

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"**. describe inflationary pressures as **"moderate..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.

With regards to the non-standard measures, described as **"enhanced credit support" and the Securities Markets Programme**, the ECB stated that these are **"temporary in nature"**.

ECB Refi tender ops. as they stand currently:

1-month: fixed rate tender process due to end 12th 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 may be on the ECB's desire to return to the exit strategy that they had embarked on before the Eurozone debt crises took hold. With peripheral debt markets fairly quiet over recent weeks, the ECB have started looking into the unwinding of some of the special measures put into place during the crisis and also the unwinding of some of the liquidity measures put into place last year. Some participants are looking forward to as early as September for the ECB to re-embark on their exit strategy and thus Trichet may set the wheels in motion this month. This may be in the form of changes made to the Refinance tenders. Although any signal of unwinding will most likely be followed by a commitment that the ECB do not wish to signal a major shift in monetary policy.

The possible tail risks would be if the ECB end their bond buying programme. Although the ECB have refrained from the secondary peripheral bond markets over recent weeks, the implicit guarantee that they may step in when bond yields begin to climb has somewhat eased investors concerns. If the ECB signal an end to the programme, although unlikely to cause major panic immediately, we may begin to see peripheral spreads widen again in the coming weeks.

