

June 14, 2018

The ECB delivers a roadmap towards the end of QE



After an [upbeat Federal Reserve policy meeting](#) on Wednesday, today played host to the European equivalent in Latvia. The June ECB meeting was instrumental in calling time on the central bank's €2.4tn bond-buying programme, designed to prop up the eurozone economy after the 2008 financial crisis.

The ECB announced that it will half the size of its monthly asset purchases to €15bn after September, before winding them down completely in December. However, the plan comes with an important asterisk: Additional bond purchases will end in December, said the ECB, "*subject to incoming data confirming our medium-term inflation outlook*".

Inflation still dithers below the ECB's target of "close to 2%" and the ECB President, Mario Draghi, stated that the eurozone economy still needed "significant monetary stimulus" for the target to be met. The ECB lifted its inflation expectations to 1.7% this year, in 2019 and 2020. Three

months ago, it had predicted inflation of only 1.4% this year and next.

Not only did the ECB keep interest rates at an ultra-low level, but added that it expected rates to *"remain at their present levels at least through the summer of 2019"*. The benchmark main refinancing rate was kept at zero and the deposit rate at -0.4%.

Mr Draghi said the governing council would discuss when it would stop reinvesting the proceeds of maturing securities at future meetings, noting that this in itself was an important monetary policy tool.

After 2017 was peppered with positive economic surprises, this year eurozone growth has moderated.

The ECB trimmed its growth forecast for 2018 to 2.1% from 2.4% it projected in March. Expectations for a growth of 1.9% in 2019 and 1.7% in 2020 remain unchanged.

In light of the news, the euro fell by 1%, but this was also thought to be affected by strong retail data in the US. Retail sales jumped 0.8% in May, which was taken as a beacon of strong second-quarter GDP growth. Retail sales have risen a solid 5.9% over the past 12 months.

Today's events, in both Europe and the US are very much aligned with our latest economic outlook. At our June asset allocation meeting, we were compelled by dimming economic sentiment in Europe to bring our European equity exposure down to neutral. Simultaneously, we increased our exposure to US equities, which are buoyed by strong underlying fundamentals. In anticipating the end of QE and rising interest rates, we have already tried to cushion the fixed income segment of our portfolios using a nuanced selection of equity-like instruments such as convertible bonds.

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