

Economic News

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ECB leaves repo rate on hold at 4%, as expected

It is all deja vu at the European Central Bank today, with the main marginal lending, repo and deposit rates all on hold for the tenth consecutive month, at 5%, 4% and 3% respectively.

Mr Trichet does not sound like a Central Banker who may be about to cut interest rates. Indeed, a first glance at the ECB's press statement is consistent with our view that the policy of wait and see is here to stay for a while longer, **for now Eurozone rate cut hopes is just wishful thinking.**

As expected, the ECB staff projections show the 2008/09 inflation forecasts revised to the upside but the growth forecasts revised to the downside. On inflation, the European Central Bank staff now expects Euro HICP within a +2.6%-+3.2% range this yr (from +2.0%-+3.0%) and at +1.5%-+2.7% next year (from +1.2%-+2.4%). **Basically, Eurozone inflation is expected to run above the 2% ceiling (on average) both this year and next year.** As for growth, Eurozone GDP is now seen within a +1.3%-+2.1% range this year (from +1.5%-+2.5%) and at +1.3%-+2.3% (from +1.6%-+2.6%) for next year. The policy statement is consistent with **a neutral mood (at best) at the ECB.** On growth, Mr Trichet stressed that *'The fundamentals of the euro area economy remain sound'* but he also referred to unusually high level of uncertainty and highlighted continued downside risks to the growth outlook. As for inflation, the ECB President reiterated *'...strong upward pressure on inflation in the short term stemming mainly from the increases in energy and food prices ...with a more protracted period of relatively high rates of inflation than in the past'*.

On the crucial euro issue and in the Q&A session, ECB's Trichet referred to the G7 statement by repeating that excessive Fx moves are undesirable and he also 'noted with extreme attention the statements repeated by the US'. Supposedly not too threatening a comment to deter eur/dlr bulls.

This press conference confirms that ECB rate cut hopes are in vain for the time being. Indeed, the ECB staff projections may have revised both this year and next year's growth forecasts to the downside (and below trend) but the inflation forecast was revised significantly higher - **and significantly above the 2% ceiling** for both years. This is a dilemma position for the monetary authorities but the ECB President highlighted (again) **that price stability remains the top priority**, so cutting rates is clearly not on the agenda for now. Meanwhile, given the scale of the recent eur/dlr moves, the remarks on Fx were not particularly threatening. **So whether from an interest rate or from the Fx remarks perspective, this press conference will do little to reverse the recent eur/dlr rally and should weigh on the short-end of the European bond mkt.** **ACF.**

Eurozone Repo Rates		Interest Rate Forecasts							
ECB Repo Rate			Current Level	Next Move	Timing	Q108	Q208	Q308	Q408
<p>Source: Reuters EcoWin</p>	Bank of England	5.25%	-25bp	Q2-08	5.25%	5.00%	4.75%	4.50%	
	European Central Bank	4.00%	-25bp	Q408	4.00%	4.00%	4.00%	3.75%	
	Federal Reserve	3.00%	-50bp	Mar-08	2.50%	1.75%	1.75%	1.75%	

Source: CIBC World Markets