

Flash Note 12/03/2018

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Latest news in Europe (Italy, Germany, ECB...)

Italy

- Democratic Parti's (PD) leadership will meet in Rome to acknowledge the resignation of Renzi as its general secretary and start discussions on a common stance.
- Former premier and PD leader Renzi, who stepped down last week, insisted in that the party should go into opposition after its worst-ever election result and said that a support to a government led by Five Star would be impossible.
- However, Renzi said that the party's future is up to other leader. A sentence that some have seen as a suggestion there could be some support to populist parties like Five Star.
- Corriere della Sera interviewed Five Star leader Di Maio, who reiterated his legitimacy to form a government and said his party would soon present proposals to be incorporated in the government's multi-year economic plan, which must be presented by 10-Apr.

Germany

- Merkel, Macron delay plan to present Eurozone reforms: A Saturday report by Der Spiegel reported that German Chancellor Merkel and French President Macron have postponed a plan to propose Eurozone reforms at a summit of EU leaders this month.
- It noted that Merkel and Macron held out the prospect in December of presenting Franco-German proposals at the March summit but German officials said Berlin needed more time to coordinate its Eurozone plans with Paris due to the unusually long coalition negotiations after September's federal election.

ECB

- ECB sources last Friday said ECB staff offered a scenario (their own working hypothesis) where interest rates would be raised in mid-2019 after winding down their bond purchases at the end of this year.

- The assumptions match market expectations and was met favorably by policymakers from the Eurozone's northern countries, but southern country members were more cautious.
- Bundesbank back in charge of the ECB. Problems ahead for Italy? The Daily Telegraph claimed on Saturday that the ECB's decision to drop its pledge to boost stimulus signaled the triumph of German-led hawks and marked a major turning point in the Eurozone's monetary regime. It highlighted that the approaching end to the QE-era pulls away the protective shield for Italy and the high-debt Latin states, and for thousands of "zombie companies" kept afloat on monetary life-support. The article also goes on to discuss Italy's high debt levels and argued it would be vulnerable when the business cycles turns.
- Investors prepare for end of ECB corporate bond buying: The WSJ said that investors are anticipating a widening of the spread between government bonds and some corporate debt. However, analysts' views depend on how they view the program's impact, with some saying it depends on the speed of the exit, while others are noting that spread performance is more dependent on the economic backdrop rather than the ECB.

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