ECB AND THE EUR-1.1-TRILLION QE

The American QE has been announced by ECB on Jan 22nd 2015. This program values EUR1,100 billion, last for 18 months since Mar 2015

QE program seems to be the best choice that ECB could launch now as traditional monetary measures proved powerless before deflationary pressures.

For what reasons Eurozone need to use non-traditional monetary measures though in fact, the use of QE is still a controversial issue? Previously, it is notable that ECB has not used any quantitative easing programs since the financial crisis in 2008 as FED had done. They used traditional measures such as lowering interest rates and providing non-limited liquidity to the banking system in order to promote growth. However, those measures seemed not to be effective as they expect. While US has the brighter sign after 6 years of using QEs, Eurozone keep struggling with the deflation risk. In the ECB policy meeting on April 2014, the president Draghi has revealed the possibility of using "extraordinary tools" under their powers to improve the very low inflation rate which existing for a long time. The phrase "extraordinary tools" implied that ECB has changed their thinking in the case of traditional monetary measures (i.e. interest rates) could prove its power anymore. When Eurostat published the decline of inflation (dropping to -0.2% yoy in Dec 2014 from 0.3% yoy last month, the first drop below the negative CPI since the financial crisis in 2009), less positive economic data of the strongest economies such as Germany, France and Italy in Dec 2014, as well as commodity and energy prices keep falling down, QE program seems to be the best choice left.

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QE aims for increasing the money supply, expanding the balance sheet of the banking system, reducing yielding assets, thereby stimulating economic growth.

Aiming to promote economic growth and deal with deflationary pressures, this QE package is deployed as a purchase of assets (including securities of both public and private sectors) with volume of EUR60 billion per month. With this procedure, ECB rises money supply and expands balance sheet of the banking system, reduces yielding assets and depreciate EUR, increasing the competitiveness of goods in the region. Similar to the Fed's QE package, ECB expects that commercial banking system will use the significant excess in the accounting sheet for both enterprises and people to borrow to invest or spend, thereby stimulating the economy growth.

Although valuing more than market's expectations, this QE seemed to be disappointed because its scale is considered insufficient.

Although ECB's QE size reached to EUR1.1 trillion - larger than the market's expectations (about EUR500 – 1,000 billion), many investors seemed to be disappointed because they said that the scale of this QE package is not enough to wire economic growth as well as bring inflation back to the target level of 2%. This amount of money only offset the amount of EUR1000 billion that ECB has withdrawn in the last 2 years. In addition, this ECB's QE was launched in a different situation versus that of Fed in 2008 because current Eurozone interest rates is too low, hence the banks are having difficulty in pumping this capital to the market. In the context of traditional monetary measures is currently inefficient, perhaps members should implement fiscal policy stronger and more consistent in order to wire economy.

ECB's QE immediately impact on global financial markets. In the context of both slow developing countries' growth and the risk of deflation, monetary easing is probably the easiest way that central banks can use to solve these problems.

QE's impact on the rest of the world is obviously significant because of size of EU economy. Even when rumors about whether this QE has been made or not have appeared, market were also much more active.

One of the typical events, maybe become a highlight on the forex market in 2015 is that the SNB (Swiss National Bank) suddenly floated exchange rate and reduced short-term deposit rate to -0.25% from -0.75%.

It is obvious that SNB has changed their point when ECB has readied to launch a QE anytime, so they have removed old exchange rate beginning from 2011, meaning that they won't purchase CHF and sell out EUR if ECB release a QE. This action shocked the market, making the international exchange rate system stopped during 15 minutes after the EUR/CHF dropped nearly 19% only in 13 hours!!! Although interest rates are immediately lowered to avoid a strong appreciation of Franc, CHF ultimately stabilized at 16-18% appreciation against the EUR.

The pair of gold - euro (XAU-EUR) is a typical example when it has climbed for several weeks and quickly to be taken profit before the QE is formally adopted.

While the Fed's QE has just ended, and the BOJ and BOE have held loose monetary policies, ECB continued to supply this amount of money into the market. It is unknown that whether this huge cheap money bring directly benefits to the economy as ECB's expectation or not, it can run on other markets such as Asia, Hong Kong, Singapore, South Korea or China, which may increase significantly the risk of asset bubbles in these countries.

In response, the easiest way that central banks of these countries may choose is that stimulating economy through lower interest rates and depreciate domestic currency depreciation. Bank of Canada has recently decreased interest rates to 0.75% from 1% (dated 21 Jan 2015) in the context of weakening inflation (-0.7% mom versus -0.4% of previous period). BOC has started, who can assure that whether RBNZ (Bank of New Zealand), on next 28th Jan, may do nothing and continually keep interest rates of 3.5% in the context of last month's deflation was about 0.2 % or not?

The effectiveness of the ECB's QE is difficult to quantify and may be extended, which brings opportunities to developing countries in growing economies in case of using well the cheap capitals of EU, Japan ...

Easing pressure has been appearing in many nations in the world, which can reduce the effectiveness of the ECB's QE versus that of Fed, hence the "rescue the economy" period of developed economies may be last in longer time.

Cheap capital flows have spread to every corner of the world, promoting economic growth, stock market as well as and real estate. Opportunities have been coming to developing countries, including Vietnam. However, whether Vietnam economy can be benefited from this capital flows or not in the future will depends on the degree of effectiveness of the use of this capital.

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