

4 December 2008

Economic News

ECB CUTS REFI RATE BY 75 BASE POINTS

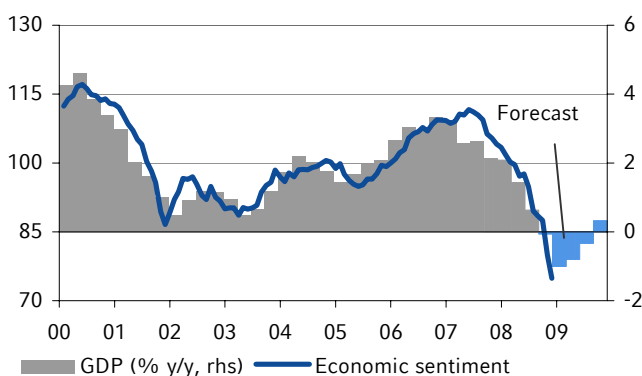
A small step for the markets, a great step for the ECB

With the biggest rate cut so far of 75bp the ECB council is taking account of the current extraordinary circumstances in its own measured way. The markets' reaction to this was one of disappointment, because they had hoped for more on the back of today's sharper rate cuts by other central banks. However, the ECB had not given any indications to support this. We expect to see a main refinancing rate of 1.5% before the end of the first quarter.

- The scope of the economic slump against the backdrop of an increasing risk of inflation would certainly have justified a stronger rate cut. Further rate cuts are very likely in any event, because the data positively demand them. So why not do it right away? The Swedish Riksbank's approach today of rolling up the rate cuts planned for the next few months into one (very) large step of 175bp definitely makes sense in the current circumstances, particularly given the major impact that sending such a signal will have.
- The marginal lending rate and the deposit facility were also cut by 75bp. In our view, a sharper cut in the deposit rate would have been worth a try. It would have made parking funds with the ECB more expensive and therefore might have invigorated the interbank market.
- The ECB's latest growth projections are in line with our forecasts, as is its assessment that the downside risks have the upper hand.
- We expect to see the next rate cut on 15 January (by probably 50bp) and believe that the main refinancing rate will have reached its cyclical low point at 1.5% before the end of the first quarter. It could drop still further. However, we assume that, particularly in Germany, further economic stabilisation programmes will be passed by fiscal policymakers. Given this, unlike the Fed, the ECB at any rate will probably not cut its key rate to below 1%.

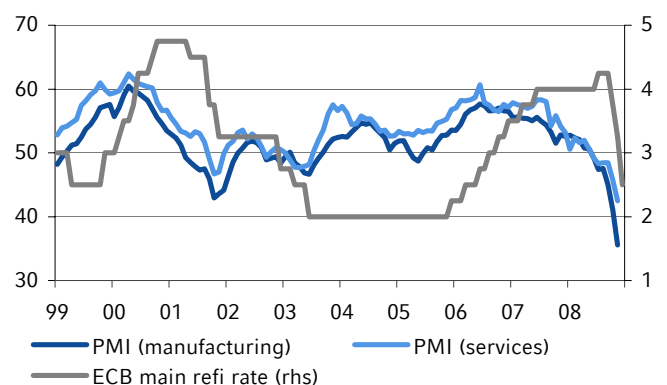
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Eurozone: GDP and economic confidence



Source EcoWin, WestLB Research

Eurozone: Main refinancing rate (in %) and purchasing manager index



Source EcoWin, WestLB Research

ECB information

Schedule of ECB's interest rate decisions

	Date
2009	15 January
	5 February
	5 March
	2 April
	7 May
	4 June
	2 July
	6 August
	3 September
	8 October
	5 November
	3 December

Source: ECB.

Forecasts (% y/y)

	GDP		Consumer prices	
	2009	2010	2009	2010
ECB				
December 2007	2.1	-	1.8	-
March 2008	1.8	-	2.1	-
June 2008	1.5	-	2.4	-
September 2008	1.2	-	2.6	-
December 2008	-0,5	1.0	1.4	1.8
WestLB	-0,5	1.0	1.2	1.7

Source ECB, middle of the forecast range

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