

December 3, 2015

EUROPEAN CENTRAL BANK

A little of everything, except acceleration in asset purchases

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- The deposit facility interest rate was lowered 10 basis points to -0.30%. The interest rates on the main refinancing operations and marginal lending facility remain unchanged at 0.05% and 0.30%, respectively.
- The volume of asset purchases remains the same at €60B per month. The expected end of the purchase program has been delayed by six months, to March 2017.
- The range of assets purchased was expanded to include debt instruments issued by regional and local euro zone governments.
- Principal repayment associated with the maturing of acquired securities will be reinvested for as long as necessary.
- Inflation forecasts were slightly downgraded to 0.1% for 2015, 1.0% for 2016 and 1.6% for 2017.
- Economic forecasts were broadly unchanged at 1.5% for 2015, 1.7% for 2016 and 1.9% for 2017.

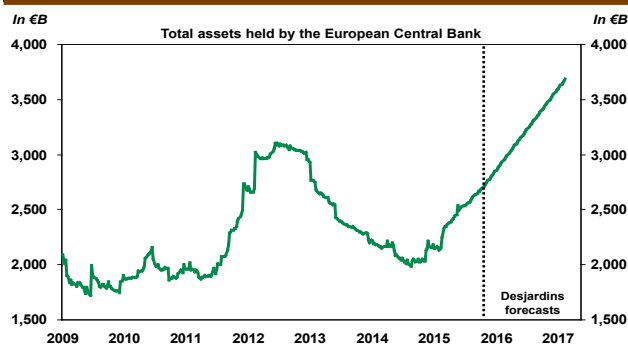
COMMENTS

Expectations were very high for today's meeting, as the ECB indicated in October that it was worried about moving further away from achieving its inflation target. This was confirmed by the new downward revision to inflation forecasts.

Overall, the measures announced today, while numerous, seem to have fallen short of market expectations. The euro appreciated by US\$0.03. The disappointment seems to mainly stem from the lack of increase in the pace of asset purchases. The reinvestment of principal payments also has a limited scope, since most analysts likely had foreseen that the ECB would take this path in due course, following the footsteps of the Federal Reserve and the Bank of England.

However, the other measures have more substance. In particular, the extension of the asset purchase program will inflate the ECB's balance sheet by another €360B. In total, the balance sheet will increase by around €1,000B by March 2017. After that, the interest rate cut will represent

The European Central Bank's balance sheet will increase by around €1,000B by March 2017



Sources: European Central Bank and Desjardins, Economic Studies

an added incentive for financial institutions to reduce their deposits with the ECB and increase their credit operations. Lastly, we cannot forget that in October, when the ECB opened the door to strong intervention, many no longer believed in potential monetary firming in the United States. This was keeping the euro at around US\$1.13. The situation is quite different today.

Implications: All things considered, the markets' disappointment seems exaggerated to us. For example, the euro depreciated by around US\$0.03 in October after the ECB opened the door to an intervention. It seems difficult to justify that this depreciation is completely erased today. We believe that the euro should return to around US\$1.05 in the coming weeks. Raising interest rates in the United States will confirm the divergence of monetary policies.

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Schedule 2015 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>
JANUARY					
8	Bank of England	s.q.	0.50		
14	Bank of Korea	s.q.	2.00		
15	Swiss National Bank	-50 b.p.	-0.75		
20-21	Bank of Japan	---	---		
21	Bank of Brazil	+50 b.p.	12.25		
21	Bank of Canada	-25 b.p.	0.75		
22	European Central Bank	s.q.	0.05		
28	Reserve Bank of New Zealand	s.q.	3.50		
28	Federal Reserve	s.q.	0.25		
29	Bank of Mexico	s.q.	3.00		
FEBRUARY					
2	Reserve Bank of Australia	-25 b.p.	2.25		
5	Bank of England	s.q.	0.50		
12	Bank of Sweden	-10 b.p.	-0.10		
16	Bank of Korea	s.q.	2.00		
17-18	Bank of Japan	---	---		
MARCH					
2	Reserve Bank of Australia	s.q.	2.25		
4	Bank of Brazil	+50 b.p.	12.75		
4	Bank of Canada	s.q.	0.75		
5	European Central Bank	s.q.	0.05		
5	Bank of England	s.q.	0.50		
11	Bank of Korea	-25 b.p.	1.75		
11	Reserve Bank of New Zealand	s.q.	3.50		
16-17	Bank of Japan	---	---		
18	Bank of Sweden	-15 b.p.	-0.25		
18	Federal Reserve	s.q.	0.25		
19	Bank of Norway	s.q.	1.25		
19	Swiss National Bank	s.q.	-0.75		
26	Bank of Mexico	s.q.	3.00		
APRIL					
7	Reserve Bank of Australia	s.q.	2.25		
7-8	Bank of Japan	---	---		
9	Bank of England	s.q.	0.50		
9	Bank of Korea	s.q.	1.75		
15	European Central Bank	s.q.	0.05		
15	Bank of Canada	s.q.	0.75		
29	Reserve Bank of New Zealand	s.q.	3.50		
29	Bank of Sweden	s.q.	-0.25		
29	Bank of Brazil	+50 b.p.	13.25		
29	Federal Reserve	s.q.	0.25		
30	Bank of Japan	---	---		
30	Bank of Mexico	s.q.	3.00		
MAY					
5	Reserve Bank of Australia	-25 b.p.	2.00		
7	Bank of Norway	s.q.	1.25		
11	Bank of England	s.q.	0.50		
15	Bank of Korea	s.q.	1.75		
21-22	Bank of Japan	---	---		
27	Bank of Canada	s.q.	0.75		
JUNE					
2	Reserve Bank of Australia	s.q.	2.00		
3	European Central Bank	s.q.	0.05		
3	Bank of Brazil	+50 b.p.	13.75		
4	Bank of England	s.q.	0.50		
4	Bank of Mexico	s.q.	3.00		
10	Bank of Korea	-25 b.p.	1.50		
10	Reserve Bank of New Zealand	-25 b.p.	3.25		
17	Federal Reserve	s.q.	0.25		
18	Bank of Norway	-25 b.p.	1.00		
18	Swiss National Bank	s.q.	-0.75		
18-19	Bank of Japan	---	---		
JULY					
2	Bank of Sweden	-10 b.p.	-0.35		
7	Reserve Bank of Australia	s.q.	2.00		
8	Bank of Korea	s.q.	1.50		
9	Bank of England	s.q.	0.50		
14-15	Bank of Japan	---	---		
15	Bank of Canada	-25 b.p.	0.50		
16	European Central Bank	s.q.	0.05		
22	Reserve Bank of New Zealand	-25 b.p.	3.00		
29	Bank of Brazil	+50 b.p.	14.25		
29	Federal Reserve	s.q.	0.25		
30	Bank of Mexico	s.q.	3.00		
AUGUST					
4	Reserve Bank of Australia	s.q.	2.00		
6	Bank of England	s.q.	0.50		
6-7	Bank of Japan	---	---		
12	Bank of Korea	s.q.	1.50		
SEPTEMBER					
1	Reserve Bank of Australia	s.q.	2.00		
2	Bank of Brazil	s.q.	14.25		
3	European Central Bank	s.q.	0.05		
3	Bank of Sweden	s.q.	-0.35		
9	Reserve Bank of New Zealand	-25 b.p.	2.75		
9	Bank of Canada	s.q.	0.50		
10	Bank of England	s.q.	0.50		
10	Bank of Korea	s.q.	1.50		
14-15	Bank of Japan	---	---		
17	Swiss National Bank	s.q.	-0.75		
17	Federal Reserve	s.q.	0.25		
21	Bank of Mexico	s.q.	3.00		
24	Bank of Norway	-25 b.p.	0.75		
OCTOBER					
5	Reserve Bank of Australia	s.q.	2.00		
6-7	Bank of Japan	---	---		
8	Bank of England	s.q.	0.50		
14	Bank of Korea	s.q.	1.50		
21	Bank of Brazil	s.q.	14.25		
21	Bank of Canada	s.q.	0.50		
22	European Central Bank	s.q.	0.05		
28	Reserve Bank of New Zealand	s.q.	2.75		
28	Bank of Sweden	s.q.	-0.35		
28	Federal Reserve	s.q.	0.25		
29	Bank of Mexico	s.q.	3.00		
30	Bank of Japan	---	---		
NOVEMBER					
2	Reserve Bank of Australia	s.q.	2.00		
5	Bank of England	s.q.	0.50		
5	Bank of Norway	s.q.	0.75		
11	Bank of Korea	s.q.	1.50		
18-19	Bank of Japan	---	---		
25	Bank of Brazil	s.q.	14.25		
30	Reserve Bank of Australia	s.q.	2.00		
DECEMBER					
2	Bank of Canada	s.q.	0.50		
3	European Central Bank	s.q.	0.05		
9	Bank of Korea	s.q.	1.50		
9	Reserve Bank of New Zealand	s.q.	2.75		
10	Bank of England	s.q.	0.50		
10	Swiss National Bank	s.q.	-0.75		
15	Bank of Sweden	s.q.	-0.35		
16	Federal Reserve	s.q.	0.25		
17	Bank of Norway	s.q.	0.75		
17	Bank of Mexico	s.q.	3.00		
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.