

April 26, 2018

ECB keeps monetary policy as is



Today, Thursday 26th April, the ECB Governing Council maintained status quo with regards to its

monetary policy.

The ECB said that it would continue its lavish purchasing program - under which it buys eurozone bonds at a pace of EUR30 billion a month - at least through September 2018. It also left its key interest rate unchanged at -0.4% and the current market expectation is that this will not change until June 2019.

Mario Draghi, at the press conference following the meeting, iterated his confidence in the eurozone economy, despite the somewhat rocky start to 2018... "Incoming information since our March meeting points towards some moderation, while remaining consistent with a solid and broad-based expansion of the euro area economy" he said.

Indeed, a two-month run of PMI declines came to an end in April with the IHS Markit composite PMI stalling at 55.2 (50 is the marker between economic expansion and contraction). Draghi also highlighted some one-off factors which have acted as a drag on economic performance: exceptional weather conditions, labour strikes and the timing of the Easter holiday.

He added that the ECB is closely monitoring the strength of the euro.

With regards to inflation, Draghi contended that the underlying strength of the euro area economy continues to support the ECB's confidence that inflation will converge toward its target level of below but close to 2% over the medium term.

Following the meeting, European stocks and the euro made tentative gains. This bodes well for our current tactical allocation - we maintain an overweight in European equities and at our last Asset Allocation committee, we diversified into mid-cap EMU stocks in order to provide a degree of protection against a stronger euro. Mid-cap companies tend to conduct a higher proportion of their activities within the bloc and are therefore less sensitive to FX movements.

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