EQUITY RESEARCH
ECB stimulates Eurozone

COLLINS SARRI STATHAM
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ECB makes a decisive move on monetary policy

The ECB has taken a decisive step cutting deposit rates and increasing the monthly bond purchase order, a process referred to as "quantitative easing".

Eurozone interest rates and monetary stimulus were adjusted as follows:-

ECB measure	New Rate	Move	Comment
Benchmark Rate	0.0%	-0.05%	Positive surprise
Refinancing Rate	0.0%	-0.05%	Positive surprise
Deposit Rate	-0.4%	-0.1%	Expected
Marginal Rate	0.25%	-0.05%	Some expectation
Quantitative Easing	€80bn	+€20bn	Some expectation

The QE purchase order is to now include corporate debt (market was surprised the QE mandate was widened to include non-bank / corporate bonds).

The wider mandate is positive for € denominated blue chip insurance / industrial bonds and sovereign debt from the Eurozone "periphery" i.e. Spain, Ireland. The ECB has demonstrated once again its commitment to using its balance sheet to lower the yield curve for investment grade credits.

The 0.1% decline in the deposit rate to -0.4% was expected after negative Eurozone inflation for February – the data showed core inflation was -0.2%.

EU equities higher post ECB move

Equities started Thursday morning soft post a surprise move by the Reserve Bank of New Zealand which took the decision to cut interest rates to a record low of 2.25%. The Bank's Governor cited his concerns about China and the impact of the global slowdown on New Zealand during 2016. It sounded like words of wisdom. The Shanghai market also fell c.2% on concern over inflationary pressures/ slowdown.

But equities have taken heart at the ECB's latest move to boost Eurozone lending and stimulate activity. The Euro is a reserve currency and this move today shows good management on the ECB's part in meeting market expectations. The German DAX surged 2.25% whilst the French CAC jumped 2.54%, partly due to the now cheaper cost for blue chip companies tapping the bond market. In theory the biggest beneficiaries of lower Euro interest costs will be the large EU multinationals, autos, insurers, industrial companies that are heavy bond issuers.

During the conference call ECB Governor Mario Draghi suggested the current rates will remain for a long time but he did not expect further monetary easing would be required. This boosted the Euro's value against sterling and the US dollar.

Conclusion

Does the ECB move help in the short term? Yes. Does it help in the medium to long term? Maybe. At its core the move suggests the ECB is concerned over ongoing deflationary pressures in the Eurozone helped by the collapse in global commodity prices. By expanding quantitative measures the move will give a lift to EU multinationals. A boost to lending is possible further out in 2016, though we expect the greater concern is the cost to banks of a negative interest rate policy. The move should help EU equities and property values especially in the depressed Eurozone periphery.

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