



Meeting: November 8th 2007
November 2nd 2007

ECB watch

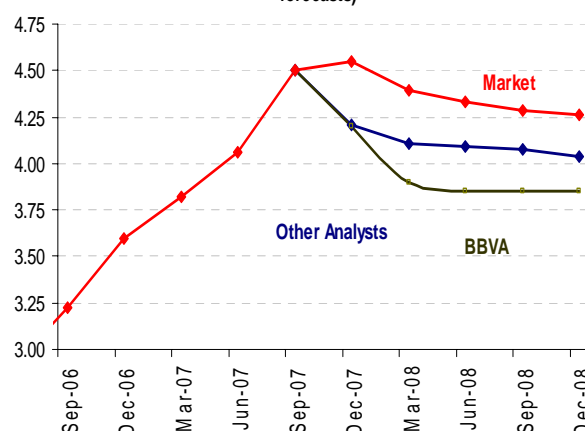
Growth concerns confirmed

- We expect the ECB to keep the *refi* rate on hold at 4.0% at its next meeting in November.
- Latest data aggravate the ECB dilemma between giving more weight to inflation or to growth. Over the current quarter, while the signs of deceleration in activity are becoming more prominent, inflation is rebounding more than expected (and well above the ECB target).
- Regarding recent interventions of ECB members we perceive a more cautious tone. In fact, a downward revision of growth projections has been anticipated. We also detect an emerging consensus among ECB members that turbulences in financial markets are not over and will last for a prolonged period of time. For the first time, it has been argued that tensions in financial markets could have a significant impact on the real economy. Inflation risks still remain on the upside, though slower economic growth is mentioned for the first time as exerting downward pressures on prices.
- In our view, inflation risks seem to have deteriorated in the short term but not in the medium term. But, downwards risks to growth have increased given the euro appreciation, the persistence of financial strains and higher oil prices.
- Hence, we maintain our projection of a 25 bps rate cut by the end of the year or the beginning of 2008.

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



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EMU, 3 month interest rates
(Euribor future contracts, Consensus forecasts and BBVA forecasts)



• Box 1: Economic indicators

Latest indicators on activity and confidence continue to point to a deceleration of growth in the coming months, following a rebound of activity in the third quarter. Inflation figures surprised on the upside, apparently associated with recent developments in food prices.

		Average 2006	Jul-07	Aug-07	Sep-07	Oct-07	Impact on rates*
GER – IFO Economic Climate	Obs.	105.5	106.4	105.8	104.2	103.9	
	Cons.		106.4	105.4	105.0	103.7	
Euro–EC Industrial confid.	Obs.	2.3	5	5	3	2	
	Cons.		5	4	4	2	
Euro –EC Consumer confid.	Obs.	-9.0	-2	-3	-6	-6	
	Cons.		-2	-2	-4	-5	
Euro – Industrial prod. (m/m)	Obs.	0.4	0.7	1.2			
	Cons.		0.2	0.3			
GER – Retail sales (m/m)	Obs.	1.8	0.3	-1.4	2.3		
	Cons.		0.5	0.3	0.8		
Euro – HICP (y/y)	Obs.	2.2	1.8	1.7	2.1	2.6**	
	Cons.		1.9	1.8	2.1	2.3	
Euro – M3 (y/y)	Obs.	8.5	11.7	11.6	11.3		
	Cons.		11.0	11.7	11.4		
Euro – Loans to Priv. Sect. (y/y)	Obs.	11.0	10.9	11.2	11.0		
	Cons.						

* According to BBVA, the direction in which this data may affect the ECB monetary policy stance; **Flash estimate; Obs: current data; Cons: consensus forecasts.

Box 2: Speeches and comments by members of the ECB Governing Council

We note a somewhat more cautious tone. Regarding growth, a moderate downward revision of projections is anticipated. Inflation risks still remain on the upside, though slower economic growth is mentioned for the first time as a downside risk. On financial markets, tensions will last for some time and should have a significant impact on the real economy.

	Liikanen	Weber	Quaden	Trichet	
Activity	"Risks are all pointing towards more negative developments... the impact of the U.S. subprime slump will take months rather than weeks to resolve itself".	"Still in a robust upswing... a slight downward adjustment to our 2008 forecast ...main risks relate a downturn in the US, financial sector ... oil prices".	"Should financial market tensions persist or intensify, they would affect ... eventually economic activity too".	"Any further increase of oil and commodities... is triggering an inflationary and depressive impact".	Advancing a downwards revision. Risks increasing
Inflation	The risks are on the upside; these risks include among others oil prices, food prices and to some extent also wage developments	"Upside risks over the short and medium term... rising food and energy prices."	"Downside risks ... for the growth have the potential to alleviate some of the expected upward pressure on prices".		On the upside
Monetary policy	"Markets expect that interest rates will not rise."	"What is necessary and required"	"Should the financial turbulence fade away... would be ready to counter possible upside risks".	"Remain vigilant in maintaining price stability."	Still an upward bias
Financial markets turmoil	"Even though the direct impact has been limited, the indirect has been significant. It's not over yet. It'll take this year at least and we shall see how far into the next year it goes".	"Uncertainty ... will certainly last until year-end and possibly beyond... we have received confirmation yet again that developed financial markets have a significant impact on the real economy."			Still there for a time and weighting the impact on the real economy
Euro		I never comment on individual or bilateral exchange rates.			No comments

Box 3: Market view

Tensions are still there.

	3m euribor Future Cont.	1m Eonia Future Cont.
Nov. 07	4.57	4.02
Dec. 07	4.54	4.09
Mar. 08	4.39	4.13
Jun. 08	4.32	4.11
Sep. 08	4.28	
Dec. 08	4.26	

ECB-Barometer for the November 8th Governing Council meeting

