



“The Draghi Delay”: March 11, 2016

The big story of the week revolved around the European Central Bank’s (ECB) policy meeting, where President Mario Draghi, aka Super Mario, did not disappoint the market and announced a broad and aggressive package of measures referred to by many as the economic equivalent of a “bazooka shot!”

The ECB managed to deliver a package of policy measures that mostly exceeded expectations. In line with consensus, it cut the deposit rate by 10bps to -0.40%, but unexpectedly cut its benchmark rate to 0.0% from 0.05%, effectively enabling banks to access its capital at no cost. It also announced an expansion in its monthly asset purchase program by €20B to €80B, which compared with expectations for a €10B increase. Arguably, the most surprising measure was the inclusion of investment grade euro-denominated bonds in its QE plan. Additionally, it announced four new Targeted Long-Term Refinancing Operations, also referred to as TLTROs, with four-year maturities. Rates on these tenders will start at the new refi rate of 0.0% and could potentially be as low as the deposit rate, depending on their lending activity. The policy guidance on the ECB statement was also unambiguously dovish, stating that rates will remain at present or lower levels for an extended period of time.

However, dovish takeaways from the statement were undermined by ECB President Draghi after he said that given the package of measures, he did not expect rates to go any lower. It was clearly a case of poor communication as his remarks triggered a move out of risk assets and fueled a big reversal in Europe and the U.S.

Despite yesterday’s sharp reversal, there seems to be some form of re-think today, surrounding yesterday’s policy announcement. After we all had time to sleep on it, we are now giving the ECB credit due for its massive policy decision and stimulus measures.

As always, we thank you all for your continued support and look forward to discussing any or all of our thoughts at your convenience.

Best regards,

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