

Current ECB Interest rates: **1.00%**  
**(Deposit rate: 0.25%, Marginal lending rate: 1.75%).**  
**All 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 said they **see growth at a "moderate pace"**. The ECB see risks to growth and inflation as "**balanced**", and describe inflationary pressures as "**subdued..over the policy horizon**". **The ECB were keen to stress that the improvement in the economy may "uneven" and the outlook remains "uncertain"**. **A key ECB buzzword, which has been used for much of this year is "bumpy road ahead" to prevent markets from getting carried away.**

#### **ECB Refi tender ops. as they stand currently:**

**1-month: fixed rate tender process due to end 12<sup>th</sup> October 2010.**  
**3-month: variable rate tender process- no deadline for cessation.**  
**6-month: ceased, was at fixed rate.**  
**12-month: ceased, was at a fixed rate.**

The major focus of the press conference today will be on the rapidly deteriorating debt crises engulfing the Eurozone. The ECB have already undermined their credibility by suspending their collateral rules for Greece. This is in spite of the ECB previously having maintained that they would not make exceptions for one country, suggesting that the ECB may be bowing to political pressure.

There has been talk in the market that the ECB will attempt to ease the market tensions at today's meeting. Several options have been touted in the press. These include **a rate cut, which could possibly be a cut of the marginal lending rate.** This option seems the most outlandish at the moment. Alternatively, the **ECB could reinstate some of their LTRO operations.** This would only really be used if we see stresses in the Eurozone money markets, which has yet to happen. Controversially, there has also been talk that the **ECB may begin buying Eurozone debt.** This would most certainly be the purchasing of peripheral debt from countries such as Spain, Portugal, Ireland, Italy etc. Although the Maastricht treaty forbids the direct monetary financing of fiscal deficits, as it would threaten price stability, one can make an argument that not doing so is currently threatening price stability of the region. However the ECB can circumvent the Treaty by conducting the purchases through the secondary markets. This would be a huge step for the ECB to take, and may only be used as a last resort once they have had enough time to consider all the implications for enacting such a policy.

