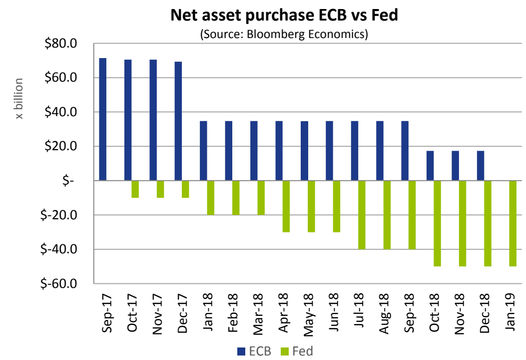
Focus

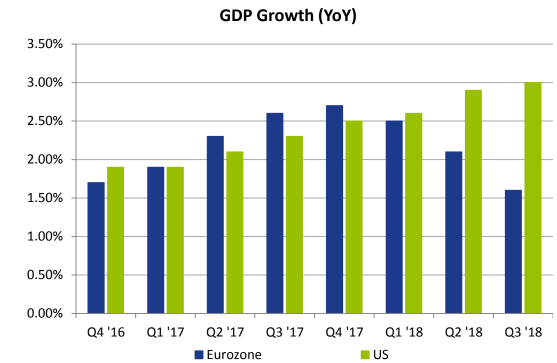
With the start of 2019, the European Central Bank (ECB) has ended its bond-buying program, also known as Quantitative Easing (QE). How did the QE-program work and what will happen after its termination?

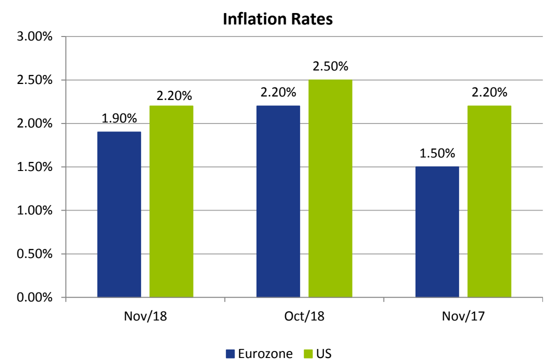
The QE-program was initiated in 2015 by the ECB to help the eurozone recover from the effects of the financial crisis of 2008 and to reinstate confidence in the euro. Under the QE-program, the ECB bought certain predefined assets from European banks, including government bonds and corporate bonds. By buying assets, the ECB increased the money supply available in Europe in hope of lowering interest rates and to supply banks with the funds needed to provide loans to companies and households. In the long run, the QE-program should result in an increase of the inflation rate and economic growth in the eurozone. After three years, the ECB investments amount to EUR 2575 billion.

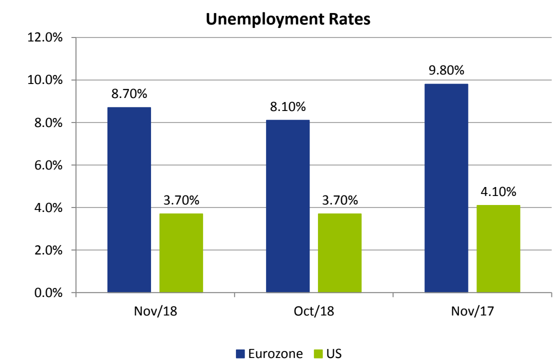
The decision to end the QE-program resulted in diverse market responses. Some say the decision is a sign of confidence of the ECB in the strength of the European economy. Others believe the market will lose an important stimulus and investor, as the liquidity injections of the ECB ensured a large money supply and resulted in low interest rates. Furthermore, it is argued that market players will lose a feeling of certainty with the disappearance of one of the biggest debt buyers. After all, during the QE-program the market was ensured that the ECB would take over a substantial portion of European debt.

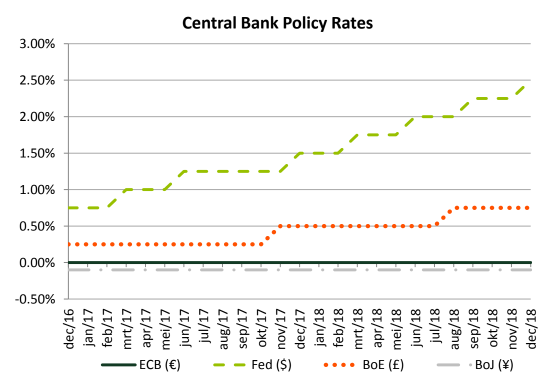
The termination of the QE-program does not mean the ECB will stop its liquidity injection in the European market. In June 2018, ECB-president Mario Draghi confirmed that the ECB will reinvest the amortization and interest payments from bought assets until at least 2020. The continuation of the program, although in a slimmer form, was also observed in the United States, where the Federal Reserve (Fed) stopped its QE-program at the end of 2014. In the fall of 2017, the Fed also decided to start tapering (decrease its asset portfolio), see graph. It remains to be seen whether and when the ECB will decrease its portfolio.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA
Russia	BBB-	Ba1	BBB-
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review

The United States Congress and the White House did not reach an agreement on de 2019 federal budget on December 22, 2018. The Democrats and some Republicans are opposed to assign budget for the border wall in Mexico proposed by Republican president Trump. Due to the conflict, the federal government was shut down, resulting in 800.000 civil servants not receiving salary and 350.000 staying at home.

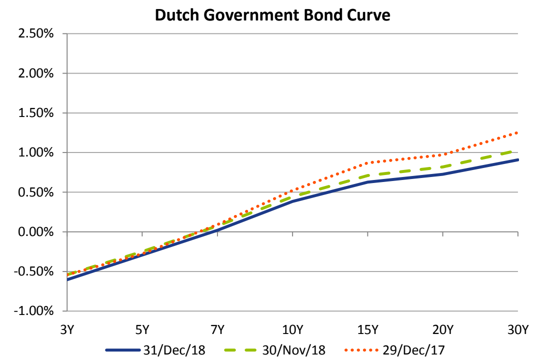
On December 19, the European Commission (EC) announced that it will not sanction Italy for its excessive budget deficit. Rome and Brussels have agreed on a package of fiscal measures, which should prevent an excessive deficit punishment procedure. The punishment procedure was initially started by the EC as the proposed budget deficit of Italy did not meet European standards. According to Vice-President Valdis Dombrovskis, the planned expenditures of Italy decreased by EUR 10.25 billion. Due to the new budget, the budget deficit decreased from 2.4% to 2.04%.

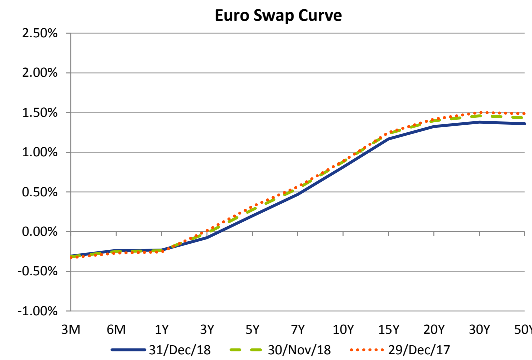
Monthly Preview

In its new Economic Forecasts, the Conference Board argues the negative effects of policy interest increases by the Fed on the US economy in 2019. Business investment activity may slow in 2019 due to the higher interest rates. The Fed expects two or three interest rate increases in 2019.

The ECB expects an inflation of 1.7% for 2019. Previous expectations estimated an inflation rate of 1.8%. Core inflation, excluding prices of strongly fluctuating products, is expected to be 1.6% on an annual basis in 2019. The ECB aims to achieve a 2% inflation in 2019. The ECB also announced that it will keep interest rates unchanged for 2019, at least until September 2019.

Timeline macroeconomic indicators:
7 January 2019: Interest rate decision Canada
10 January 2019: ECB meeting monetary policy
15 January 2019: Vote Brexit deal (provisional)
23 January 2019: Consumer confidence EU
30 January 2019: Interest rate decision United States





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	A+
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AA+
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB+
BNP Paribas	A	Aa3	A+
Barclays Bank	A	A2	A+
Credit Suisse Int.	A	A1	A-

Currencies	31/Dec/18	30/Nov/18	29/Dec/17
EUR/USD	1.147	1.132	1.200
EUR/GBP	0.899	0.887	0.888
EUR/CHF	1.126	1.131	1.170
EUR/JPY	125.825	128.445	135.285
EUR/DKK	7.466	7.463	7.446
EUR/SEK	10.153	10.303	9.834
EUR/CAD	1.564	1.504	1.509
EUR/AUD	1.627	1.549	1.537
EUR/CNY	7.887	7.878	7.805