

ECB launches a bold package of easing measures

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- At its regular monetary policy meeting on Thursday 10 March, the ECB Governing Council announced a bold package of monetary easing measures, including a cut in all key interest rates aiming to boost domestic economic activity and counteract heightened risks on its price stability objective. More specifically, the interest rate on the main refinancing operations of the Eurosystem and the interest rate on the marginal lending facility were unexpectedly decreased by 5bp each to 0.00% and 0.25%, respectively, while the deposit facility rate was lowered by 10 basis points to -0.40% as anticipated, all effective from 16 March 2016. As was suggested by the ECB President Mario Draghi at the press conference that followed the conclusion of the meeting, the proposal for a tiered system for the deposit facility was eventually rejected for the purpose of not signaling that rates could necessarily keep falling stressing that the Central Bank's emphasis will now shift (from rate cuts) to other unconventional policy tools.
- Furthermore, the monthly QE purchases were increased by a higher than expected €20bn to €80bn starting in April 2016 and scheduled to run until March 2017, taking the total size of the asset purchase programme to €1,740bn. Meanwhile, the issuer and issue share limits for the purchases of securities issued by eligible international organizations and multilateral development banks was both increased from 33% to 50%. To facilitate the increase in monthly QE purchases, the ECB decided to include investment grade euro-denominated bonds issued by non-bank corporations in the pool of eligible assets in the QE programme starting towards the end of the second quarter of 2016. Last but not least, the ECB decided to launch a new series of four targeted longer-term refinancing operations (LTRO II) each with a maturity of four years, starting in June 2016. The interest rate under LTRO II will be fixed at the main refinancing operations rate prevailing at the time of the allotment, although for banks whose lending exceeds a benchmark the said rate could be as low as the deposit facility rate. Counterparts will be allowed to borrow a total of up to 30% of non-mortgage loans provided to euro area non-financial corporations and households as at the end of January 2016.

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- The updated ECB staff macroeconomic projections for the euro area were revised downwards for both growth and inflation. Annual real GDP is now expected to grow by 1.4% in 2016 (from 1.7% in December 2015), 1.7% in 2017 (from 1.9% previously) and 1.8% in 2018 mainly due to weaker global growth. As far as inflation is concerned, annual HICP inflation is now expected at 0.1% in 2016 (from 1.0% in December 2015), 1.3% in 2017 (from 1.6% previously) and 1.6% in 2018 reflecting lower oil prices.
- In FX markets, soon after the ECB policy announcement, the EUR/USD fell over one big figure hitting a six-week low of 1.0820. But as soon as the press conference commenced, it started rising retesting levels slightly above 1.1200 for the first time since mid-February on President Mario Draghi's comments that "do not anticipate that it will be necessary to cut rates further" (the EUR/USD was trading close to 1.1155/60 in late European trade on Friday, March 11). Technically, the next target for EUR-bulls stands at 1.1375 (Feb. 11 peak) with investors eagerly awaiting the outcome of next week's Fed monetary policy meeting (March 15-16).

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