

December 8, 2016



## EUROPEAN CENTRAL BANK

### Securities purchases extended until December 2017, but at a slower pace

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

- The interest rate for the main refinancing operations, marginal lending facility and deposit facility remain unchanged, at 0.00%, 0.25% and -0.40% respectively.
- The volume of securities purchases will be scaled back to 60 billion euros per month as of early April 2017. The scheduled end date of these purchases has been pushed back from March 2017 to December 2017.
- Two parameters that guide securities purchases have been amended. The lower limit of maturities that can be purchased was reduced to one year—the previous limit was set at two years. Bonds with a yield lower than the ECB deposit rate will also be available for purchase.
- Inflation should rise gradually in the next few years, reaching 0.2% in 2016, 1.3% in 2017, 1.5% in 2018 and 1.7% in 2019.
- Economic growth should post 1.7% in 2016 and 2017, then 1.6% in 2018 and 2019. The risks remain tilted to the downside.

#### COMMENTS

Today, the ECB was expected to announce that it was extending its securities purchase program. Most analysts anticipated an extension until September 2017 at the same pace of 80 billion euros a month—adding a total of 480 billion euros to the ECB's balance sheet versus that previously planned. In the end, the ECB opted for a solution that prioritized the length of the program. The extension until December 2017, albeit at a slower pace of 60 billion euros a month, will still add 540 billion euros to the ECB's balance sheet between April and December 2017.

The decision to put the length of the program first is in line with the updated inflation forecasts. The main change from September's forecasts was that 2019 was added to the scenario. As such, we noted that the 1.7% inflation forecast for 2019 is slightly below the ECB's official target. Faced with the risk of persistent weak inflation, the ECB is likely to have considered it best to position itself to intervene over a longer period.

There were expectations that the ECB would change the parameters of its purchasing program to broaden the pool of bonds available for purchase. Today's announcement will create significant flexibility, mostly by allowing bonds with a yield lower than -0.40% to be purchased. This was a major constraint for German bond purchases, many of which had maturities with yields below this threshold.

**Implications:** Despite the decision to slow down the pace of monthly purchases as of April, the ECB is positioned to act over a longer period. In the end, the degree of monetary easing could be greater than expected, especially now that we can more easily expect the ECB to maintain these purchases until 2018. The greater divergence between U.S. and European monetary policies should maintain downward pressure on the euro.

The bond markets also reacted to today's announcements. European bond yields for shorter maturities decreased while the yields for longer maturities increased. This fits well with the fact that the ECB should be able to purchase more bonds with shorter maturities than it had previously. The steeper drop in European short-term yields should also weigh on the euro. The correlation with short-term interest yield spreads in the United States has been quite strong for some time.

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

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## Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
<b>JANUARY</b>			<b>JULY</b>				
13	Bank of Korea	s.q.	1.50	5	Reserve Bank of Australia	s.q.	1.75
14	Bank of England	s.q.	0.50	6	Bank of Sweden	s.q.	-0.50
20	Bank of Brazil	s.q.	14.25	13	Bank of Korea	s.q.	1.25
20	Bank of Canada	s.q.	0.50	13	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.05	14	Bank of England	s.q.	0.50
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil	s.q.	14.25
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve	s.q.	0.50
				28	Bank of Japan	s.q.	-0.10
<b>FEBRUARY</b>			<b>AUGUST</b>				
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia	-25 b.p.	1.50
4	Bank of England	s.q.	0.50	4	Bank of England	-25 b.p.	0.25
4	Bank of Mexico	s.q.	3.25	10	Bank of Korea	s.q.	1.25
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand	-25 b.p.	2.00
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico	s.q.	4.25
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil	s.q.	14.25
29	Reserve Bank of Australia	s.q.	2.00				
<b>MARCH</b>			<b>SEPTEMBER</b>				
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia	s.q.	1.50
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden	s.q.	-0.50
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada	s.q.	0.50
9	Bank of Canada	s.q.	0.50	8	European Central Bank	s.q.	0.00
10	European Central Bank	-5 b.p.	0.00	8	Bank of Korea	s.q.	1.25
14	Bank of Japan	s.q.	-0.10	15	Bank of England	s.q.	0.25
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank	s.q.	-0.75
17	Bank of England	s.q.	0.50	21	Reserve Bank of New Zealand	s.q.	2.00
17	Bank of Norway	-25 b.p.	0.50	21	Bank of Japan	s.q.	-0.10
17	Swiss National Bank	s.q.	-0.75	21	Federal Reserve	s.q.	0.50
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway	s.q.	0.50
				29	Bank of Mexico	+50 b.p.	4.75
<b>APRIL</b>			<b>OCTOBER</b>				
5	Reserve Bank of Australia	s.q.	2.00	3	Reserve Bank of Australia	s.q.	1.50
13	Bank of Canada	s.q.	0.50	12	Bank of Korea	s.q.	1.25
14	Bank of England	s.q.	0.50	19	Bank of Brazil	-25 b.p.	14.00
18	Bank of Korea	s.q.	1.50	19	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.00	20	European Central Bank	s.q.	0.00
21	Bank of Sweden	s.q.	-0.50	27	Bank of Norway	s.q.	0.50
27	Reserve Bank of New Zealand	s.q.	2.25	27	Bank of Sweden	s.q.	-0.50
27	Bank of Brazil	s.q.	14.25	31	Reserve Bank of Australia	s.q.	1.50
27	Bank of Japan	s.q.	-0.10	31	Bank of Japan	s.q.	-0.10
27	Federal Reserve	s.q.	0.50				
<b>MAY</b>			<b>NOVEMBER</b>				
3	Reserve Bank of Australia	-25 b.p.	1.75	2	Federal Reserve	s.q.	0.50
5	Bank of Mexico	s.q.	3.75	3	Bank of England	s.q.	0.25
12	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	-25 b.p.	1.75
12	Bank of Korea	s.q.	1.50	10	Bank of Korea	s.q.	1.25
12	Bank of Norway	s.q.	0.50	17	Bank of Mexico	+50 b.p.	5.25
25	Bank of Canada	s.q.	0.50	30	Bank of Brazil	-25 b.p.	13.75
<b>JUNE</b>			<b>DECEMBER</b>				
2	European Central Bank	s.q.	0.00	5	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of Australia	s.q.	1.75	7	Bank of Canada	s.q.	0.50
8	Bank of Korea	-25 b.p.	1.25	8	European Central Bank	s.q.	0.00
8	Reserve Bank of New Zealand	s.q.	2.25	14	Bank of Korea	s.q.	
8	Bank of Brazil	s.q.	14.25	14	Federal Reserve	s.q.	
15	Bank of Japan	s.q.	-0.10	15	Bank of England	s.q.	
15	Federal Reserve	s.q.	0.50	15	Bank of Norway	s.q.	
16	Bank of England	s.q.	0.50	15	Bank of Mexico	s.q.	
16	Swiss National Bank	s.q.	-0.75	15	Swiss National Bank	s.q.	
23	Bank of Norway	s.q.	0.50	19	Bank of Japan	s.q.	
30	Bank of Mexico	+50 b.p.	4.25	21	Bank of Sweden	s.q.	

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.