

TRENDMACRO LIVE!

## On The April ECB Policy Meeting

Thursday, April 4, 2013

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**No optimism, no rate cut, and no new solutions beyond a commitment to act -- somehow.**

As expected, today the ECB decided to [keep interest rates unchanged](#) (see ["Draghi's Troika of Troubles"](#) April 3, 2013). And again as expected, there were no new easing measures announced to increase liquidity or access to credit in the euro area.

- In the [post-decision press conference](#), ECB President Mario Draghi highlighted the continued weak growth in the euro area and warned that a recovery in the second half of 2013 was subject to downside risks.
- He addressed all three of the "troika of troubles" we highlighted yesterday (again, see ["Draghi's Troika of Troubles"](#)).
- On the decline in inflation, he blamed the energy component of the index for the recent low reading, but also said that inflation would "remain contained in an environment of weak economic activity."
- On the weak growth rate of M3, he highlighted the positive developments in the depositor base in "stressed countries." But this data pertains to month-end February, so they do not take account of any moves since the Cypriot mess (see ["On the ECB's Move Against Cyprus"](#) March 21, 2013).
- He mentioned that non-financial corporations' (NFCs) access to funding remained constrained by tight credit conditions, particularly for small and medium enterprises in some countries. He did not offer any direct or immediate solutions.

Overall, Draghi struck a dovish tone at the press conference, several times highlighting that there were "downside risks" to the outlook. He promised that the ECB's monetary policy stance would remain accommodative for as long as needed, with no end to fixed-rate full-allocation tenders currently in sight.

- Beyond that, all we have is hints as to what the ECB will do next. Draghi did use the phrase "monitor very closely" in his prepared speech, which under former president Jean Claude Trichet would have meant a rate cut at the next meeting. Draghi does not seem to play that game though, insisting that he never pre-commits.
- He did make reference to both the [European Investment Bank](#) (EIB) and national central banks (NCB) as possible means for addressing the credit problems for NFCs in the some countries.

### Update to strategic view

#### ECB, EUROPE MACRO:

The ECB left interest rates unchanged at today's policy meeting, and announced no new easing measures. Mario Draghi emphasized downside risks, but did not offer any ready solutions beyond an abstract commitment that the ECB is ready to act. Despite Draghi's general dovishness, we still feel a rate cut is unlikely so long as financial conditions in the periphery would render such a move useless. In this environment, the next move -- if and when there is one -- will have to be something unconventional such as "Structural Operations."

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- The EIB already [has up to €60 billion](#) available for lending in Europe by 2015, but this would need to be massively expanded to counteract the problems faced in the periphery.
- It is harder to see what NCBs can do to ease the burden, unless Draghi is willing to allow bilateral arrangements for outright purchases under "Structural Operations" at the national level (again, see ["Draghi's Troika of Troubles"](#)). We do not see this as a move that Draghi would keep under his hat, so for now we are going to underplay any significance here.

Finally, Draghi did emphasize that the ECB is "ready to act" if needed. While this does not have the same dramatic effect of historic declaration last year of "whatever it takes" (see ["On Draghi in London"](#) July 26, 2012), it does at least assure that the ECB is still willing to do more should the need arise.

All we need now is to know what the ECB's trigger for that action would be -- or indeed, what form that action might take. On either, Draghi was not forthcoming.

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### Bottom line

The ECB left interest rates unchanged at today's policy meeting, and announced no new easing measures. Mario Draghi emphasized downside risks, but did not offer any ready solutions beyond an abstract commitment that the ECB is ready to act. Despite Draghi's general dovishness, we still feel a rate cut is unlikely so long as financial conditions in the periphery would render such a move useless. In this environment, the next move -- if and when there is one -- will have to be something unconventional such as "Structural Operations." ▶

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