

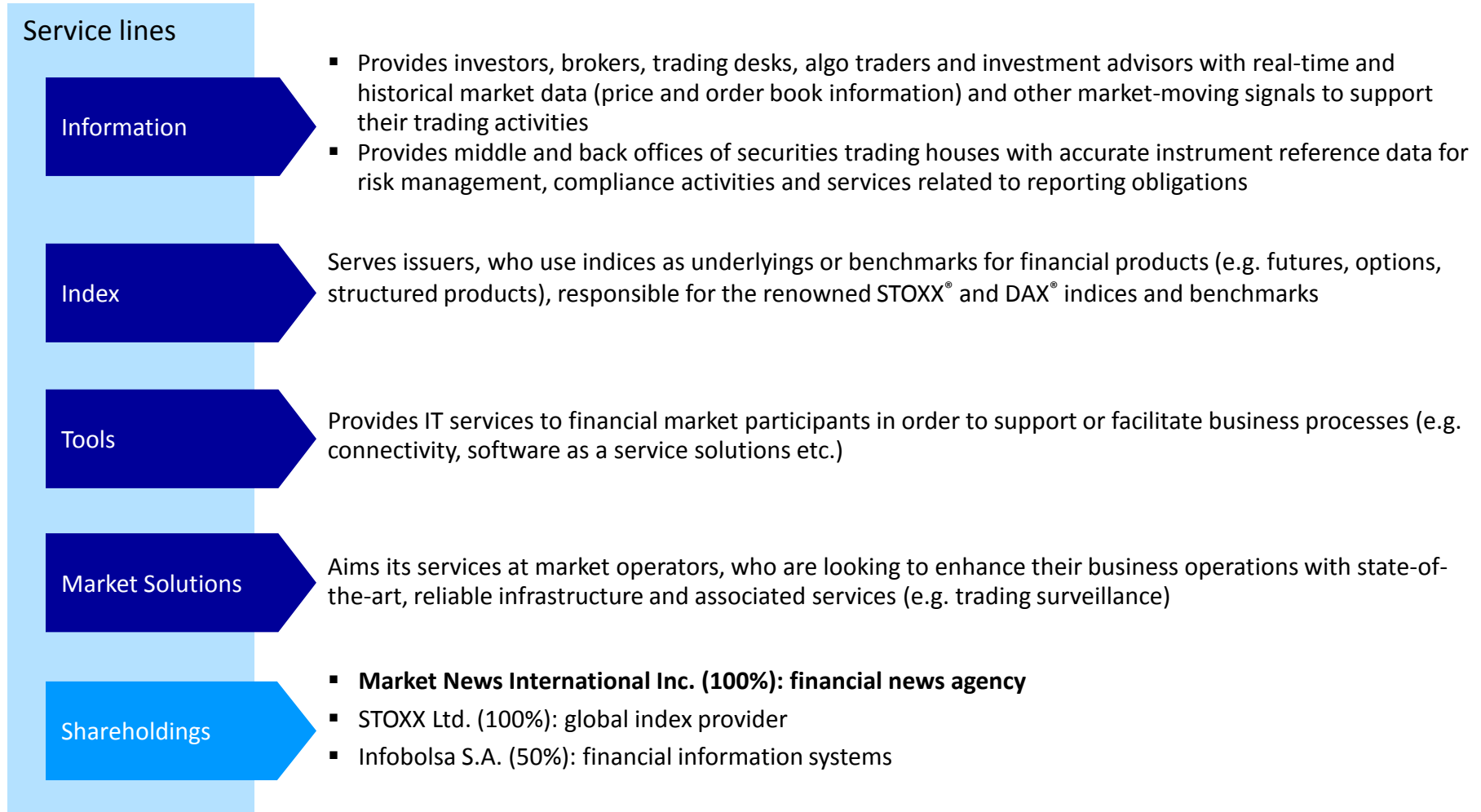
# MNI

Light At The End of The Tunnel?  
Euro Area Economy And the ECB

Johanna Treeck, Senior ECB Correspondent, September 2015

# Market Data + Services

## We advance markets



# MNI Company Overview

**Market News International (MNI)** is the leading provider of financial news and intelligence specifically for the Global Fixed Income and Foreign Exchange markets.

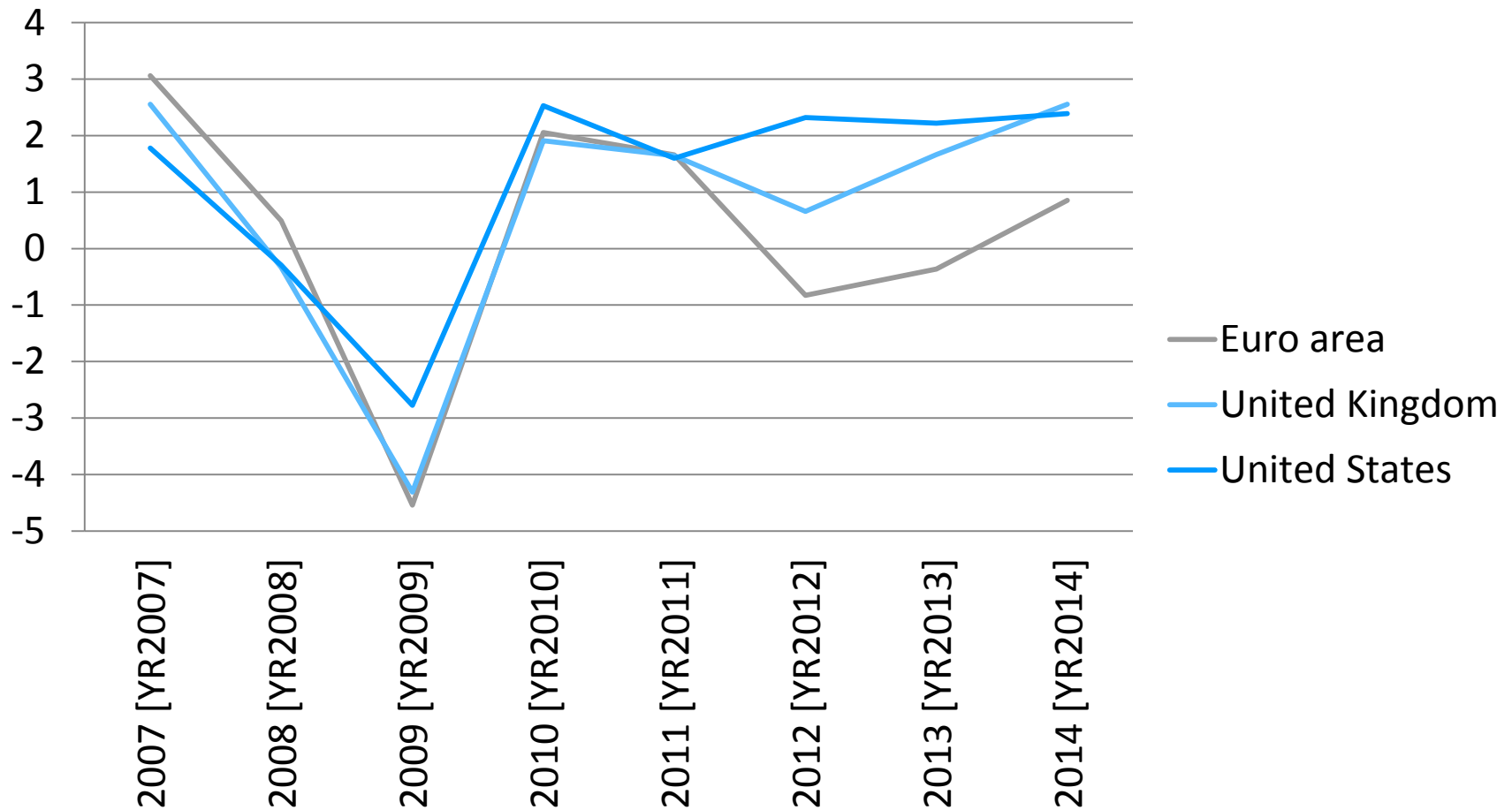
For over 30 years MNI has been at the forefront of delivering exclusive news, expert analysis and strategic intelligence to financial professionals. Our clients rely on us to not only deliver breaking news and analysis but to link their effect on the market.

- breaking news and macroeconomic intelligence that moves markets
- 60 correspondents located in 12 news bureaus across Europe, America and Asia
- 1 of 4 real-time English language financial news agencies with press credentials recognized by governments and central banks of all major economies, delivering exclusive news directly from economic data “lock ups”

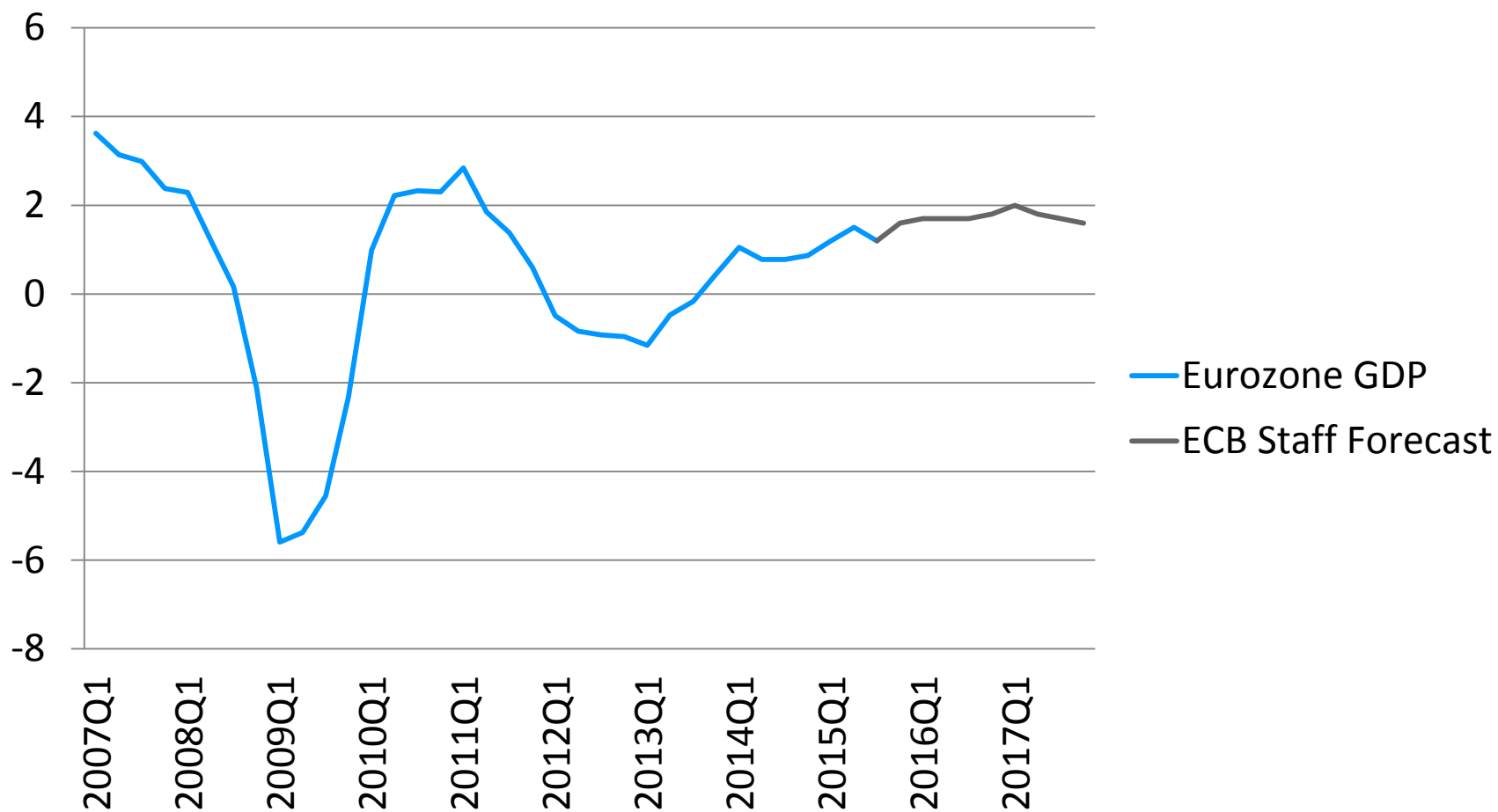
## ECB Still Fighting



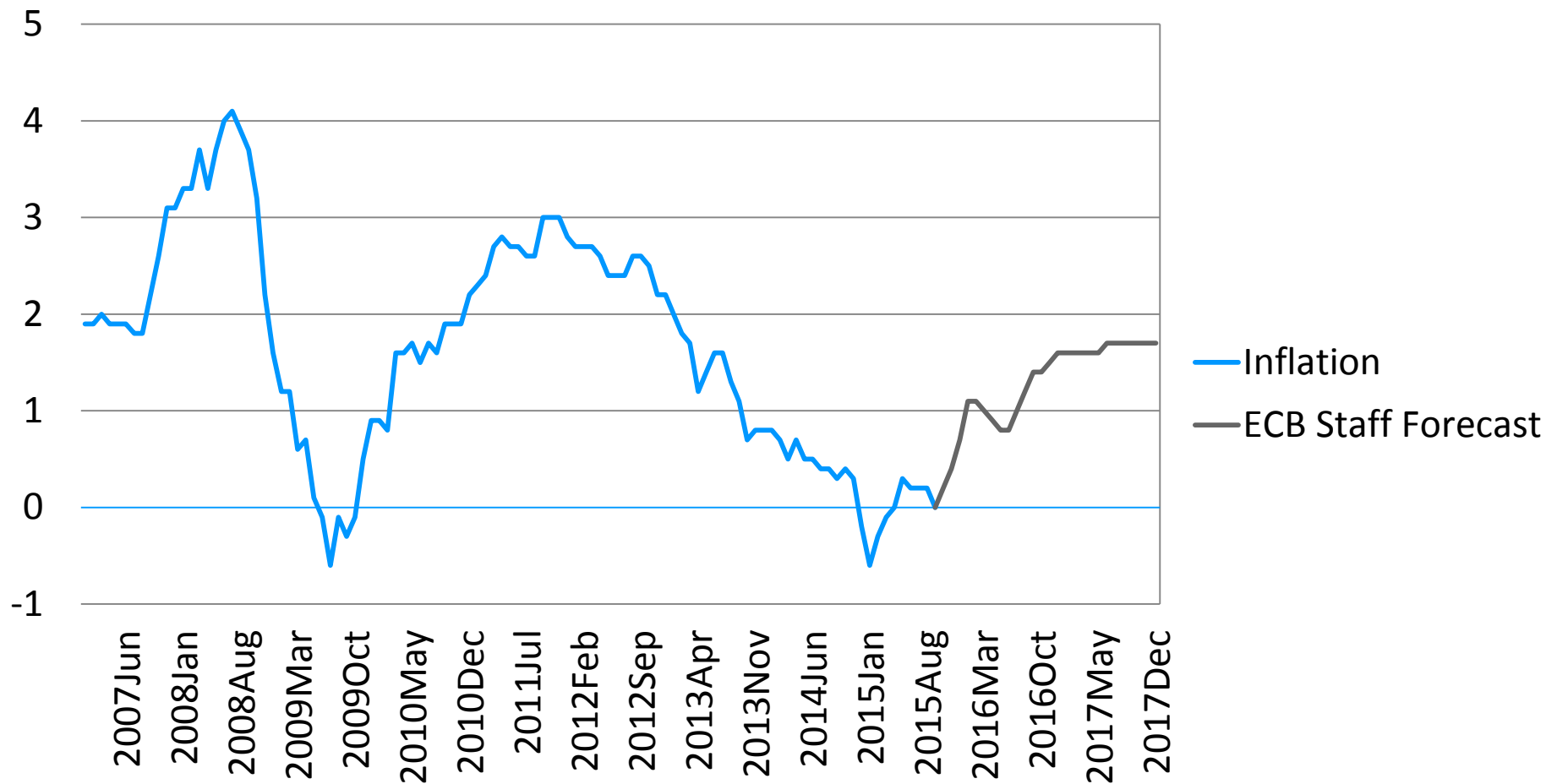
## Euro Area Disappointment



## Euro Area GDP



## Euro Area Inflation



# Economic Environment

## Disappointing

- The Euro area has emerged much more slowly from the great recession than other advanced economies
- The ECB has described economic prospects for the currency as “disappointing from both a longer-term and an international perspective.”

## Growth

- ECB staff cut GDP forecast To 1.4% (1.5%) in 2015, 1.7% (1.9%) in 2016, 1.8% (2.0%) in 2017

## Inflation

- ECB staff cut HICP forecast to 0.1% (0.3%) in 2015, 1.1% (1.5%) in 2016, 1.7% (1.8%) in 2017
- While the revision for 2017 is minimal it is key as debatable whether in line with price stability objective

## Downside Risks

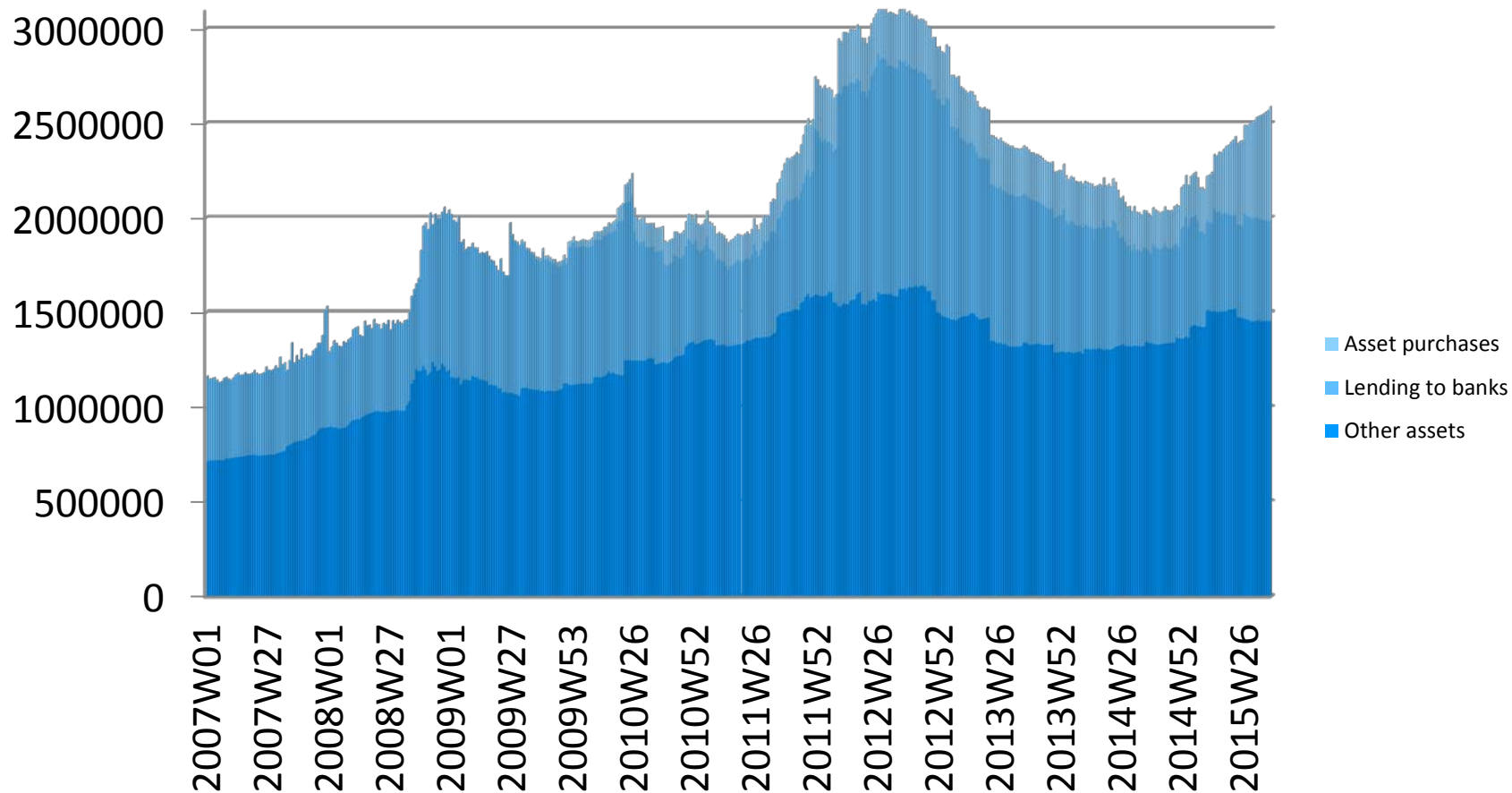
- The ECB sees downside risks to its September forecasts as cut-off date was August 12
- ECB staff forecasts tended to overshoot in recent years, especially on inflation



## 5-year/5-year Forward Inflation Swaps



# Eurosystem Balance Sheet



# ECB Response

## Inflation Expectations

- ECB favored measure of inflation expectation below pre-QE levels

## ECB Signal

- ECB emphasizes willingness and ability to act, if warranted, by using all the instruments available within its mandate

## Real Economy

- Data from real economy no source of additional concerns
- Data largely predate China devaluation

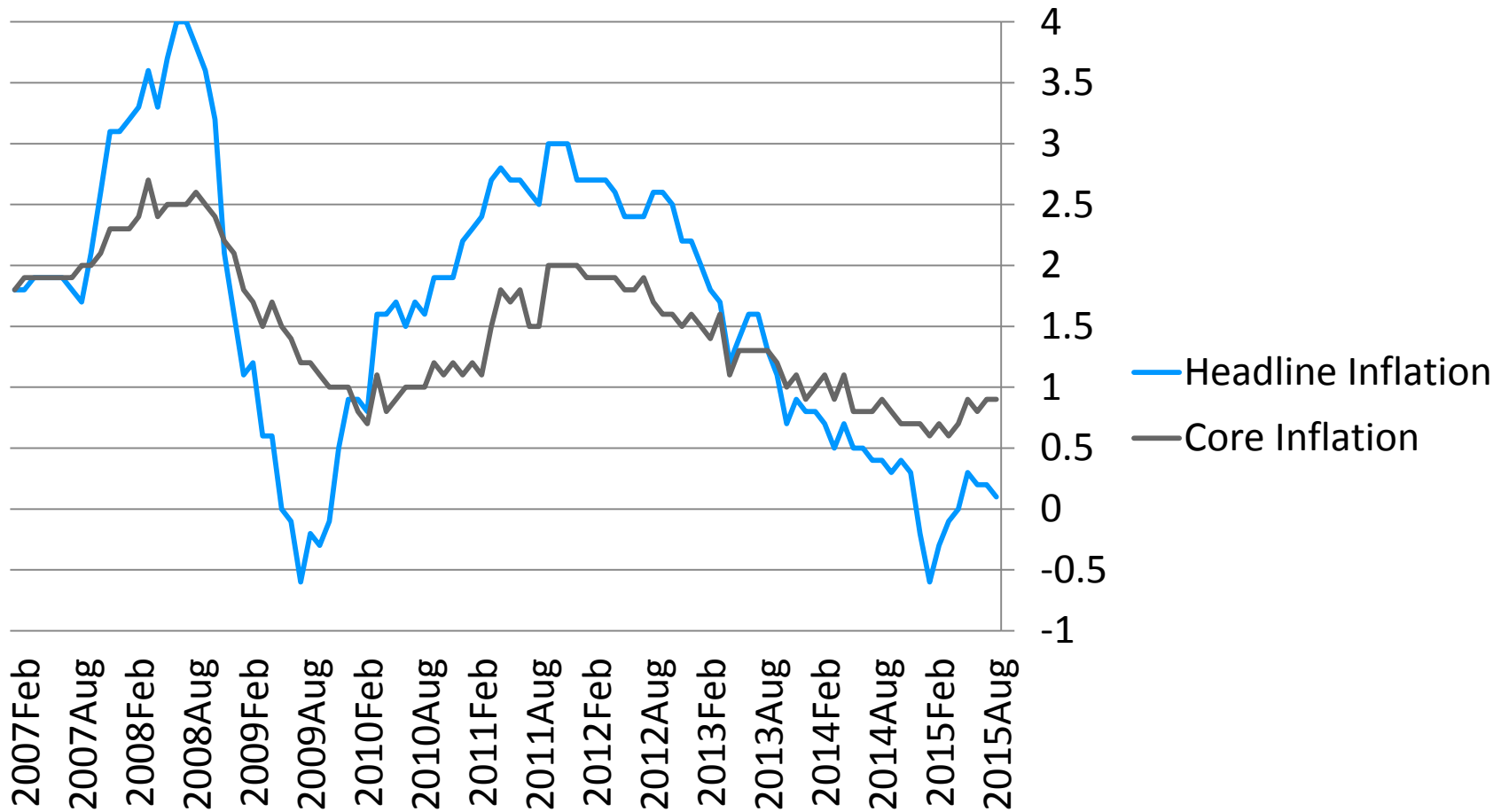
## Markets

- US Federal Reserve did not raise rates
- Euro higher vs. US Dollar
- Commodity prices still depressed
- China remains a source of concern

## Timing

- ECB More Likely to move in December than October
- Even small downward revision of 2017 inflation will prompt move

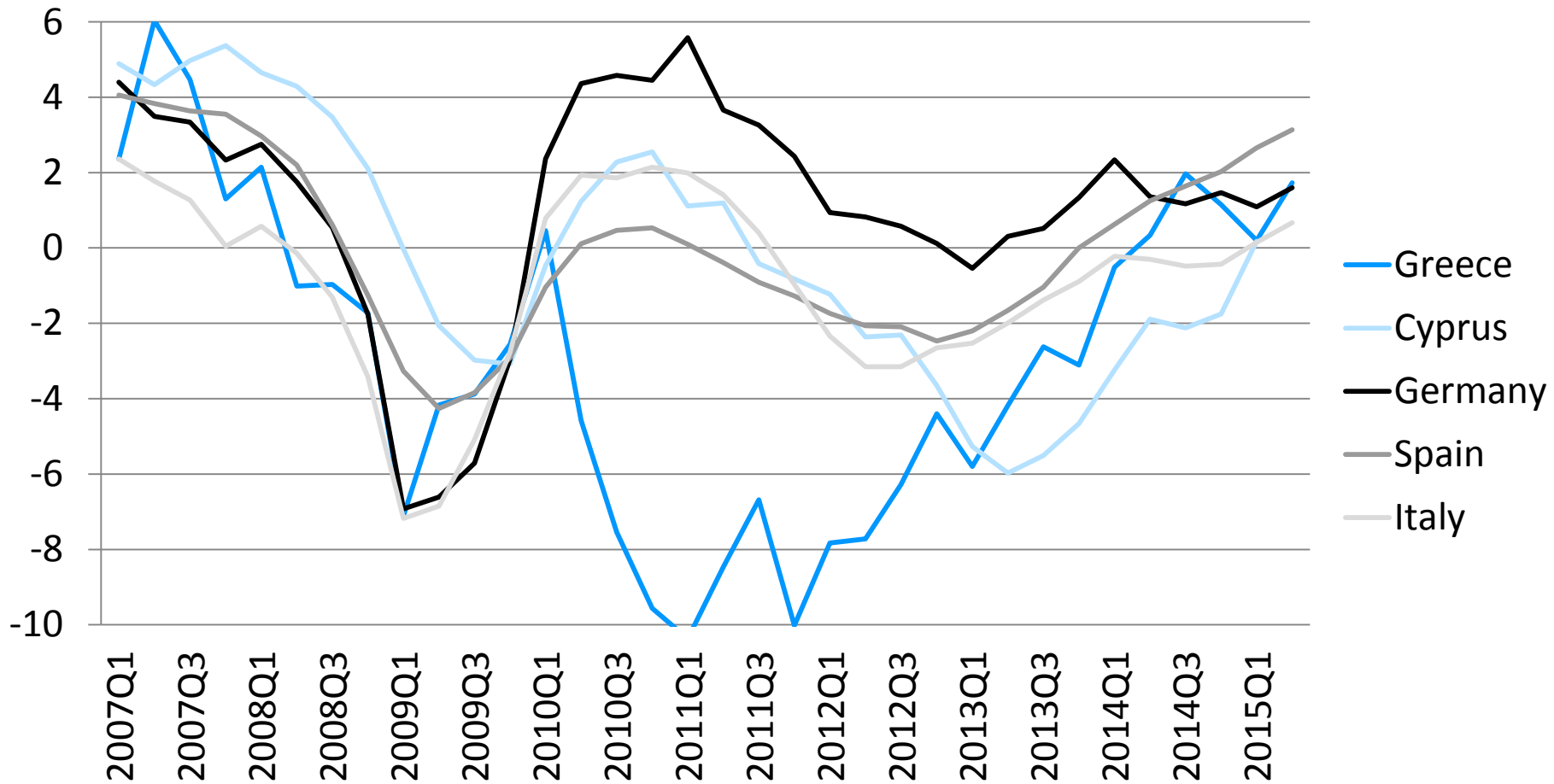
## Euro Area Core Inflation



## Euro Area Recovery Fading

	HICP (Y/Y Percentage Change)	GDP (Q/Q Percentage Change)
2015 3Q	0.1	0.3
2015 4Q	0.4	0.4
2016 1Q	1.1	0.5
2016 2Q	0.8	0.5
2016 3Q	1.2	0.5
2016 4Q	1.5	0.5
2017 1Q	1.6	0.5
2017 2Q	1.6	0.4
2017 3Q	1.7	0.4
2017 4Q	1.5	0.4

## Drifting Apart



# Warning

"In a monetary union you can't afford to have large and increasing structural divergences between countries. They tend to become explosive."

ECB President Mario Draghi, May 23 2015

# Outlook

## Not Bright

-Signs of growth slowing after 1Q 2017, unless other policy areas act

## ECB Impact

- Economic divergence undermines effective monetary policy

## EMU Viability

-Acute phase of crisis over, but question of viability remains unanswered

## Conclusion

-EMU is out of the tunnel already, but it's not a sunny day



# Conclusion





**Thank you**

**Johanna Treeck**

For more information about MNI,  
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contact [sales@mni-news.com](mailto:sales@mni-news.com)