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ECB Ready To Boost Stimulus As Fed Poised To Hike

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The European Central Bank opened the door to more monetary stimulus even as the Federal Reserve, with Hamlet-like hesitation, is poised to raise interest rates for the first time in a decade later this month.

The juxtaposition is a sign of two economic powerhouses in very different straits: The eurozone's economy expanded at a sloth-like 1.2% annual rate in Q2. The U.S., which started its own larger monetary stimulus much earlier, grew at a solid 3.3% pace.

ECB President Mario Draghi's dovish tone at his post-meeting press conference Thursday wasn't surprising, given the fall in commodities prices, headache-inducing stock market volatility and investors' concerns about China's slowing economy, reeling markets and Beijing's ham-fisted response.

The ECB cut its GDP growth forecast to 1.7% vs. June's forecast of 1.9%. The central bank only sees eurozone inflation rising 1.1% next year, as opposed to the 1.5% previously expected.

Eurozone unemployment was at the lowest level in three years in July, but it was still 10.9%.

Draghi stressed that the ECB is ready and willing to act on monetary stimulus even beyond the planned September 2016 end of the $66.7 billion in monthly buys of government bonds. The central bank also raised the amount of any one issue of bonds it could buy to 33% from 25%.

Draghi's remarks sent the euro lower vs. the dollar. U.S. stocks rose initially, but closed mixed.

The cheaper euro could boost eurozone exports while raising inflation, which is dangerously close to deflationary levels.

"Draghi is growing concerned that Europe is slowing more than it expected and they're seeing some more disinflationary pressures," said **Bernard Baumohl, chief global economist at the Economic Outlook Group**. "They need to address those two issues very quickly."

Fed Divided On 'Liftoff'

Federal Reserve Chair Janet Yellen is in a different scenario. Manufacturing growth slowed to a two-year low in August, the ISM index showed Wednesday. But that sector is most exposed to global weakness and competition. The domestic economy, including consumer spending, job growth, service-sector activity and especially housing, are looking solid to strong.

Wage pressures are building, something the Fed's Beige Book report out Wednesday stated repeatedly. Yellen and others have been looking for higher wages as a sign of tighter labor markets.

Still, Fed policymakers are split between those who would like to get rate "liftoff" as soon as possible, and those who see no rush to move with inflation tame.

The recent stock market sell-off at home and abroad adds pressure to the central bank to stay its hand.

Among other key central banks, only the Bank of England is mulling tightening soon. BoE Gov. Mark Carney said in August that the U.K. was on track to start raising rates in Q1 2016.

The People's Bank of China late last month cut its benchmark lending rate for the fifth time since November. The Bank of Japan is keeping its current aggressive stimulus after Japan's economy contracted in Q2.

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