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ECB still on track for December

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- **Draghi signals ECB is still set to step up stimulus next month**
- **He was explicit on deposit rate cut and QE extension but not on increasing size or composition, which is probably still a live issue**
- **Fed policymakers reveal ongoing FOMC split**

Draghi makes it clear that more stimulus is still on the cards

ECB President Mario Draghi struck a dovish tone in his testimony to the Economic and Monetary Affairs Committee of the European Parliament. Indeed, he poured cold water on any doubts that the ECB would turn back from stepping up monetary stimulus. These doubts had built because of rising Fed rate hike expectations, which have helped to push down the EUR/USD rate. The message was loud and clear: new measures were still on the cards for December.

Draghi talks up lower inflation outlook and downside risks

In the introductory statement, Mr Draghi noted that ‘inflation dynamics have somewhat weakened, mainly due to lower oil prices and the delayed effects of the stronger euro exchange rate seen earlier in the year’. This meant that ‘a sustained normalisation of inflation could take longer than we anticipated in March when we first appraised the overall impact of our measures’. In addition, there were downside risks to the growth picture. The ECB President asserted that ‘the recovery in the euro area is progressing moderately’ but ‘downside risks stemming from global growth and trade are clearly visible’.

Exact package being worked out

Against this background the Governing Council would ‘re-examine the degree of monetary policy accommodation’ at the December meeting. Mr Draghi noted that the Council had always said that QE ‘would run beyond end-September 2016 in case (it did) not see a sustained adjustment in the path of inflation’. In addition, ‘other instruments’ – which we think refers to rate cuts - could also be activated. His explicit remarks on a deposit rate cut and QE extension suggest these steps are very likely. However, he did not signal increasing the size of the QE programme or its composition. We think this is probably still a live issue that has to be discussed and agreed in the Governing Council, but we think ultimately the ECB will decide to increase the scale of the programme and add new assets.

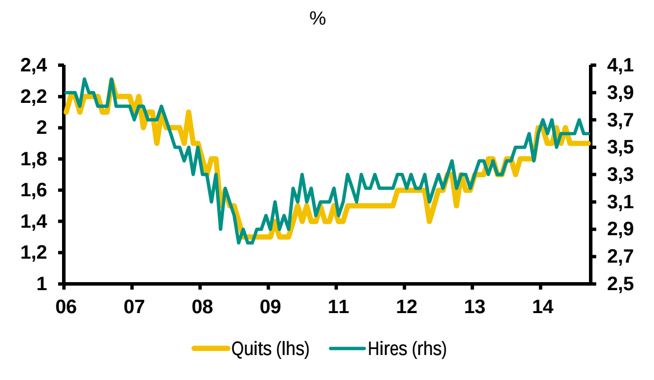
Fed policymakers reveal ongoing FOMC split

On Thursday a number of FOMC members held interventions showing clearly the differences in views on zero interest rate policy. Fed Chicago President Evans, a voting member of the FOMC said that he reiterated his support for delaying liftoff and a very gradual increase in rates. His main concern is low inflation. He sees core PCE at just below 2% at the end of 2018. Evans mentioned that he would favour more aggressive tightening, if inflation rises more quickly than he expects. This is not a surprise since Evans is considered one of the most dovish members of the FOMC. Meanwhile, New York Fed President Dudley, also voting, said the economic conditions needed to justify a rate hike “could soon be satisfied”. This is a bit of a shift since Dudley has been hesitant to commit to a rate hike. Another FOMC member, Richmond Fed President Lacker, who has voted twice for a rate hike this year said that the “recent behaviour of inflation does not warrant such pessimism”, but the credibility of the inflation goal depends on the confidence in the central bank. Finally, the President of the St. Louis Fed, James Bullard, who is not a voting member and a hawk, said that the Fed should raise interest rates since emergency policies are not needed with the labour market and inflation near to the central bank goals. He made reference to another inflation measure, the Dallas Fed’s trimmed mean inflation rate, which is currently running at 1.7%, just below the FOMC’s target.

US job openings gives green light for rate hike

Job openings rose to 5526mn in September up from 5370mn the previous month, according to the US job Openings and Labor Turnover Survey. Service industries continued to drive labour demand. At the same time demand for goods-producing industries which had been subdued, showed that manufacturing hires picked up to the highest level since October 2014. The quits rate was unchanged in September suggesting that the weak job market report in that month did not affect workers who left their job seeking new opportunities. We think that as the labour market slack declines there is more reason for the Fed to hike sooner rather than later. We think that a rate hike in December is likely. The pace of rate hikes, will however be slow, given the concerns raised by the more dovish FOMC members.

Us job market: hiring and quitters



Source: Thomson Reuters Datastream

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Sunday	08/11/2015		CN	Exports - % yoy	Oct	-6.9	-3.2	
Sunday	08/11/2015		CN	Imports - % yoy	Oct	-18.8	-15.2	
Monday	09/11/2015	09:00:00	CH	Total Sight Deposits bn		467.2b		
Monday	09/11/2015	15:45:00	EC	ECB announces weekly QE details				
Tuesday	10/11/2015	02:30:00	CN	CPI - % yoy	Oct	1.3	1.5	
Tuesday	10/11/2015	12:00:00	US	NFIB small business optimisme - index	Oct	96.1	96.2	**97.0**
Wednesday	11/11/2015	15/11/2015	CN	M2 money growth - % yoy	Oct	13.1	13.2	
Wednesday	11/11/2015	15/11/2015	CN	New yuan loans - CNY bn	Oct	1050.0	800.0	
Wednesday	11/11/2015	15/11/2015	CN	Aggregate financing - CNY bn	Oct	1302.8	1000.0	
Wednesday	11/11/2015	06:30:00	CN	Fixed investment - % yoy	Oct	10.2	10.2	
Wednesday	11/11/2015	06:30:00	CN	Retail sales - % yoy	Oct	11.0	10.9	
Wednesday	11/11/2015	06:30:00	CN	Industrial production - % yoy	Oct	5.6	5.8	
Wednesday	11/11/2015	10:30:00	GB	Claimant count unemployment rate - %	Oct	2.3	2.3	
Wednesday	11/11/2015	10:30:00	GB	Change in claimant count - thousands	Oct	3.3	0.9	
Thursday	12/11/2015	00:50:00	JP	Machinery orders private sector - % mom	Sep	7.5	3.6	
Thursday	12/11/2015	08:00:00	DE	CPI - % yoy	Oct F	0.3	0.3	
Thursday	12/11/2015	11:00:00	EC	Industrial production - % mom	Sep	-0.3	-0.1	**-0.3**
Thursday	12/11/2015	13:00:00	IN	CPI - % yoy	Oct	5.0		
Thursday	12/11/2015	14:30:00	US	Initial jobless claims - thousands	Nov 7	276		
Thursday	12/11/2015	15:30:00	US	Yellen makes welcoming remarks at Fed Policy Conference				
Thursday	12/11/2015	16:00:00	US	US Job Openings by Industry	Sep	5526		
Thursday	12/11/2015		KR	Policy rate - %	Nov 12	1.5	1.5	
Thursday	12/11/2015		RU	GDP - % yoy	3Q A	-4.1	-4.4	**-4.4**
Thursday	12/11/2015	18:15:00	US	Dudley speaks on economy and policy in New York				
Friday	13/11/2015	00:00:00	US	Fischer speaks on financial stability and monetary policy				
Friday	13/11/2015	05:30:00	JP	Industrial production - % mom	Sep F	1.0		
Friday	13/11/2015	06:30:00	NL	GDP - % qoq	3Q P	0.2		**0.5**
Friday	13/11/2015	07:30:00	FR	GDP - % qoq	3Q P	0.0	0.3	**0.4**
Friday	13/11/2015	08:00:00	DE	GDP - % qoq	3Q P	0.4	0.3	**0.3**
Friday	13/11/2015	11:00:00	EC	GDP - % qoq	3Q A	0.4	0.4	**0.4**
Friday	13/11/2015	14:30:00	US	Retail sales - % mom	Oct	0.1	0.2	**0.2**
Friday	13/11/2015	14:30:00	US	Prod. prices index - % mom	Oct	-0.5	0.1	
Friday	13/11/2015	14:30:00	US	Prod. prices index excl food and energy - % mom	Oct	-0.3	0.1	
Friday	13/11/2015	16:00:00	US	Business inventories - % mom	Sep	0.0	0.0	
Friday	13/11/2015	16:00:00	US	Univ. of Michigan cons. confidence - index	Nov P	90.0	91.1	**92.0**

Source: Bloomberg, Reuters, ABN AMRO Group Economics (we provide own forecasts only for selected key variables and events)

Find out more about Group Economics at: **https://insights.abnamro.nl/en/**

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