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FUTECHS ECB Preview

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Current ECB Interest rates: **1.00% (Deposit rate: 0.25%, Marginal lending rate: 1.75%). Rates expected to remain on hold.**

Today we expect the ECB to keep rates on hold at 1.00%, and it is expected that the ECB will keep the same policy stance as last month, described as "**appropriate**" (in Trichet's press conference). At the last meeting the ECB upgraded their view of the economy, and said they **see an "improvement" in economic activity**. The ECB see risks to growth and inflation as "**balanced**", and describe **medium term inflationary pressure as "low". They expect short-term disinflationary pressures to turn positive in the coming months, and remain "moderately positive" over the policy horizon.**

Last month, the ECB decided to end the 6-Month Refi. tender on the 31st March 2010. The 12-Month Refi. tender operations have ended. The cessation of these operations is seen as **simply an unwinding of the "extraordinary" measures** that the ECB put into place to counter the shocks to the financial system in late 2008. Trichet, as he did during the November meeting, was keen to stress that this policy action was not intended to signal any changes to broader monetary policy. They had stated previously, in November, that "**not all our liquidity measures will be needed to the same extent as the past", and that "extraordinary measures will be phased out in a timely manner".** From this we can conclude that any major changes to policy at this meeting could come as further unwinding of the "extraordinary" (emergency) measures. However, again, should this occur, Trichet will be keen to stress that they do not intend to change market expectations of EONIA rates (EONIA is currently around 0.325%).

The major focus of the press conference today will almost certainly hang around the situation in Greece. Yesterday saw fresh widening in the Bund vs. Greece bond spreads as the situation there has deteriorated rapidly over the last 6 weeks. As we stand currently, the ECB relaxed their eligibility standards for collateral to BBB- during the credit crunch, as part of their package of "extraordinary measures". Although this measure is set to expire at the end of 2010, Greece is now only 2 notches away from the BBB- rating. As most members of the ECB governing council believe that other Euro Zone members should not step in to aid the Greeks with their public debt problems, it is unlikely that the Greeks will get much sympathy from the ECB. Any strong comments made regarding to the situation in Greece has the likelihood of causing a large reaction in the markets, and thus Trichet will have to phrase the answers to any questions asked very carefully.

With regards to the ongoing issue of the strength of the trade weighted Euro, it is highly unlikely that Trichet will make a strong statement, and will maintain his current view that disorderly FX volatility is undesirable.