Flash Comment

ECB meeting: No plans for further easing

- The ECB kept all rates unchanged in line with consensus expectations. The Governing Council had not discussed rate cuts and there were no hints at the press conference of any future rate cuts, despite the recent weakness in data. This confirmed our belief that ECB interest rates are as low as they will go.
- Mario Draghi emphasised that monetary policy is already very accommodative, he listed the many instruments the ECB has already put in place, he was eager to discuss the positive developments caused by the OMT announcement and emphasised that financial market improvements were equivalent to a further policy easing. We think that Draghi chose this perspective because the ECB currently has no plan for further easing.
- For sure the ECB can do more, but it seems that the economy will have to deteriorate further (or the improvement in financial markets to be reversed) before that happens.
- The current economic outlook was clearly not negative enough for the ECB to add further stimulus even though Draghi was rather downbeat. He said that "most recent survey evidence for the economy as a whole, extending into the fourth quarter, does not signal improvements towards the end of the year," and "looking ahead to next year, the growth momentum is expected to remain weak".
- If further stimulus is added non-standard measures seem more likely than further rate cuts, but Draghi gave no hints at all as to what measures he would choose.
- The positive effects of the OMT announcement that Draghi praised were: 1) it had resulted in a return of flows particularly from US money market funds and that there has been a shift from secured to unsecured securities; 2) that there has been a pick-up in corporate issuance, 3) Ireland and Portugal have undertaken sovereign issuance; 4) Italy and Spain have nearly completed their issuance needed for this year; 5) the Target 2 imbalances have stabilised over the past two to three months. The ECB President also pointed attention towards the recent reduction in unit labour costs in the peripherals and the substantial reduction in current account imbalances.
- Draghi made it clear that there cannot be an OMT without conditionality. He repeatedly avoided commenting on the likelihood of a Spanish request and said the decision was "in the hands of governments". He also refrained from answering whether he could promise that an activation of the OMT would lead to lower rates.
- We expect the ECB to keep rates unchanged for a long time, with risk tilted towards further easing. There were absolutely no hints of any rate changes. This combined with the emphasis that the current policy is accommodative and the strong focus on what the ECB has achieved leaves us with the impression that it will take a substantial deterioration in data before the ECB engages in further easing.

See also link to full *ECB statement*

Policy rates (November)

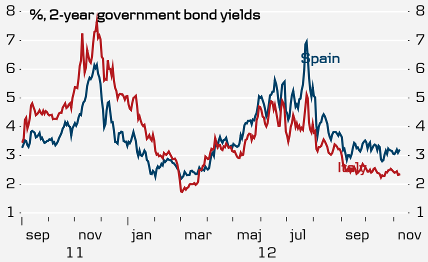
	Actual	Cons.	Last
Refinancing rate	0.75%	0.75%	0.75%
Marginal lending f.	1.50%		1.50%
Deposit rate	0.00%		0.00%

Source: Danske Markets and ECB

Weakness in core data

Source: Reuter Ecowin and Danske Bank

Short end peripherals are still supported by expectations to OMT



Source: Reuters Ecowin and Danske Bank

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