



No QE, so we'll have to settle for the minutes...

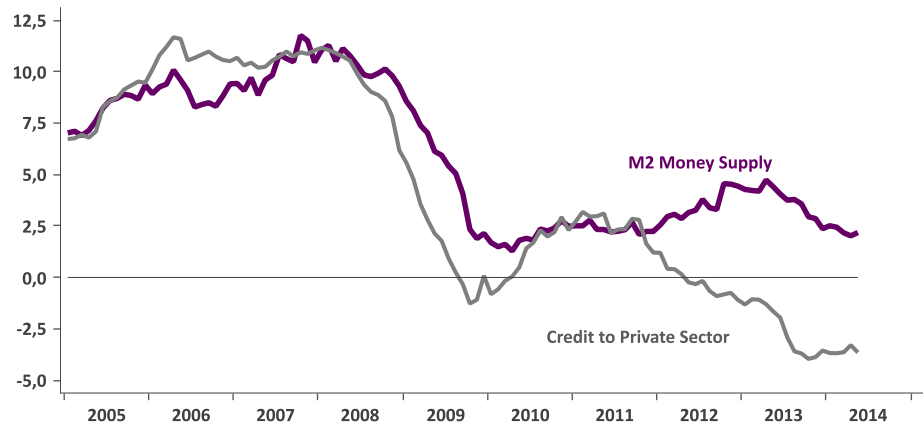
The ECB says it needs time to beef up its anti-deflation measures. Let's not kid ourselves, the bank is in no hurry. There seems to be but one justification for its move to space out its meetings from every four to every six weeks and the innovation that consists of publishing its minutes: deflate ballooning expectations of future intervention. This, in reality, was the only take-away from the ECB's monthly monetary policy meeting held this week. In other words, there is no revolution under the European skies: the pace of change is still in slow motion and lacking in ambition.

Feeling deflated

The message sent by Mario Draghi after the meeting of the Monetary Policy Committee was far from reassuring: no measures will be operational before - optimistically - fall... and we shouldn't get our hopes up. And yet risks abound: deflation, the exchange rate, unemployment. These were all arguments used on 6 June to justify the implementation of supposedly radical measures to stimulate the real economy and arguments that have been watered down in this month's statement. It feels a bit like the ECB is getting ready to back down on its plan.

Judging by the skittishness of European markets the day after the publication, the markets were not fooled. How could it be any different? With the anti-deflation bazooka stuck in the holster, there is not much chance of the European banking sector perking up soon. Even though long-term interest rates have fallen sharply, declining inflation has sent real interest rates to levels that are incompatible with a credit recovery given the current economic environment. Down 3.7% YTD as of May, private sector lending is close to its lows from last fall, while the money supply is sputtering.

Annual Growth in M2 Money Supply and Credit to Non-Financial Private Sector, in %

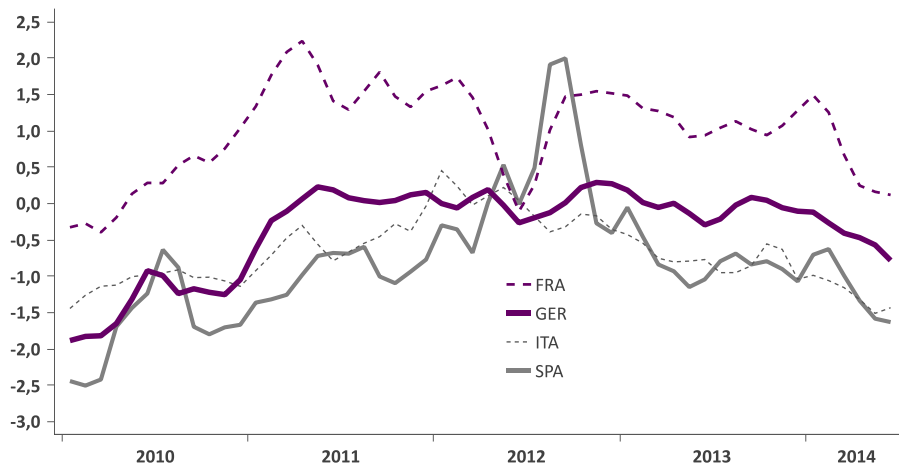


Sources: RichesFlores Research, Macrobond

Deflation is ready to pounce

Yet, there has been no sign of improvement on this front. In June, the annual increase in consumer prices remained a paltry 0.5% in the euro area, while households' expectations about where prices will stand in twelve months declined a bit further, notably in Germany where, despite, a brighter economic backdrop and the advent of a minimum wage, price trends are also down.

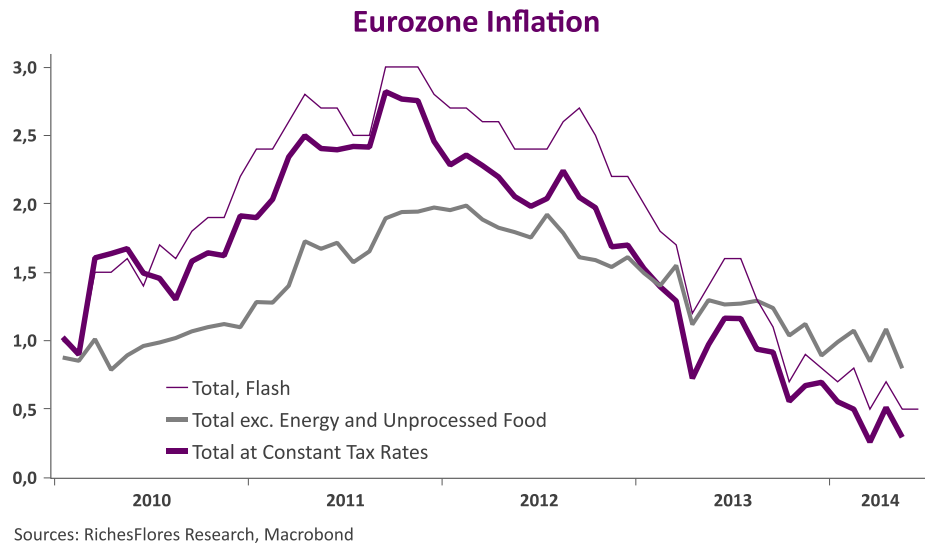
Consumer Opinion on 12 Month Forward Inflation Development



Sources: RichesFlores Research, Macrobond

Business activity trends, while not particularly poor, remain mediocre, leaving little room for optimism on the pace of growth and jobs, which would be needed to reverse the price trajectory. Souring German industrial sentiment, which has been confirmed by the deterioration of export orders, and the return of disappointments in France has dimmed the hopes of an improvement. The recovery in the euro area has plateaued as illustrated by the drop, in recent months, in the European Commission's Economic Sentiment Indicator. Another

few months (again, optimistically) will be needed before the outlook on business activity - and therefore consumer prices - improves.



The ECB's forecast for a gradual return of 2% inflation in the euro area seems, for the time being, like a pipe dream. For want of more ambitious initiatives from the ECB or governments, disappointments will abound.

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