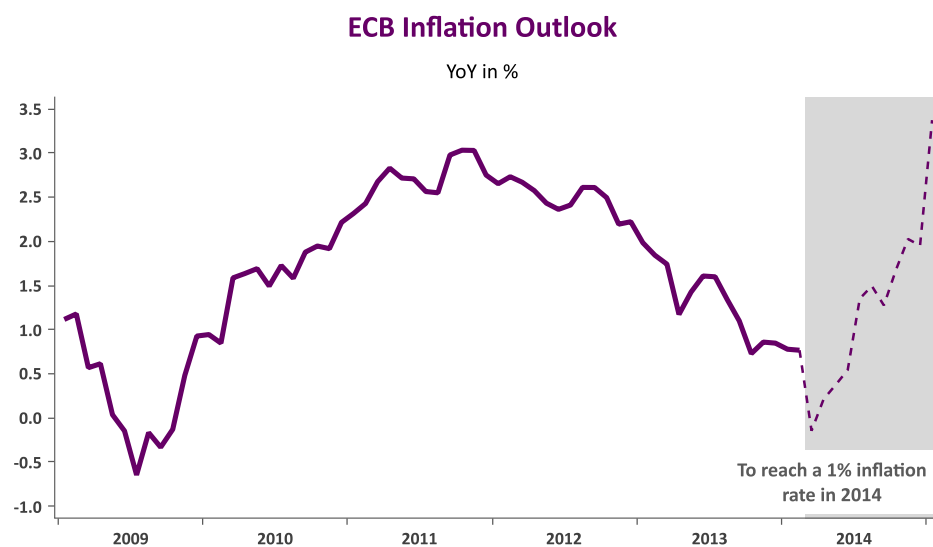


# Mr. Draghi Seems Quite Sure of Himself...

The President of the ECB is confident in his ability to stare down deflation risk and bring the inflation rate up to its official target of 2%...on a 2016 horizon. Well that was reassuring; the euro celebrated the news by increasing to USD 1.386 this morning, a record since October 2011! Could we have expected anything different? Apparently not. The ECB wasn't about to shoot itself in the foot by announcing that its forecast pointed to a deflationary scenario, tacitly recognizing that it would fail in its deflation battle.

## A Very Rosy Scenario

That it announced the 2016 outlook it did yesterday is, therefore, legitimate and no other central bank would have acted any differently; however, the ECB could have reiterated its short-term expectations for low inflation or even a further decline.



Sources: RichesFlores Research, Macrobond

March 7, 2014

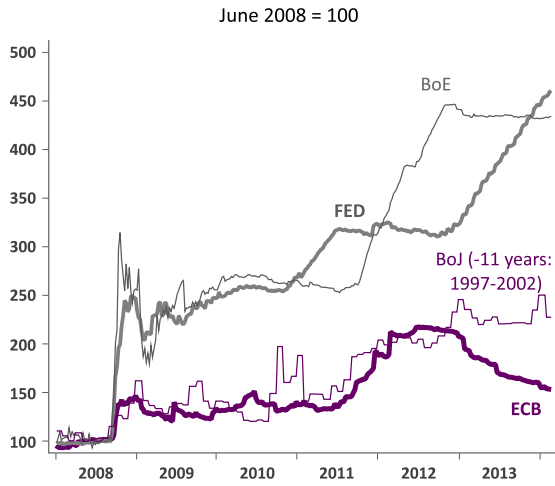
This would have allowed it to keep its options open for additional action, just in case...But this was not in the cards – quite the opposite – and that is what was so alarming about the bank’s message. In fact, at 1% for 2014, the ECB’s inflation scenario is outrageously optimistic, if not to say totally unrealistic. Assuming the monthly increase in consumer prices to year-end is identical to that of the same period in 2013, we would wind up with an inflation rate of 0.1%. The hypothesis employed by the ECB is obviously much higher, i.e. 0.27% per month, which means prices would have to rise nearly ten times faster than they did last year.

## Déjà Vu All Over Again?

What does this all mean? We are not sure we have the answer but the situation is growing increasingly worrisome. By burying its head in the sand, the ECB is refusing to confront the growing and material problem that is deflation (read more about this topic in [our global inflation watch](#) published this morning). The ECB denial is very disquieting as, regardless of what the ECB President says, it reinforces the specter of a Japan-like scenario, which is already playing out it would seem. To illustrate this, we have prepared several charts comparing the euro area with Japan that are, to say the least, edifying. What kind of conclusion can we draw from them? That it will take the ECB as long as the BoJ to wake up and fight deflation? This is the question that is on everyone’s lips and hanging in the balance is the very survival of the euro area.

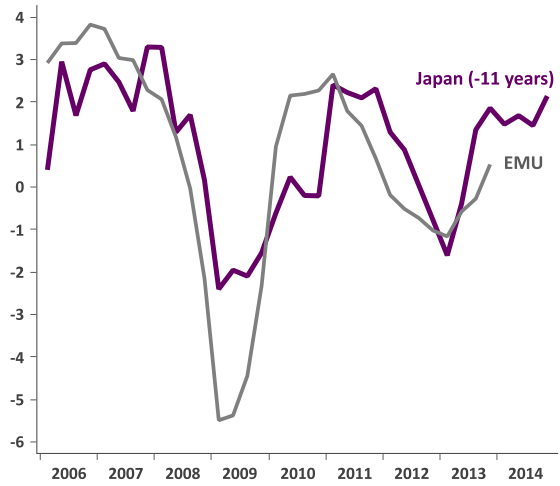
## EMU–Japan, Unsettling Parallels

**Central Bank Balance Sheets Since June 2008**



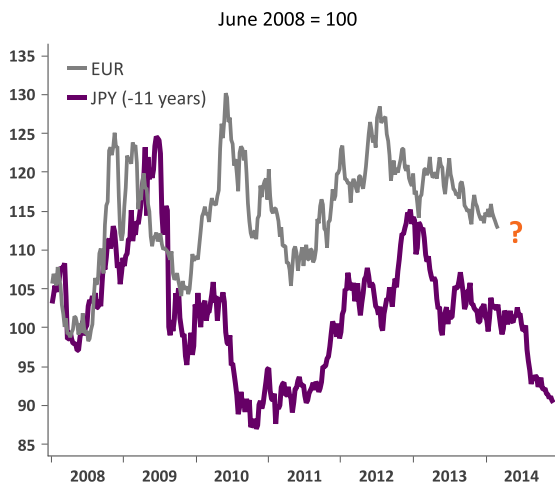
Sources: RichesFlores Research, Macrobond

**Real GDP, YoY in %**



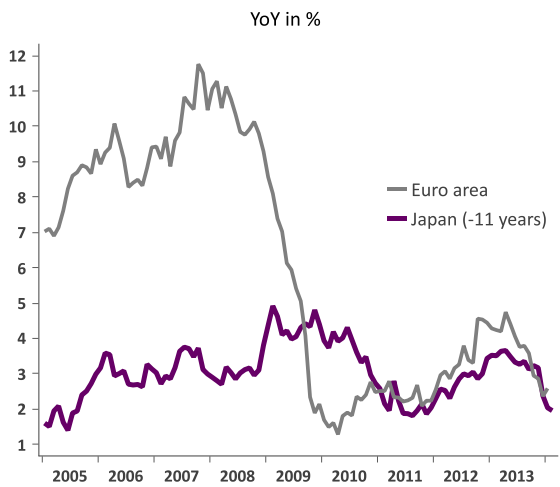
Sources: RichesFlores Research, Macrobond

**Exchange Rate Against Dollar**



Sources: RichesFlores Research, Macrobond

**Expansion of Money Supply – Aggregate M2**



Sources: RichesFlores Research, Macrobond

Véronique Riches-Flores  
[contact@richesflores.com](mailto:contact@richesflores.com)

RichesFlores Research is an economic and financial research provider. We produce international economic analysis and forecasts, as well as research on broader short-, medium-, and long-term trends in the global economy.

**As an R&D entity certified by the Ministry of Higher Education and Research, RichesFlores Research is eligible for the research tax credit (Crédit d'Impôt Recherche) for the years 2013, 2014 and 2015.**

RichesFlores Research is a transparent company, with the databases and information resources we need to remain fully independent and objective. Because RichesFlores Research is not an investment service provider and does not sell financial products, we can offer clients added confidence in the independence and objectivity of our assessments, recommendations, and advice.

This document is provided for information purposes only. It is not and should not be construed as investment advice, or as an offer or solicitation of an offer to buy or sell securities. It contains strictly confidential information intended only for the use of the individual or entity to which it is addressed. This document may not be disclosed to any third party without the express written consent of RichesFlores Research.

This research and its content are the sole property of RichesFlores Research. They may not be reproduced without the express consent of RichesFlores Research and without indication of the source and date thereof.

RichesFlores Research makes no warranty, express or implied, nor assumes any legal liability or responsibility for the accurateness, completeness, or usefulness of the research, conclusions, data, and assessments available on this website.

The content of this website does not constitute a contract and is non-binding. It is not and should not be construed as investment advice or as an offer or solicitation of an offer to buy or sell securities.

Véronique Riches-Flores, [contact@richesflores.com](mailto:contact@richesflores.com)