European Central Bank | s.q. | 0.05 |
| 3 | Bank of Brazil | +50 b.p. | 13.75 | 9 | Bank of Korea | s.q. | 1.50 |
| 4 | Bank of England | s.q. | 0.50 | 9 | Reserve Bank of New Zealand | s.q. | 3.00 |
| 4 | Bank of Mexico | s.q. | 3.00 | 10 | Bank of England | s.q. | 0.50 |
| 10 | Bank of Korea | -25 b.p. | 1.50 | 10 | Swiss National Bank | s.q. | -0.75 |
| 10 | Reserve Bank of New Zealand | -25 b.p. | 3.25 | 15 | Bank of Sweden | s.q. | 0.05 |
| 17 | Federal Reserve | s.q. | 0.25 | 16 | Federal Reserve | s.q. | 0.25 |
| 18 | Bank of Norway | -25 b.p. | 1.00 | 17 | Bank of Norway | s.q. | 1.25 |
| 18 | Swiss National Bank | s.q. | -0.75 | 17 | Bank of Mexico | s.q. | 3.00 |
| 18-19 | Bank of Japan | --- | --- | 17-18 | Bank of Japan | s.q. | 3.00 |

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.