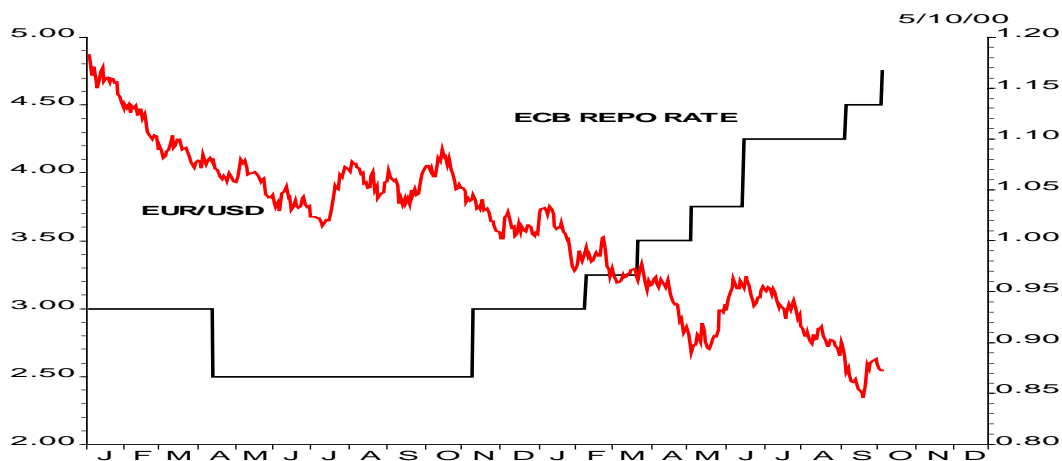


ECB RAISES RATES FOR SEVENTH TIME TO 4.75%

The ECB raised the official minimum refinancing rate to 4.75% at its meeting today. The market had'n't expected a move so soon after the last increase on 31 August. The way is open for another increase before the end of the year.

The ECB surprised the market with another rate hike today. The move did not come as a shock as most commentators expected that the ECB would raise rates by 2 November at the latest. This brings the official minimum refinancing rate to 4.75%. As a result of this move, the ECB has almost doubled the level of official rates since the low of 2.5% in April 1999. In real terms, the level of official rates is almost 3.5%, based on the underlying measure of the euro area's HICP. This is very close to the current rate of economic growth in the eurozone.

The euro strengthened initially on the rate hike but fell back later to move below \$0.87. Fears of intervention, which remains on the agenda, limited the euro's decline. As the chart below shows, the euro has failed to strengthen as a consequence of repeated interest rate tightening. The ECB sees its actions on interest rates as being consistent with price stability which will support sustainable economic growth in the medium term. The majority of market commentators see the ECB's interest rate hikes as being inconsistent with fostering stronger economic growth. Bear in mind that the market does not share the ECB's hawkish view of eurozone inflation prospects. For that matter, it is probably also the case that the US authorities also see a greater need to raise the rate of economic growth in the euro area rather than to dampen it. In fairness, the US authorities place greater emphasis on reforms and enhanced flexibility in Europe than on cheap money. However, one must wonder at the willingness of the US to support the euro when the ECB's over indulgence on its single mandate of price stability risks even more imported inflation.



Source: DATASTREAM