GrowStronger.com

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

Market Insights & Strategy
Global Markets

08 March 2018

Simon Ballard
Macro Strategist

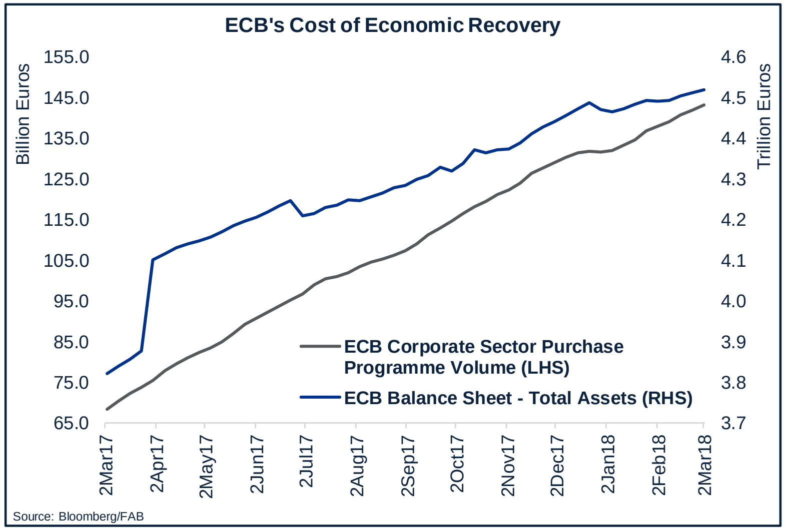
Please click here to view our recent publications on MENA and Global Markets

ECB Preview: Does Draghi Believe in Goldilocks?

The ECB meets today and will release its latest monetary policy decision at 16.45 UAE time. Broad consensus is that ECB president Draghi will leave headline interest rates unchanged – deposit facility rate at -0.40%, marginal lending rate at 0.25% and main refinancing rate at 0% - but once again investors will dissect and scrutinize his every word in the accompanying statement and then the press conference that will follow at 17.30 UAE time. Indeed, the latter will be analyzed for any update on the timing, aspirational magnitude and proposed velocity of the central bank's balance sheet normalization process. Financial market reaction will again be all about what Draghi says, not what he does.

The potential ramifications of the ECB wording stretch much further than the Eurozone itself. While any surprise hawkish elements to rhetoric could also dampen risk appetite in MENA markets, conversely we believe that a continuation of an accommodative bias by the ECB today should also prove net supportive for investor sentiment in our region, which itself remains underpinned by firm fundamentals and attractive incremental yield opportunities. All of this of course sits alongside the FOMC that has already begun its own monetary policy normalization process – at an all-important measured pace – and the Bank of England that is expected to raise rates by the end of the year, notwithstanding possible Brexit constraints to that process.

Of course, the ECB has already begun to taper its quantitative easing program, reducing its monthly asset purchases from EUR60bn to EUR30bn since December, albeit with a still accommodative bias. Within the risk asset space the ECB remains the marginal buyer of European corporate debt; the Corporate Sector Purchase Programme (CSPP) that was initiated in June 2016, held EUR143.306bn of paper as of March 2, 2018. Moreover, it is important to note that while the overall asset purchase program volume has been reduced, the end date for purchases was extended by 9 months out to September 2018 and as yet there has been no meaningful reduction in the size of the Bank's EUR4.5tn balance sheet.



Source: Bloomberg/FAB

Draghi, ever the wordsmith, now needs to tread a very delicate line. On the one hand he needs to convey the idea that Eurozone growth continues to improve and is sustainable, and further, that the exponential balance sheet expansion of recent years is now yielding dividends. In this way, he will hope to prime the market for further policy normalization over the coming quarters. On the other hand though, he will surely be conscious of the risk of scaring the market and triggering a broad correction in risk asset prices, by suggesting that he may take the proverbial punch bowl away from the European party too soon. Overall, the market will be looking for his conviction in a Goldilocks Eurozone economy that is now running neither 'too hot' nor 'too cold'.

Simon Ballard
Executive Director & Macro Strategist
Market Insight & Strategy
FAB Global Markets
Tel: +971-2-6110157
Mobile: +971-50-9332806
Email: Simon.Ballard@bankfab.com

Please click here to view our recent publications on MENA and Global Markets