

October 27, 2017

ECB October Meeting: No tricks, and a small treat

Yesterday, 26th October, the European Central Bank (ECB) unveiled its widely anticipated QE departure plan. From January 2018, the bank's quantitative easing (QE) program, under which it buys €60 billion (Bn) worth of corporate bonds per month, will be slowed to a rate of €30bn-a-month for an initial nine-month period. The ECB had no tricks up its sleeve and delivered in-line with market consensus expectations. There was an additional dovish 'treat' in that Mario Draghi, the ECB President did not put an expiry date on the program – meaning that it could be extended beyond the nine month timeframe if required. This decision would be largely data-driven. The refinancing rate was held steady at 0% and the deposit facility rate remained at -0.4%. At the detriment of banks, crucial information for borrowers, is that the ECB does not expect to begin rising rates until "well past the end" of the QE programme. The dovish approach prevented markets from getting spooked.

In the fixed income space, more investors turned to Eurozone bonds causing prices to rise and yields to decline. Whilst the 10-year yield on the German Bund came down, the biggest sigh of relief came from peripheral countries and there was visible spread tightening against the Bund.

The euro weakened against the dollar. As Mr Draghi has mentioned, keeping a lid on the appreciation of the euro (which has already appreciated some 12% against the dollar this year) is key for the ECB because if the currency appreciates further, there is a danger that this could exacerbate the economic inequalities between EU states, calling for further ECB intervention down the line.

European equities rose in afternoon trading, though gains were also attributable to relief around developments in Catalonia.

The overall outcome of the meeting was positive and reassured financial markets that the European recovery was solid and broad-based. Draghi referenced the Eurozone's 'unabated' growth momentum in the second half of the year, falling unemployment (currently 9.1%) and the recent pick-up in investment. He did acknowledge that despite a slight increase in wage growth, domestic cost pressures remain subdued. In September, year-on-year inflation came in at 1.5% – once again missing the ECB's 2% target. Draghi stated that, 'the economic outlook and

the path of inflation remain conditional on continued support from monetary policy. Therefore, an ample degree of monetary stimulus remains necessary.'

The meeting served as a beacon of benign economic conditions allowing for a lighter ECB presence and a gradual lessening of the distortions in financial markets.

Because the outcome of the meeting caused yields to fall, dollar strength and European equity market outperformance, our Sonata portfolios received a boost.

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeliness of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of-date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch | L-2953 Luxembourg | RCS Luxembourg B-6307 | Tel. +352 4590 6699 | www.bil.com.