

Economics Group

WELLS FARGO

SECURITIES

Jay H. Bryson, Global Economist

jay.bryson@wellsfargo.com • (704) 410-3274

Abigail Kinnaman, Economic Analyst

abigail.kinnaman@wellsfargo.com • (704) 410-1570

ECB: Making Plans to Dial Back Policy Accommodation

The ECB will end its quantitative easing program at the end of the year, and the Governing Council anticipates that it will keep rates on hold through the summer of 2019.

QE to End in December, Rates on Hold Through Next Summer

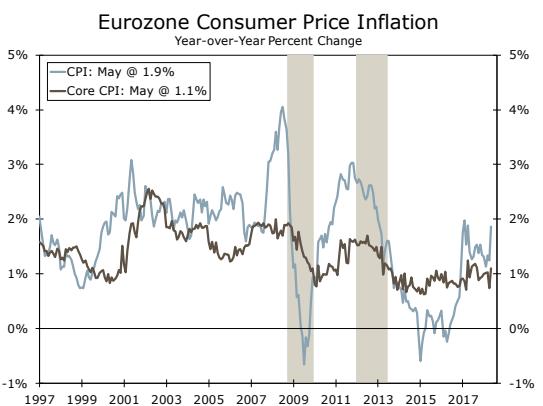
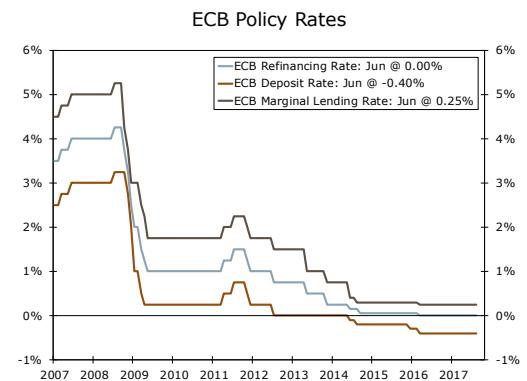
The European Central Bank made some important announcements at its highly anticipated policy meeting today. First, the Governing Council reaffirmed its commitment to purchase €30 billion worth of bonds per month through September. But, as we have been forecasting, the ECB will dial back its asset purchase program to €15 billion worth of bonds per month in October. It also said that it will cease buying bonds altogether after December, assuming that the pace of economic activity and the inflation outlook evolve as the Governing Council generally anticipates.

Second, the Governing Council decided to keep its three main policy rates unchanged at the levels that have been maintained since March 2016 (top chart). Furthermore, the Governing Council said that it anticipates that it will keep its three policy rates at these levels “at least through the summer of 2019.” Previously, we had looked for the ECB to hike its deposit rate, which currently stands at -0.40 percent, sometime in the early summer of 2019 while keeping its main refinancing rate (0.00 percent at present) and its marginal lending facility rate (0.25 percent) unchanged. We then looked for the ECB to hike all three rates in late summer 2019.

We take the Governing Council at its word regarding its commitment to keep rates unchanged through the summer of 2019. Consequently, we need to make some tweaks to our forecast for ECB policy rates. We have pushed back our forecast for the first move in the deposit rate from Q2-2019 to Q3-2019. Specifically, we look for the Governing Council to lift its deposit rate from -0.40 percent to -0.20 late in Q3-2019 while keeping its main refinancing rate and its and its marginal lending facility rate unchanged at 0.00 percent and 0.25 percent, respectively. We then look for it to hike its deposit rate to 0.00 percent, its main refinancing rate to 0.25 percent, and its marginal lending facility rate to 0.50 percent sometime late in Q4-2019.

What could alter our forecast of ECB policy? Simply, changes to our macroeconomic forecasts. After strengthening throughout 2017, real GDP growth in the Eurozone slowed in Q1-2018 (middle chart). In our view, the slowdown in the first quarter was just a temporary soft patch, and we look for the expansion to remain intact for the foreseeable future. But if growth were to remain sluggish, then we would need to rethink our outlook for eventual ECB rate hikes.

Furthermore, there are few inflationary pressures in the euro area at present. Although the overall CPI inflation rate jumped up to 1.9 percent in May, the core rate of inflation remains depressed at roughly 1 percent (bottom chart). If the core rate of inflation remains well below the ECB’s target of “below, but close to, 2 percent over the medium term” then the Governing Council may keep the policy rate unchanged for even longer than we now anticipate.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2018 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE



SECURITIES