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## Dovish ECB minutes point to more easing

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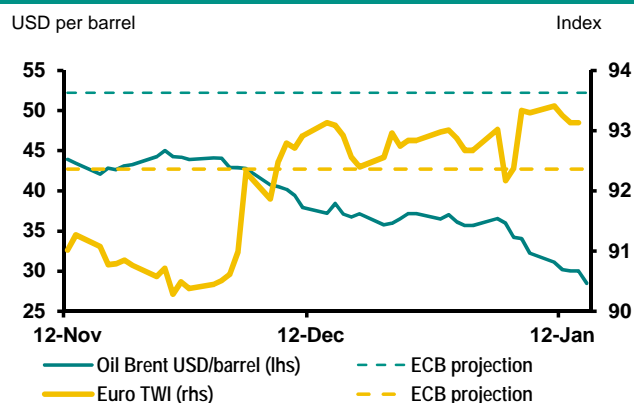
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- **Account of the ECB's December meeting showed concerns about inflation and willingness to ease further**
- **Inflation outlook has deteriorated since December pointing to intensifying downside risks**
- **We continue to expect the ECB to step up monetary stimulus going forward**

### Tone of the ECB discussion in December was dovish

The ECB published its account of the December Governing Council meeting on Thursday. At that meeting the Council decided to ease monetary policy further but by less than financial markets and analysts expected. Nevertheless, the tone of the discussion was dovish. Together with the deterioration in the inflation outlook since December, we think this supports our view that the ECB will step up its monetary stimulus in the coming months.

### Oil and euro compared to ECB assumptions



Source: Thomson Reuters Datastream, ECB, ABN AMRO Group Economics

### Five reasons why downside risks to inflation have increased

The minutes of the meeting showed that Governing Council members were concerned that 'downside risks to the outlook for inflation continued to prevail, in spite of the December 2015 projections having already incorporated financial market expectations of further measures'. This is a signal that officials were not confident that what was priced in

by markets (which was already more than they in fact ended up doing) would be enough to meet the price stability goal. The account of the meeting then lists no less than five arguments of why risks to inflation were to the downside. First, recent disappointing inflation outcomes had not yet been incorporated into the projections. Second, the possibility of lower oil prices. Third, models based on spare capacity pointed to downside risks. Fourth, market-based inflation expectations pointed to an inflation rate of only 1% in 2017. Finally, the risk of long-term inflation expectations becoming dislodged was greater the longer actual inflation remained below the goal.

#### **Risks have intensified since December**

Most of the risks mentioned above have actually intensified since December. Oil prices have fallen sharply, while the euro has strengthened (see chart). As noted in our daily of yesterday, inflation is now set to fall back into negative territory. Inflation expectations have dropped. There is also a risk that eurozone GDP will be lower than generally expected in Q4 given recent hard data.

#### **The ECB will likely step up stimulus**

At the December meeting, some members were already in favour of taking bigger steps than what was announced, and also hinted that the deposit rate could go down further or the pace of QE could be increased. All this strengthens our conviction that the ECB will further step up monetary stimulus going forward, with March being the most likely timing.

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Saturday	09/01/2016	02:30:00	CN	CPI - % yoy	Dec	1.5	1.6	
Saturday	09/01/2016	02:30:00	CN	PPI - % yoy	Dec	-5.9	-5.8	
Sunday	10/01/2016	15/01/2016	CN	Aggregate financing - CNY bn	Dec	1020.0	1150.0	
Sunday	10/01/2016	15/01/2016	CN	New yuan loans - CNY bn	Dec	708.9	700.0	
Sunday	10/01/2016	15/01/2016	CN	Money supply M2 - % yoy	Dec	13.7	13.6	
Tuesday	12/01/2016	12:00:00	US	NFIB small business optimisme - index	Dec	94.8	95.5	<b>95</b>
Tuesday	12/01/2016	13:00:00	IN	CPI - % yoy	Dec	5.4		
Tuesday	12/01/2016	16:00:00	US	US Job Openings by Industry	Nov	5383.0		
Wednesday	13/01/2016	11:00:00	EC	Industrial production - % mom	Nov	0.6	0.0	<b>-0.2</b>
Wednesday	13/01/2016		CN	Exports - % yoy	Dec	-6.8	-8.0	
Wednesday	13/01/2016		CN	Imports - % yoy	Dec	-8.7	-11.0	
Thursday	14/01/2016	00:50:00	JP	Machinery orders private sector - % mom	Nov	10.7	-7.3	
Thursday	14/01/2016	13:00:00	GB	Policy rate - %	Jan 14	0.5	0.5	
Thursday	14/01/2016	13:00:00	GB	BoE size of asset purchase programme - GBP bn	Jan	375.0	375.0	
Thursday	14/01/2016		PL	Reference rate - %	Jan 14	1.50	1.50	<b>1.50</b>
Thursday	14/01/2016		KR	Policy rate - %	Jan 14	1.50	1.44	<b>1.50</b>
Friday	15/01/2016	14:30:00	US	Retail sales - % mom	Dec	0.2	0.1	0
Friday	15/01/2016	14:30:00	US	Prod. prices index - % mom	Dec	0.3	-0.1	
Friday	15/01/2016	14:30:00	US	Prod. prices index excl food and energy - % mom	Dec	0.3	0.1	
Friday	15/01/2016	14:30:00	US	Empire State PMI - Manuf. general business conditions - index	Jan	-4.6	-2.4	<b>-3.0</b>
Friday	15/01/2016	15:15:00	US	Industrial production - % mom	Dec	-0.6	-0.2	
Friday	15/01/2016		US	Univ. of Michigan cons. confidence - index	Jan P	92.6	92.8	92
Friday	15/01/2016	16:00:00	US	Business inventories - % mom	Nov	0.0	0.0	

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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