

# Market Comment | The additional ECB measures surpassed market expectations

Global Financial Markets Unit  
10 Mar 2016

- **The additional ECB measures surpassed market expectations.** The ECB's Governing Council (GC) cut rates and announced further non-conventional measures in order to counteract heightened risks to the ECB's price stability objective. In particular, the GC decided: i) to cut the main policy rate by 5 bps to 0.0%, a historic low, the deposit facility rate by 10 bps to -0.40% and the marginal lending rate by 5 bps to 0.25%, ii) to expand monthly purchases under the asset purchase programme (APP) to EUR80 bn, iii) to broaden the scope of asset purchases (to now include investment-grade euro-denominated bonds issued by non-bank corporations) and iv) to introduce a new round of four-year TLTROs. Regarding economic projections, the ECB cut its euro zone growth forecast (-0.3pp to 1.4% in 2016, -0.2pp to 1.7% in 2017 and established 1.8% for 2018) and the euro zone inflation forecast (from 1% to 0.1% in 2016, and from 1.6% to 1.3% in 2017, while for 2018 they expect 1.6%). Risk continues to be biased downwards.
- **Positive labour data in the US.** US jobless claims dropped more than expected in the week ended 5 March (259K; consensus: 275K) and continuing claims also declined more than estimated in the week ended 27 February (to 2,225K from 2,257K; consensus: 2,250K).
- **CPI in China improves in February.** China CPI rose in February, beating expectations (by 2.3% YoY; consensus: 1.8%); this increase was due mainly to seasonal adjustment - rise in food prices caused by the Chinese New Year.
- **The sharp movement in financial markets following the ECB's rate decision turned down in line with non-expectations of further cuts in interest rates in the current economic environment.** Today's ECB meeting brought a generous package of measures which, judging by the sharp movements in the main financial variables, surpassed the market's expectations. When the decisions were announced, the euro dropped 1.5% against the USD, the peripheral spread narrowed abruptly - by around 15 bps - and the main equity indices rose by around 4%. Nonetheless, financial markets turned down as soon as Mario Draghi pointed out that in the current environment there was no reason to lower interest rate further, diluting most of previous gains in European equities and trimming euro depreciation. Moreover, the announcement of an extended period of very low rates failed to provide an additional boost to European equities or to euro depreciation. The euro ended the day appreciating against other major currencies (USD: -1.55% JPY: -1.2% GBP: -0.86%), with some analysts considering that the ECB has changed its reflating strategy to boosting domestic demand instead of weakening the euro. European bond markets also registered high volatility during the session, ending with core yields inching up slightly, while peripheral yields showing a mixed performance and offsetting previous falls, with the exception of Portugal, which fell (GER 10Y: +5 bps FRA 10Y: +4 bps ITA 10Y: +3 bps SPA 10Y: 0 bps POR 10Y: -4 bps). Meanwhile, US treasury yields increased (2Y: +3 bps 10Y: +5 bps). Moreover, the falls in oil prices and cyclical commodities also increased markets' volatility and dragged equity markets. At the end of the session most European equity indices registered losses, with the exception of Ibex (Eurostoxx: -1.2%

IBEX: +0.5% DAX: -2.1% CAC: -1.3%) led by the basic resources and export sectors, while the European banking sector underperformed the indices. In the same vein, the US slightly declined (S&P: -0.5% Dow: -0.6%). Meanwhile, Asian markets showed a mixed performance (Nikkei: +1.26% Shanghai: -2.02%) despite the better-than-expected China CPI data released. EM currencies depreciated against the US dollar, with the exception of the Brazilian real (RUB: -1.0% BRL: +0.4% COP: -1.2% CLP: -1.2% MXN: -0.9%), dragged down by commodity prices, mainly by oil falls caused by doubts about the willingness of Iran to subscribe to the freeze of oil production at January levels unless it is granted special status or some exemptions (Brent: -3.1% Wtx: -2.6% Copper: -1.0%).

Update 17.30 CET 10 March, 2015

Table1



\*CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

\*\*\*S&P GSCI with one day delay

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