


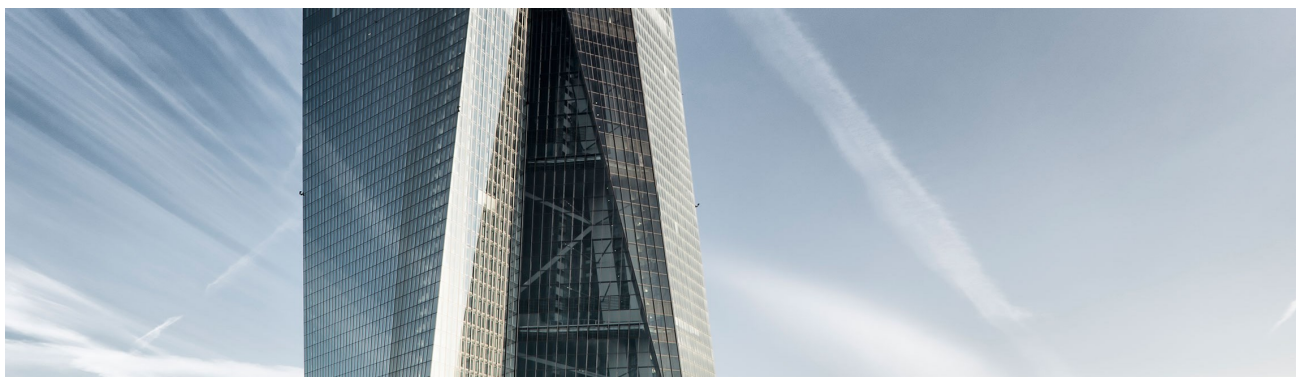


Given economic uncertainty, ECB may stay accommodative

by [Franck Dixmier](#) | 04/03/2019   



Summary

Changes in the euro zone's economy have raised expectations that the central bank will be more precise at its next meeting about what's causing the slowdown. We think the ECB will continue delaying rate hikes while also announcing a new liquidity program for banks.

Key takeaways

- Amid deteriorating economic conditions and falling inflation expectations in the euro zone, the ECB's 7 March meeting is highly anticipated by the markets
- Investors will be awaiting news on three elements: updated prospects for euro-zone growth, an analysis of the downturn's causes and duration, and possible news of another TLTRO-style liquidity facility
- Fixed-income spreads in peripheral countries (especially Italy and Spain) stand to benefit from news of another liquidity program, and from renewed expectations of a first rate hike being delayed until 2020

Against the backdrop of the euro zone's deteriorating economic outlook and falling inflation expectations, the markets are highly focused on the 7 March meeting of the European Central Bank. We expect the ECB to update its growth and inflation forecasts, given that at its January meeting, ECB members noted the slowdown while questioning its duration and medium-term impacts. Moreover, the minutes of this meeting showed that the ECB found it difficult to arrive at even this uncertain conclusion.

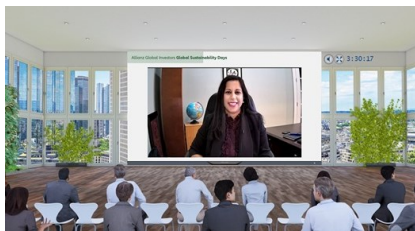
This time, we expect the central bank will provide a more precise analysis of the slowdown's impact on the euro zone's medium-term outlook and the likelihood of a rebound in the second half of the year. It will also be interesting to observe the ECB's analysis of the causes of the slowdown: are they specific to certain European sectors or countries, or are they more generally linked to global uncertainty?

The other main topic of the 7 March meeting will likely be the idea of a new liquidity program. Approximately EUR 380 billion in targeted long-term refinancing operations (TLTROs) – cheap loans that the ECB provided to banks – are set to mature in June 2020.

The ECB did not seem to be in a hurry to discuss a possible new liquidity plan back in January, but recent statements by Benoit Coeuré and Peter Praet – both members of the ECB's Executive Board – are a good sign that further developments are likely. Without a new liquidity program in place, the TLTRO repayments in 2020 would have a negative impact on the ECB's balance sheet and lead to a significant tightening of monetary conditions. This would not be appropriate in the current context of an economic slowdown. We therefore think that on 7 March, the ECB will announce the launch of a new program, while waiting until a future meeting to spell out the technical details.

Investors should have increased confidence that a first rate hike will occur in 2020, given the recent downward revisions to the euro-zone's growth outlook. The markets are counting on this timing, and the minutes of the January meeting show that the ECB seems quite comfortable with these expectations. The communication of a new liquidity facility should also have a positive impact on fixed-income spreads in peripheral countries, notably Italy and Spain.

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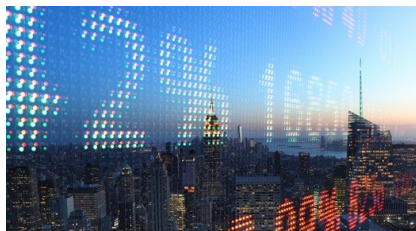


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Inflation expectations support holding rates steady – for now

by Franck Dixmier | 18/03/2019   



Summary

With the Fed having largely achieved its objectives of full employment and price stability, we expect short-

term rates to stay unchanged at the FOMC's next meeting. This should be good for investors, but don't rule out a rate hike by the end of the year if inflation surges, or if tariff- or Brexit-related risks recede.

Key takeaways

- Expect the FOMC to confirm its prudent approach at its March 20 meeting: it has achieved full employment and price stability, and inflation expectations remain moderate
- We believe the Fed's interest-rate policy is appropriate and rates should remain unchanged for now; in our view, this provides a strong anchor for the US yield curve
- Still, a rate hike at the end of the year cannot be ruled out, given the US economy's resilient growth and the potential for higher inflation

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