

**ECB Money Market
Contact Group
12th March 2019**

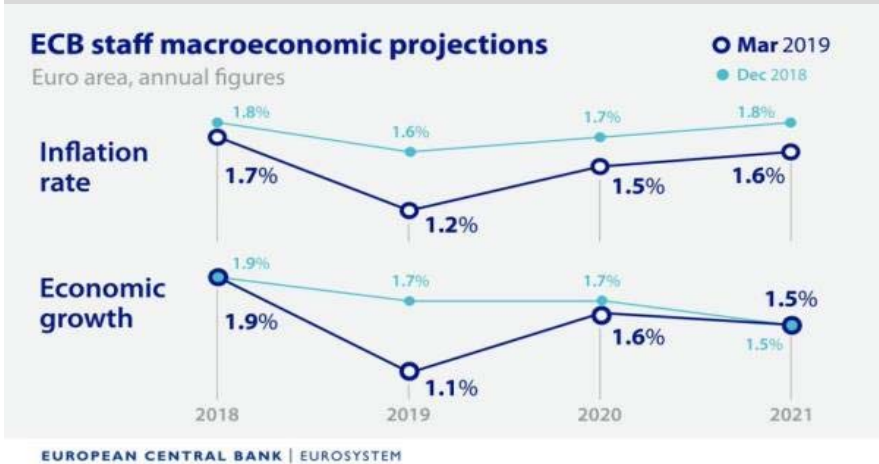
**Monetary Policy
Expectations**

David Tilson

Recent Developments

- ECB Economic Projections Downgraded
- Further Monetary Policy Easing
- Core Yields Depressed
- Drop in Inflation Expectations
- Fed Repricing
- “Pervasive Uncertainty”

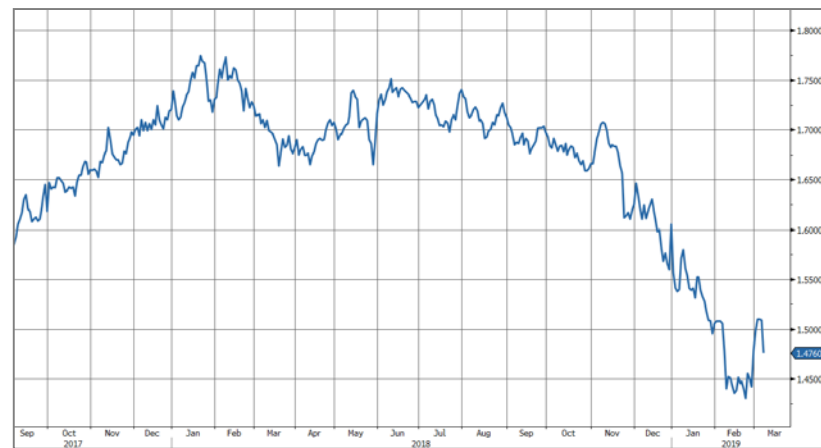
ECB Staff Projections



10yr Germany



5y 5y Inflation Swaps



ECB Policy – “It’s four sets of decisions”

➤ Forward Guidance

“The Governing Council now expects the key ECB interest rates to remain at their present levels at least through the end of 2019, and for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.”

➤ Reinvestments

“We intend to continue reinvesting.....for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary.....”

➤ Targeted Long - Term - Refinancing Operations

“We decided to launch a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations will help to preserve favourable bank lending conditions and the smooth transmission of monetary policy.”

➤ Fixed Rate Tender Procedures

“Fixed-rate tender procedures with full allotment for as long as necessary, at least until the end of the reserve maintenance period starting in March 2021.”

ECB Policy

➤ TLTRO III

- A series of quarterly TLTROs from September 2019 to March 2021, each with a maturity of 2 years
- New operations intended to help preserve favourable bank lending conditions and the smooth transmission of monetary policy.
- Rates indexed to the prevailing MRO over the life of each operation
- Will feature built-in incentives*

➤ Balance of Risks

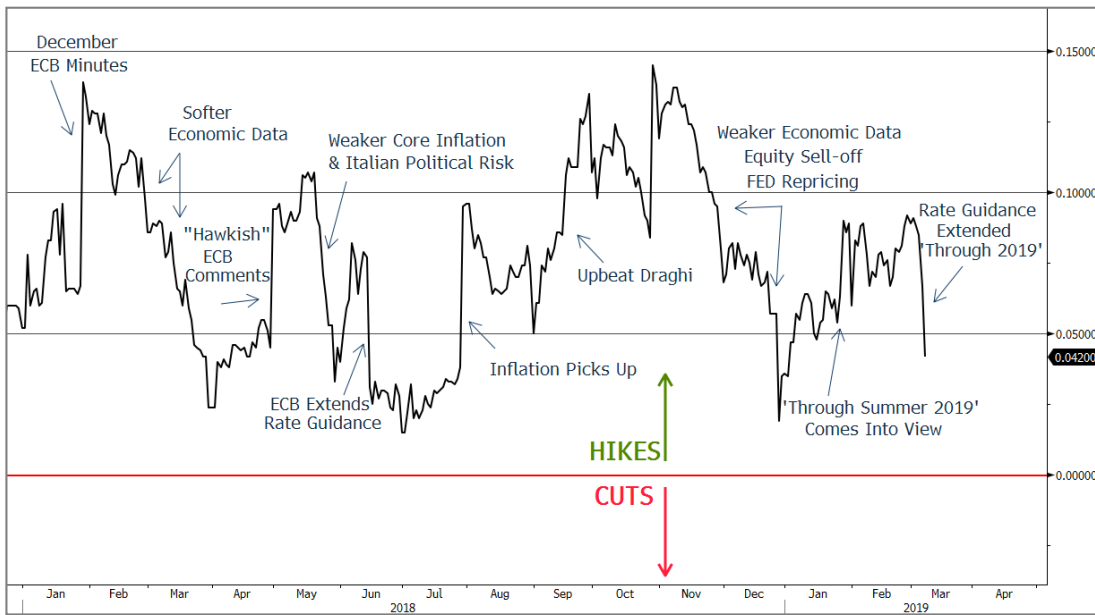
“The risks surrounding the euro area growth outlook have moved to the downside on account of the persistence of uncertainties related to geopolitical factors and the threat of protectionism, vulnerabilities in emerging markets and financial market volatility.”

- Despite announcing a suite of measures and revising forecasts significantly, risks remain to the downside because there are global factors weighing on the economy which are outside the control of the ECB.

Market Expectations

➤ What's Priced on Rates?

BP move expected in Depo Rate over 1 Year horizon



- 15bp hike priced by Q4 2020.
- Cumulative 40bp by Q1 2022.

➤ ECB Presidency

Recent Reuters poll of 50 economists suggested Mr. Coeure was seen as the best qualified candidate but Mr. Liikanen is regarded as the favourite for the position.

Remaining Tools

- **Forward Guidance**
 - Rates
 - Reinvestments
- **Tiered Deposit Rates**
- **Deposit Rate Cuts**
- **Re-open QE**
 - Expand Pool of Assets
 - Issuer Limits
 - Capital Key
- **Yield Curve Control**
- **Helicopter Money**



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