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The Investment Engineers

ECB supportive for risky assets

- Negative deposit rate for banks
- Measures to stimulate lending to SMEs
- Periphery bonds will profit

The surprisingly strong measures taken by the ECB are supportive for peripheral and high yield bonds and equities.

"Draghi didn't disappoint. The interest rate cuts and other measures announced by the ECB president are supportive for risky assets such as equities, high yield and peripheral bonds," says Robeco's Chief Economist Léon Cornelissen.
"The rate changes did not come as a surprise to the market, but the extent of the measures did," he adds.

"All possible measures that were predicted by the market before the ECB are to be used. Moreover, the terms of these measures were very accommodative," says Olaf Penninga, portfolio manager of the Robeco Euro Government Bonds fund.

Penninga: "The outcome of the ECB meeting is favorable. Robeco Euro Government Bonds fund is overweight in the European periphery."

'Robeco Euro Government Bonds fund is overweight in the European periphery'

"And we predicted a weakening of the euro. The global bond fund Rorento shorted the euro ahead of the meeting. The end of the loose ECB policy is not in sight."

Refinancing rate cut by 0.10%, deposit facility rate below zero

ECB Governing Council cut the benchmark main refinancing rate to 0.15% from 0.25%, and the deposit rate to -0.1% from 0%, effectively charging banks to park excess reserves at the ECB. These cuts were in line with the market expectations.

"The impact of the announced measures on economic growth will be very limited in the medium term and won't be a game changer for the disinflationary trend in the Eurozone," says Cornelissen.

"That doesn't bother us, as we are in a recovery phase. We will see the strongest second quarter growth in the Eurozone for three years. Mild deflation could still occur later this year, but who cares in a recovery? Structural deflation is now unlikely, as the world economy is strengthening."

'Structural deflation now unlikely'

ECB policymakers hope that the rate cuts will stimulate lending from banks in the Eurozone's core to those in the periphery.
Small and medium-sized enterprises are another group which welcomes the cuts in interest rates. They have difficulty in gaining access to new credit.

Inflation no longer an issue

Inflation is currently no longer an issue for the Eurozone's policymakers. It is now under 1%, well below the official target rate of 2%. "The door to quantitative easing remains open," says Cornelissen. "Even as far out as the end of 2016, the inflation forecast is only 1.5%."

ECB to use all available tools

Besides the cut in interest rates, the ECB announced the use of a range of other measures at its disposal:

- Introduction of TLTROs (targeted longer-term refinancing operations) which are used to pump more money into the Eurozone's economy.
- Preparation of outright purchases of asset-backed securities intensified.
- A prolongation of fixed rate, full allotment tender procedures.

Draghi also announced that if required further policy measures to promote monetary easing would be possible. The ECB Governing Council is unanimous in commitment to using also unconventional instruments within its mandate.

-0.10

Deposit rate negative for the first time

1.5%

Inflation forecast for 2016

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