



## ECB Meeting Preview

ECB is expected to announce that the QE will be extended up to September 2018, or beyond if necessary. But, from January onwards, the pace of purchases will likely be lowered to €30bn per month.

ECB is likely to leave open whether it will extend QE after September and hint that this decision will be taken in a data-dependent method.

Current scenario suggests an increase in euro area interest rates is unlikely until Q1 of 2019.

### Key Expectations —

- ◆ At the October 2017, ECB meeting, we expect the Central Bank to announce that the QE will be extended up to September 2018, or beyond if necessary. But, from January onwards, the pace of purchases will likely be lowered to €30bn per month.
- ◆ Current pace of monthly bond purchases by the ECB totals at €60bn
- ◆ Forward guidance is likely to remain unchanged for near term.
- ◆ We think the first rate hike will occur in Q1 of 2019.

The European Central Bank (ECB) is widely expected to lay out the plan to scale down its bond purchases, known as QE (quantitative easing) in its October 26, 2017 policy meeting. The current pace of monthly bond purchases by the ECB totals €60bn and we expect that this may decline to €30bn from January and continue up to September 2018. The program will reach €2.28tn (\$2.7 tn) by the end of 2017 and there may only be room for little more than €200 bn of purchases next year. We think the ECB will leave open whether it will extend QE after September and hint that this decision will be taken in a data-dependent method.

Bloomberg reported earlier this month that some policy makers saw room for little more than €200bn of purchases under the bond-buying programme. Governing council members are considering cutting monthly purchases—currently running at €60 billion euros—by at least half starting in January and extending them for nine months with a proviso to do more if needed. Policy makers seem concerned that a more aggressive tapering plan could harm financial conditions, especially by letting the euro appreciate even more. Euro has gained more than 12% against the dollar this year.

The major sticking point among the policy makers is whether to commit to an end-date for QE as euro area's robust economic upturn is failing to spark more inflation, puzzling policy makers and prompting concerns that quantitative easing may end too early. The Governing Council is deeply divided on whether to set an end date. ECB President Mario Draghi said in Washington that the bank needs to be patient because price gains will take time to pick up. Inflation was 1.5% in September 2017, below the ECB's goal of just under 2%.

The latest purchasing managers' indices (PMIs), based on surveys of firms around euro area, pointed to strong growth, albeit with a slight slowdown in the expansion of output from the services sector. Germany's composite indicator, measuring services and manufacturing, fell from a reading of 57.7 to 56.9, according to data firm IHS Markit. That contributed to a lower reading across the eurozone, where the widely followed indicator fell from 56.7 to 55.9. However, the reading remained well above the 50 mark indicating growth, setting the scene for the ECB to go ahead with its plan to start tightening of QE.

As for a potential rise in interest rates, ECB president Mario Draghi said that any increase in rates would only occur "well after" the conclusion of the bond-purchasing program. Such a scenario suggests an increase in euro area interest rates is unlikely until Q1 of 2019.



## Research & Development Strategies

Mr. Monal Desai  
Sr. VP—Institutional Sales  
monal.desai@smifs.co.in  
+91 2242005555  
Mobile: +91 9821137303

Mr. Ashiwini Kumar Tripathi  
Director  
aswin.tripathi@smifs.com  
+91 33 30515415 / 40115415  
Mobile: +91 9831155058

Mr. Shivaji Roy  
Sr. VP – Business Development  
shivaji.roy@smifs.co.in  
+91 33 30515400/40115400  
Mobile: +91 9830173200

Mr. Ajay Jaiswal  
President: Strategies and Head Research  
ajaiswal@smifs.com  
+91 33 30515408 / 40115408  
Mobile: +91 9836966900

Mr. Vishal Prabhakar  
VP – Investors Relations & BDM  
vishal.prabhakar@smifs.com  
+91 33 30515400 / 40115400  
Mobile: +91 9831554477

## Fundamental Research

Mr. Ajay Srivastava  
Associate VP—Research  
Ajay.srivastava@smifs.co.in  
+91 33 30515400

Mr. Saurabh Ginodia  
Associate VP – Research & Strategies  
saurabh.ginodia@smifs.com  
+91 33 30515407

Mr. Dipanjan Basuthakur  
Research Analyst  
dipanjan.basuthakur@smifs.com  
+91 33 30515486

Ms. Sutapa Biswas  
Research Analyst  
Economy  
sutapa.biswas@smifs.com  
+91 9836020612

Mr. Aditya Jaiswal  
Research Analyst  
Aviation and Logistics  
aditya.jaiswal@smifs.com  
+91 33 30515433 / 30515468

Mr. Jeet Ranjan Ghosh  
Research Analyst  
Auto Ancillary/Engineering  
jeet.ghosh@smifs.com  
+91 33 30515433 / 30515468

Ms. Mononita Mitra  
Research Analyst  
Agro Chemicals/Diversified  
m.mitra@smifs.com  
+91 33 30515468

Mr. Harshit Mantri  
Research Analyst  
BFSI  
harshit.mantri@smifs.com  
+91 33 30515433 / 30515468

Mr. Kapil Joshi  
Research Analyst  
Infrastructure/Power  
kapil.joshi@smifs.com  
+91 33 30515468

Mr. Abhishek Roy  
Research Analyst  
FMCG/ Oil & Gas  
abhishek.roy@smifs.com  
+91 33 30515468

Mr. Pratim Roy  
Research Analyst  
Consumer Durables/Textiles/Retail  
pratim.roy@smifs.co.in  
+91 33 30515468

Mr. Anupam Goswami  
Research Analyst  
Building Products/Capital Goods/  
Construction Equipment  
anupam.goswami@smifs.co.in  
+91 33 30515433

Mr. Anmol Das  
Research Analyst  
Metals and Mining an-  
mol.das@smifs.co.in  
+91 33 30515468

Mr. Debjit Maji  
Research Analyst  
IT-Telecom/Pharmaceuticals  
debjit.maji@smifs.co.in  
+91 33 30515468

Mr. Sarthak Mukherjee  
Research Analyst  
Logistics and Media - Broadcast-  
ing  
sarthak.mukherjee@smifs.co.in  
+91 33 30515468

## Technical Research

Mr. Jaydeb Dey  
Technical Analyst Equities  
jaydeb.dey@smifs.com  
+91 33 30515433

Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

## Investor Relations and Data Support

Mr. Sandipan Chatterjee  
Officer – Business Development  
sandipan.chatterjee@smifs.com  
+91 33 30515461

Ms. Debjani Sen  
Officer – Investor Relations  
debjani.sen@smifs.com  
+91 33 30515401

Ms. Sulagna Mukherjee  
Executive – Customer Care  
sulagna.mukherjee@smifs.com  
+91 33 30515436

Mr. Deepankar Saha  
Research Assistant  
deepankar.saha@smifs.co.in  
+91 33 30515468

## Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

### Contact Details

#### Registered Office Address:

Vaibhav, 4 Lee Road,  
Kolkata 700020, India.  
Phone: +91 33 30515400 / 40115400  
Fax No: +91 33 22893401

#### Bangalore Office:

Mr. S. Srikanth  
No.153, 2nd Floor, Sheela Arcade, 7th Block  
Koramangala, (Opp.—Sai Baba Mandir)  
Bangalore - 560095, India.  
Phone: +91 9845020017

#### Kanpur Office:

Mr. Amit Kumar Gupta  
Office No.212 - 213, 2nd Floor, KAN Chamber, Adjacent  
to UP Stock Exchange, 14/113, Civil Lines, Kanpur -  
208001, Uttar Pradesh, India.  
Phone: +91 9151104767

#### Bhubaneswar Office:

Mr. Jaydeep Pattanayak  
Plot No. 15-B, Bapuji Nagar, Unit-1, Ashok Nagar, Bhu-  
baneswar - 751009, Odissa, India.  
Phone: +91 9583099025

#### Mumbai Office:

Mr. Vaibhav P. Wadke  
922, 9<sup>th</sup> Floor, P.J. Towers,  
Dalal Street, Fort,  
Mumbai – 400 021, India.  
Phone: +91 22 42005505/06/9967642795

#### Chennai Office:

Mr. K.K.Raja Gopalan  
New No.4/2, Bajaj Apartments,  
Seethamal Colony, 1st Cross Corner, Alwarpet,  
Chennai – 600018, India.  
Phone: +91 9383931590

#### Noida Office:

Mr. Prakash Srivastava  
1st Floor, Wave Silver Tower, Sector-18, Noida - 201301,  
Uttar Pradesh, India.  
Phone: +91 9910497783

#### Dhanbad Office:

Mr. Vinay Kumar Singh  
Room No. 308, 3rd Floor, Shriram Plaza Bank More,  
Dhanbad - 826001, Jharkhand, India.  
Phone: +91 9835351951

#### Hyderabad Office:

Ms. Vaishnavi  
3-6-198, Vasavi Shreemukh Complex 4A,  
Ground Floor, Himayath Nagar,  
Hyderabad – 500 029, India.  
Phone: +91 40 69000032/31

#### Lyons Range Office:

Mr. Deepak Gupta  
7, Lyons Range, CSEA Building, 3rd Floor, Kolkata -  
700001, India.  
Phone: +91 9674793553

#### Pathankot Office:

Mr. Anuradha Marwaha  
SCO G - 69, Netaji Market, Opp. Hindu Co.op. Bank,  
Dalhousie Road, Pathankot - 145001, Punjab, India.  
Phone: 0186 - 2222201/ 2222205

#### Patna Office:

Mr. Ram Singh  
606/A, Ashiana Plaza, Budha Marg, Patna – 800001, Bihar,  
India.  
Phone: +91 9570507409

#### New Delhi Office:

Mr. Prakash Srivastav  
487, G. T. Road, 3<sup>rd</sup> Floor,  
Dilshad Garden,  
New Delhi – 110 095, India.  
Phone: +91 11 43504705 / 9910497783

#### Lucknow Office:

Mr. Mirza Mohd Qasim  
6 Park Road, UGF 4, Hazratganj, Lucknow - 226001, Uttar  
Pradesh, India.  
Phone: +91 8090001115

#### Balalore Office:

Mr. Jyoti Bhusan Das  
Plot No. 891/1632, Bhaskarganj – A, Station Chhak,  
Municipality Holding No. 648 (32), Balasore – 756001,  
Odissa, India.  
Phone: +91 9776265566

#### Port Blair Office:

Mr. Gulam Hassan  
24, S.J. Lane, 8/3, Sahajeevan Housing,  
Co-operative, P.O. Haddo,  
Port Blair 744102, India.  
Phone: 233-175 Mobile No. 9932081381/9933236406

Website: [www.smifs.com](http://www.smifs.com) | Email: [investors@smifs.com](mailto:investors@smifs.com)

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Stewart & Mackertich Wealth Management Ltd.  
Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.  
Tel.: +91 33 3051 5408 /, Fax: 91 33 22893401  
Website: [www.smifs.com](http://www.smifs.com)

For queries related to compliance of the report, please contact:

Sudipto Datta, Compliance Officer

Contact No.: +91 33 30515414 / 4011 5414

Email Id.: [compliance@smifs.com](mailto:compliance@smifs.com) / [sudipta@smifs.com](mailto:sudipta@smifs.com)