

ECB Draghi to Use Rhetoric to Lower EUR in Lieu of Additional QE

ECB Under Pressure From Deflation and Fed Inaction but Not Expected to Announce Additions to Its QE Program The U.S. Federal Reserve failed to meet market expectations of the long awaited benchmark interest rate hike. The lack of action from the American central bank has put the pressure on policy makers that have implemented easing strategies as they must step their efforts to boost growth. The European Central Bank (ECB) launched its quantitative easing (QE) program in March of this year. Macro headwinds such as the Chinese slowdown and confidence draining incidents like the V.W. scandal have eroded the momentum of the stimulus program. The ECB has said that it will increase the stimulus if needed, and the economic fundamentals of the eurozone are starting to support that scenario. The President of the ECB Mario Draghi is not expected to announce an addition to the current QE program but the market does anticipate he tries to lower the EUR with dovish comments. The ECB will announce its rate on Thursday, October 22 at 7:45 am EDT to be followed by a press conference with Mr. Draghi at 8:30 am EDT. Verbal intervention can have an effect in the price of the single currency, but if its not followed with a real monetary policy decision soon it will have diminishing returns. Annual inflation fell to a negative reading in September (-0.1 percent). The Euro zone economy as a whole has failed to gather momentum after the ECB launched its 1.1 trillion-euro asset-purchase plan in March. Deteriorating macro conditions have not helped the central bank

reach its inflation objectives and more stimulus will be needed. The ECB by design is not the quickest to reach such monumental decisions, but the pressure is growing as cracks in German confidence following the V.W. scandal have impacted the engine of European growth. The week did not start well for the Eurozone. German PPI, which measures inflation in the manufacturing sector, is struggling, having posted three declines in the past four months. The reading of -0.4% in September fell short of the estimate of -0.1%, pointing to deflation in the Eurozone's largest economy. There was further bad news as the Eurozone trade surplus narrowed to EUR 17.7 billion in August, short of the estimate of EUR 20.1 billion. This marked the bloc's smallest surplus in 14 months. The central bank meeting this week could be too early for a new round of stimulus with most of the estimates making December a more likely candidate. The ECB would also hope the Federal Reserve eases some of that pressure by raising rates sooner, but that is a long shot given the latest American economic indicators. **EUR events to watch:**

Thursday, October 22 7:45 am EUR Minimum Bid Rate 8:30 am EUR ECB Press Conference **Friday, October 23** 3:00 am EUR French Flash Manufacturing PMI 3:30 am EUR German Flash Manufacturing PMI **Source:** [Market Pulse](https://www.marketpulse.com)