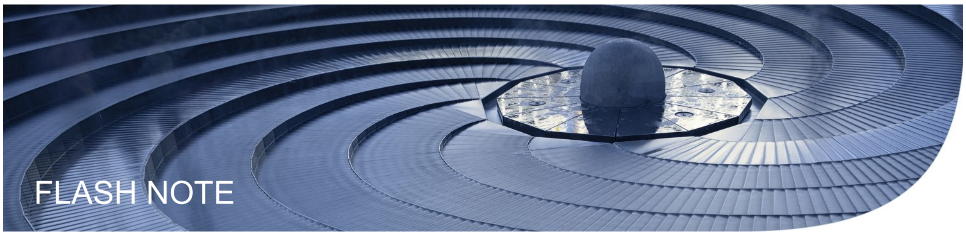


MIRABAUD 1819
Asset Management

A dovish ECB strengthens its forward guidance on rates

15 June 2018

Strategy Team

The ECB announced a reduction in net asset purchases to €15bn per month from October to December 2018, after which they will end.

The overall message was dovish with a strengthened forward guidance on rates.

The normalization of interest rates is unlikely to start before September 2019.

> The Asset Purchase Program: **the ECB announced a reduction of its monthly net asset purchases from €30bn to €15bn from October to December 2018, after which they will end.** While the Governing Council retains some flexibility on the future of its asset purchase program—its end will be subject to incoming data confirming ECB's medium-term inflation outlook—the bar is set high for a possible extension.

> The reinvestment policy: the ECB will continue to reinvest the principal payments from maturing securities for an extended period of time after the end of the net asset purchases. The Governing Council did not discuss the reinvestment policy but we expect the ECB to gradually reduce its securities holdings only after it begins increasing its interest rates. **With low for longer interest rates and asset purchases of €2'600 billions since the start of the QE program, the monetary policy will remain accommodative for an extended period of time.**

> The interest rate decision: the ECB kept the interest rate on the main refinancing operations, on the marginal lending facility and on the deposit facility unchanged at respectively 0.00%, 0.25% and -0.40%. **The ECB strengthened its forward guidance on rates and expects interest rates to stay at present levels *at least* through the summer of 2019.** The first interest rate hike is now expected in September or December 2019.

> The press conference: **Draghi does not consider uncertainties around Italy's political situation as a main risk for Eurozone** but rather as an issue contained to Italy. The statement only noted that the risk of persistent heightened financial volatility warranted monitoring. Draghi also mentioned that protectionism trade measures risk undermining confidence in the world economy. New macroeconomic projections—which only include trade measures already implemented—show higher core and headline inflation, mainly due to higher oil price and lower euro projections.

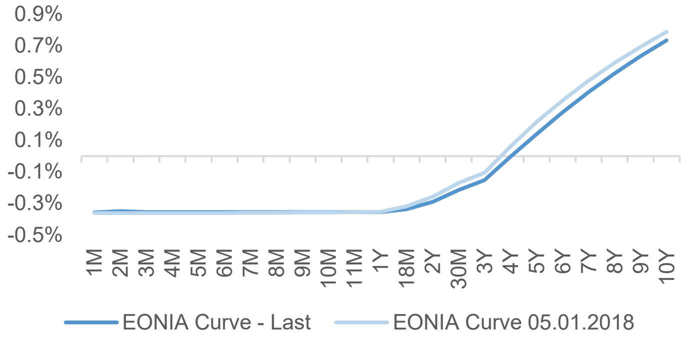
> Asset allocation: **the ECB policy meeting was dovish with a clear date dependent guidance on interest rates. But overall, the economic assessment was upbeat with a positive view on growth and a gradual return of inflation to target.** Over the medium term, these developments will support real yields normalization. On our asset allocation, we maintain our strong underweight on sovereign bonds in the Eurozone as well as our positive view on small and mid caps which profit from improving domestic activity. Our bias on cyclicals and on the industrial sector should continue to outperform in this environment.

EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS

	2018	2019	2020
Change in Real GDP	**2.1%**	**1.9%**	**1.7%**
March projections	*2.4%*	*1.9%*	*1.7%*
HICP Inflation	**1.7%**	**1.7%**	**1.7%**
March projections	*1.4%*	*1.4%*	*1.7%*
Core HICP Inflation	**1.1%**	**1.6%**	**1.9%**
March projections	*1.1%*	*1.5%*	*1.8%*

Technical assumptions: higher oil price and weaker euro expected from 2018 to 2020 explain upwards revision to inflation.

THE EONIA CURVE SHIFTED DOWNWARDS



Sources: ECB, Mirabaud Asset Management