

## ECB Announcement

# TLTRO-III Dets Coming ... But Not Today

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Euro bank stocks and the EUR weakened during the ECB press conference as the dovish tone ..... get ready for this ... was maintained. The ECB, as was widely expected, made no changes to monetary policy.

### Rates were unchanged:

- main refinancing operations 0.00%
- marginal lending facility 0.25%
- deposit facility -0.40%

### The forward rates guidance was also left intact:

- expect rates to “remain at their present levels at least through the end of 2019, and in any case 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.”

President Draghi’s comments did not reveal any change in the bank’s thinking. The **risks to the economic outlook remain tilted to the downside**; though he acknowledged that some of the “*idiosyncratic*” dampening factors (country/sector-specific) were fading, and that the domestic economy remains resilient (supported by strong labour markets and wage gains), the **same global uncertainties** that he has rhymed off in the past (geopolitics, protectionism, emerging markets) **persist** and that the slower momentum was extending into the current year.

He did say that **more precise details of TLTRO-III will be shared at “forthcoming meetings”** but obviously, did not say which one. The next meeting is June 6 and seeing that there will be new staff projections provided at that time, I’d lean to that meeting. (And potentially, dropping the calendar-reference on the rates guidance, or pushing it into 2020.) The Governing Council will be doing more “*analysis*” for that meeting on, for example, the effects of low interest rates on bank profits.

After being questioned on Brexit, the upcoming European elections, Italy, forward guidance, more QE/if more QE would involve equities/possible tiering (“*too soon!*”) ... President Draghi firmly said that today was not an operational meeting; rather, it was to “*characterize the stance*” for more action if needed, or the readiness to act, if warranted. Interesting that they’re drumming home that point.

### Other interesting points ....

- The deterioration in inflation expectations was due to slower economic activity, and because of negative risk premium (not de-anchoring, which is what happened in 2016). But he emphasized that the ECB has **plenty of instruments** at their disposal.
- The ECB remains “*fully committed*” to returning inflation to the 2% target without undue delay. And that the **inflation aim doesn’t imply a ceiling of 2%... could go either way**. But the path of inflation must converge to the 2% objective.
- Recession probabilities in the Euro Area are low.

**Bottom Line:** They’re still dovish. Wait until June. As you were.



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