MIRABAUD
Asset Management

FLASH NOTE — ECB Meeting June 2020

For Professional Investors Only

ECB STEPS UP PURCHASES, INCREASES FURTHER ITS FIREPOWER

STRATEGY TEAM

- The European Central Bank (ECB) announced a significant increase in its asset purchase program in order to fight the current crisis;
- More easing is forthcoming via raising the current Pandemic Emergency Purchase Program (PEPP) program limit, an extension in time while proceeds will be reinvested;
- The recent German constitution court ruling does not deter the ECB from its current actions;
- Our take: The ECB's actions are strong, exceeding expectations—but further easing is likely to be forthcoming.

Significant, large further purchases announced by the ECB. While keeping interest rates stable, the ECB announced a significant increase in its PEPP purchase program, the main tool to fight the effects of the Pandemic. It is not only the increase in the PEPP that is significant (+€600 billion to a total of €1.35 trillion), but also the increase in duration—asset purchases will continue until at least June 2021 (prior end-2020)—while proceeds will be reinvested. The latter point is important, as the ECB stated that maturing principal payments from securities purchases under the PEPP will be reinvested "until at least 2022", while the future run-down of the program will be managed to avoid interference with the appropriate monetary stance.

Other decisions. While, unsurprisingly, interest rates were kept unchanged, the ECB will continue its "normal" quantitative easing (QE) program by buying €20 billion per month. Regarding a potential asset purchase program that would include sub-investment grade assets ("junk bonds"), this was not discussed at this month's meeting.

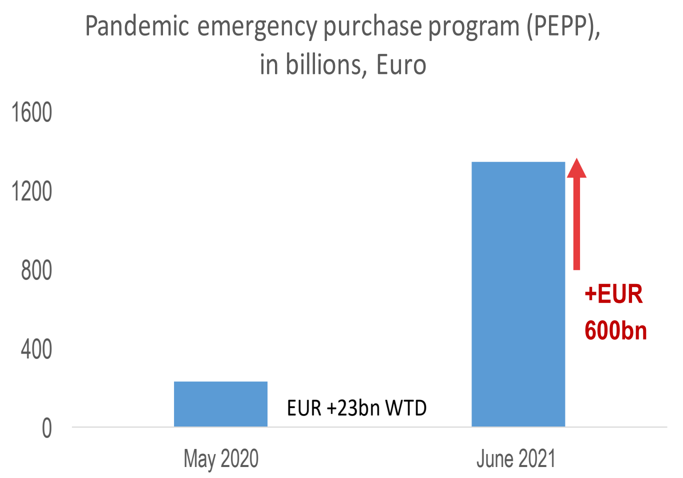
On technical details, no surprises were revealed by announcing a very significant contraction in activity for this year. We note that by predicting a recession of 8.7% this year, the ECB is not on the pessimistic side. However, the recovery—which will be solid in 2021—is also unlikely to erase the damaging effects of the current contraction. We note that inflation—even at the end of the forecast horizon, at 1.3% only—is far away from the ECB's below-2% target.

Lastly, the ECB is undeterred by the latest German constitutional court ruling, re-asserting that the ECB is subject to the European Court of Justice—which judged that asset purchase programs were "in line" with the mandate of the European central bank.

Our take. By increasing massively its purchase program, the ECB aligns itself with the significant monetary easing of other central banks, namely the Fed. The PEPP will remain the main crisis tool instrument, and we expect that a further increase in purchases is likely : by putting increasing emphasis on the central bank's inflation objective, we judge it unlikely that inflation of 1.3% at the end of the forecasts horizon, 2022, is satisfying for the ECB. In sum, we expect even more QE coming forward.

Asset allocation. We do not change our main convictions on asset classes. We keep our neutral view on sovereign bonds in the Eurozone, and our overweight positioning on corporate investment grade bonds. In this global environment of generous liquidity injections by central banks, we keep our overweight on gold.

ECB INCREASES ITS FIREPOWER



Sources: ECB, Mirabaud Asset Management

ECONOMIC PROJECTIONS: UNPRECEDENTED DECLINE

ECB Staff Projections [June 2020]	2020	2021	2022
GDP Growth [Real,%YoY]	**-8.7%**	**5.2%**	**3.3%**
March 2020	*0.8%*	*1.3%*	*1.4%*
Inflation [HICP, %YoY]	**0.3%**	**0.8%**	**1.3%**
March 2020	*1.1%*	*1.4%*	*1.6%*

Sources: ECB, Mirabaud Asset Management

IMPORTANT INFORMATION