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International

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The ECB Remains Dovish Yet Again

Highlights

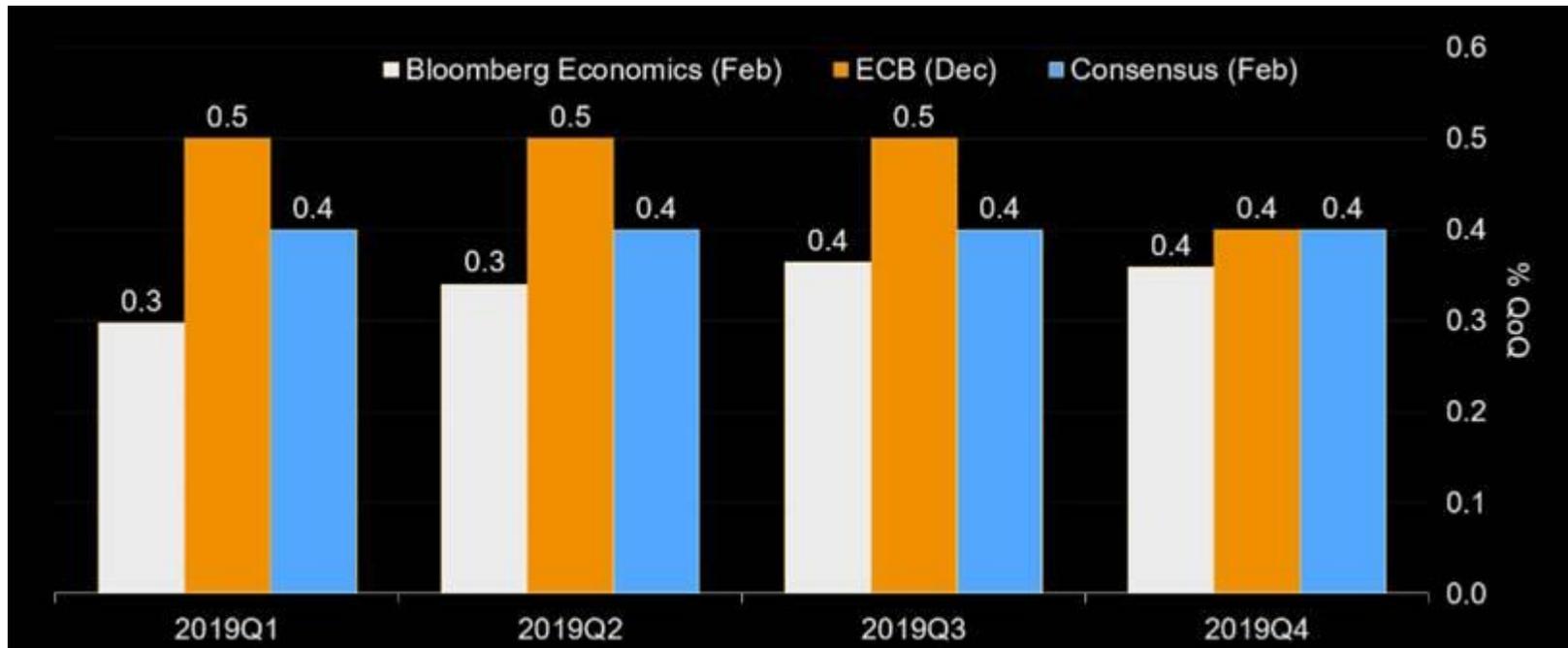
- On March 7, 2019 the Governing Council of the ECB decided to leave the interest rate on the main refinancing operation and interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively. The rates are expected to remain unchanged for the remainder of 2019 as prospects for global growth have yet again been lowered.
- The ECB will continue to reinvest in full, the principal payments from maturing securities purchased under the recently ended quantitative easing program (asset purchase program) for an extended period of time after the date key interest rates are increased.
- Starting in September 2019 and ending in March 2021 the ECB will launch a series of quarterly targeted longer-term refinancing operations (TLTRO-III). The aim of this is to preserve favourable bank lending conditions amid the currently low interest rate regime in the Euro area.
- In 2019 the global economy will grow by 3.3% and 3.4% in 2020 accounting for a 0.2 and 0.1 percentage point decrease from previous forecasts according to the OECD. Prospects are weaker due to risks stemming from US/China trade and political tensions as well as a weakening European economy and lower energy prices.

- According to the OECD, Euro area growth is forecasted at 1.0% and 1.2% in 2019 and 2020 respectively, much lower than Bloomberg's forecasts for growth of 1.7% for both years.

Economic Update

- Euro area real GDP increased by 0.2% qoq in the fourth quarter of 2018 following weaker growth in the third quarter of 0.1% due to weaker than expected performance in the manufacturing sector. The ECB forecasts real GDP growth increasing by 1.1% in 2019, 1.6% in 2020 and 1.5% in 2021.
- Annual HICP inflation increased to 1.5% in February from 1.4% in January as energy and food prices moderated higher. Annual inflation will remain well below the ECB's target of 2.0% as it is projected at 1.2% for 2019 but will increase to 1.5% in 2020 and 1.6% in 2021.

ECB Short-term Growth Forecasts



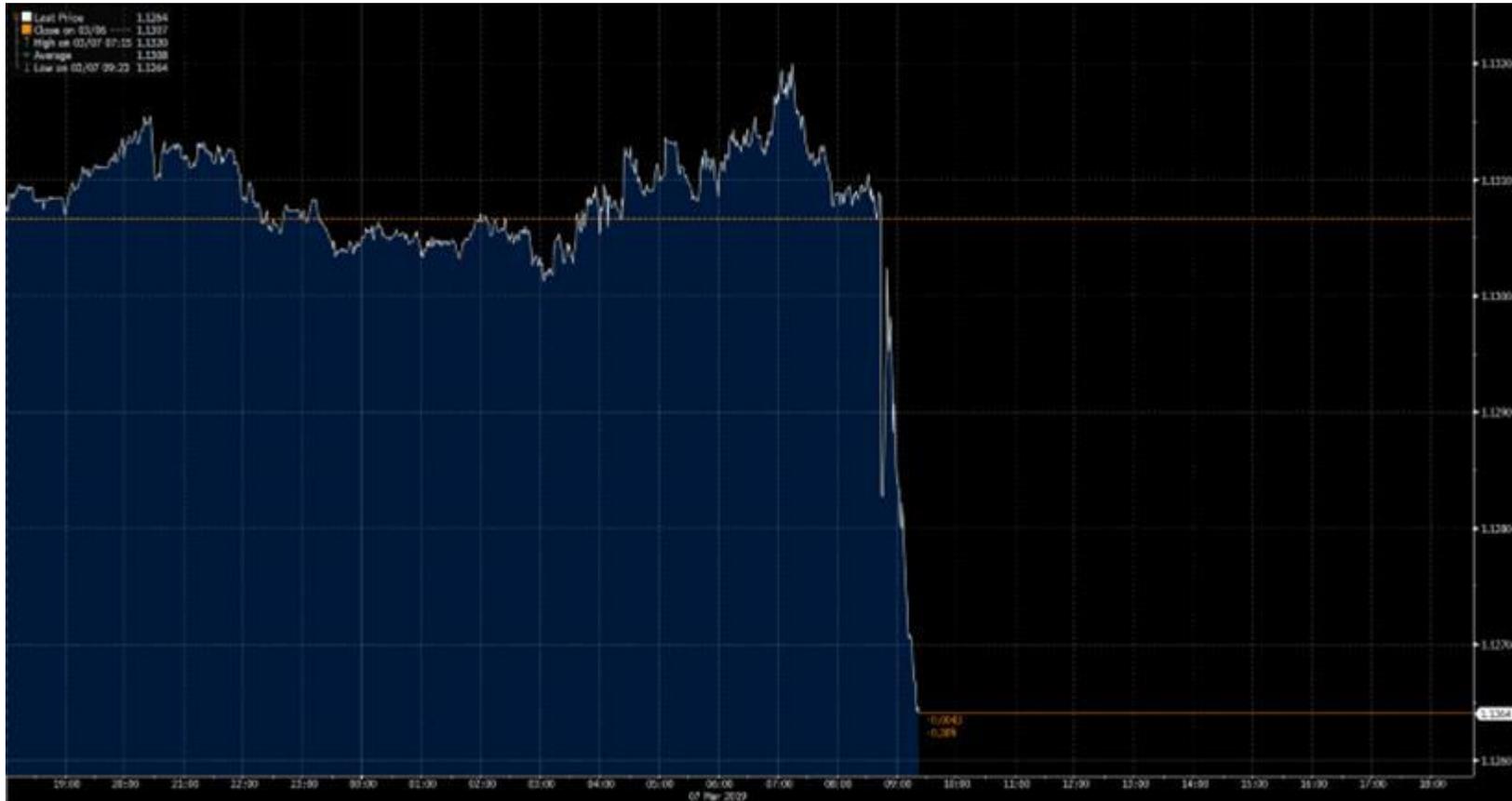
Source: European Central Bank, Bloomberg

Market Reactions

- Following the news of the Governing Council's rating decision, the euro traded down 0.2% against the dollar hitting a low of \$1.1272 - the weakest it has been in three weeks. The pound also declined 0.3% to \$1.3124 which has been its lowest level within the last week.
- The Stoxx Europe 600 Index along with the UK's FTSE 100 Index and Germany's DAX Index all declined by 0.1%, 0.2% and 0.1% respectively after news of the unchanged rates.

- In Germany, the UK and Italy the yields on 10-year bonds declined by 0.2%, 0.2% and 0.3% respectively.

EUR/USD Spot Exchange Rate for 07/03/2019



Source: Bloomberg

- Despite signaling rate hikes near the end of 2019 in the previously held meeting by the Governing Council the change in policy direction and the revival of TLTRO stem from the following reasons:
 - Negative growth in Italy resulting in a recession along with high unemployment and unfavourable budgetary measures implemented by the government
 - Weakening growth in Germany with forecasts for real GDP growth of 0.7% in 2019 much lower than Bloomberg's forecasts of 1.2%
 - Rising chances of a no-deal Brexit as the UK government struggles to negotiate a deal that will be agreed upon by both the Parliament and the EU.

Disclaimers

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