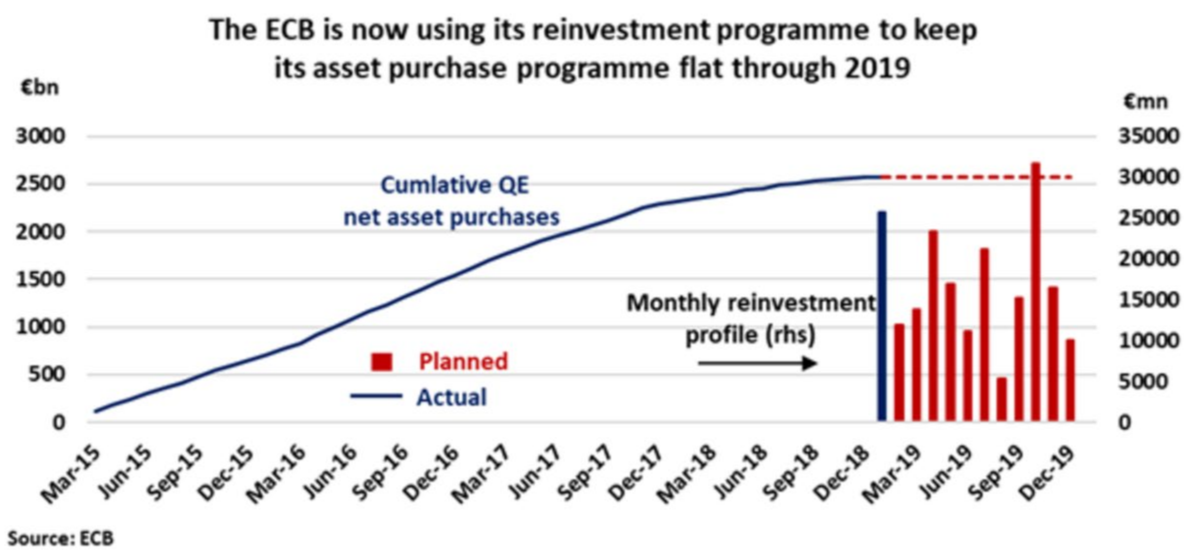
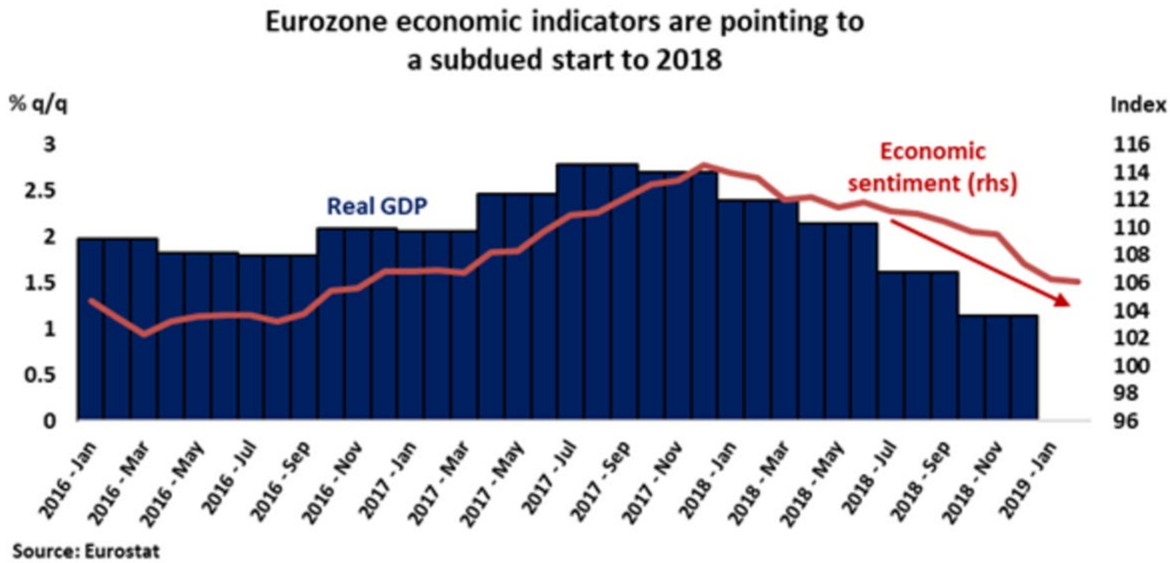
FLASH BRIEF

March ECB meeting preview: All about forecasts and forward guidance

The second ECB meeting of the year will again leave key interest rates on hold (refi rate 0.00 percent, deposit rate minus 0.40 percent and the marginal lending rate 0.25 percent). It should also reaffirm the central bank's intention to keep its QE stance unchanged by reinvesting the principal payments from maturing securities purchased under the Asset Purchase Programme (APP). This is already fully discounted in market prices.



However, what is much less clear is what the monetary authority it will do with its forward guidance. This currently has the ECB expecting official interest rates to remain at current levels ''at least through the summer of 2019'' and its reinvestment programme continuing ''for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation''. At the end of last year, some of the more hawkish Council members wanted a definitive cut-off date on the interest rate directive, but that now seems all the less likely. In fact, there must be some chance that even the loose summer date is pushed further out or simply made data-dependent. This would help longer-dated bonds but do nothing to enhance the investor appeal of the euro.



Since the January meeting, economic news has remained generally weak. Fourth quarter Eurozone growth failed to show the officially anticipated pick-up from a disappointingly sluggish third quarter and the latest PMI surveys have suggested no significant improvement in the current period. Similarly, the EU Commission's economic sentiment index has now extended its slide to some eight consecutive months (and twelve of the last fourteen). At the same time, underlying inflation remains stuck around the 1 percent mark.

ECB's December 2018 Economic Forecasts

% y/y		2019	2020	2021
	Min	1.1	0.8	0.5
GDP	**Central**	**1.7**	**1.7**	**1.5**
	High	2.3	2.6	2.5
	Min	1.1	0.9	0.9
HICP	**Central**	**1.6**	**1.7**	**1.8**
	High	2.1	2.5	2.7
- Core*	**Central**	**1.4**	**1.6**	**1.8**

* Excluding food and energy

Consequently, what does seem inevitable is that, having already switched its economic risk assessment from balanced to downside in January (which will probably be retained), the central bank will have to trim its growth forecasts yet again. With an unexpectedly weak carryover from a soft fourth quarter of 2018 and early indications of a subdued start to the year, September's 1.7 percent GDP growth projection for 2019 looks hard to justify. Something much closer to the EU Commission's current call of 1.3 percent would be more realistic. This would be the fourth time that the ECB has had to cut its forecast since the middle of 2018.

All of which should mean that the ECB will be at least a little more prepared to consider the option of providing some additional help to get the economy moving again. To this end, speculation is currently focussed on an extension to the existing targeted longer-term refinancing operations (TLTROs), or even a fresh tranche. TLTROs offer banks cheap long-term funding, linked to their provision of lending to (non-financial) corporations and households. Indeed, there are already worries that some Eurozone banks, notably in Italy, could fall short of their funding ratio targets from mid-2019, some twelve months before existing TLTRO loans begin to come due. Any move in this direction need not have any implications for the QE programme but could still negatively impact the euro. No such announcement would probably be a small plus.

As ever, the tone of what ECB President Mario Draghi says at his press conference could well be the deciding factor in any reaction to Thursday's announcement. One thing that is certain is that he will be as keen as anyone to see a Brexit resolution that keeps financial markets as stable as possible.