

**ECB
Money Market
Contact Group**

**Market Expectations For
ECB Monetary Policy**

**David Tilson &
Franck Carminati**

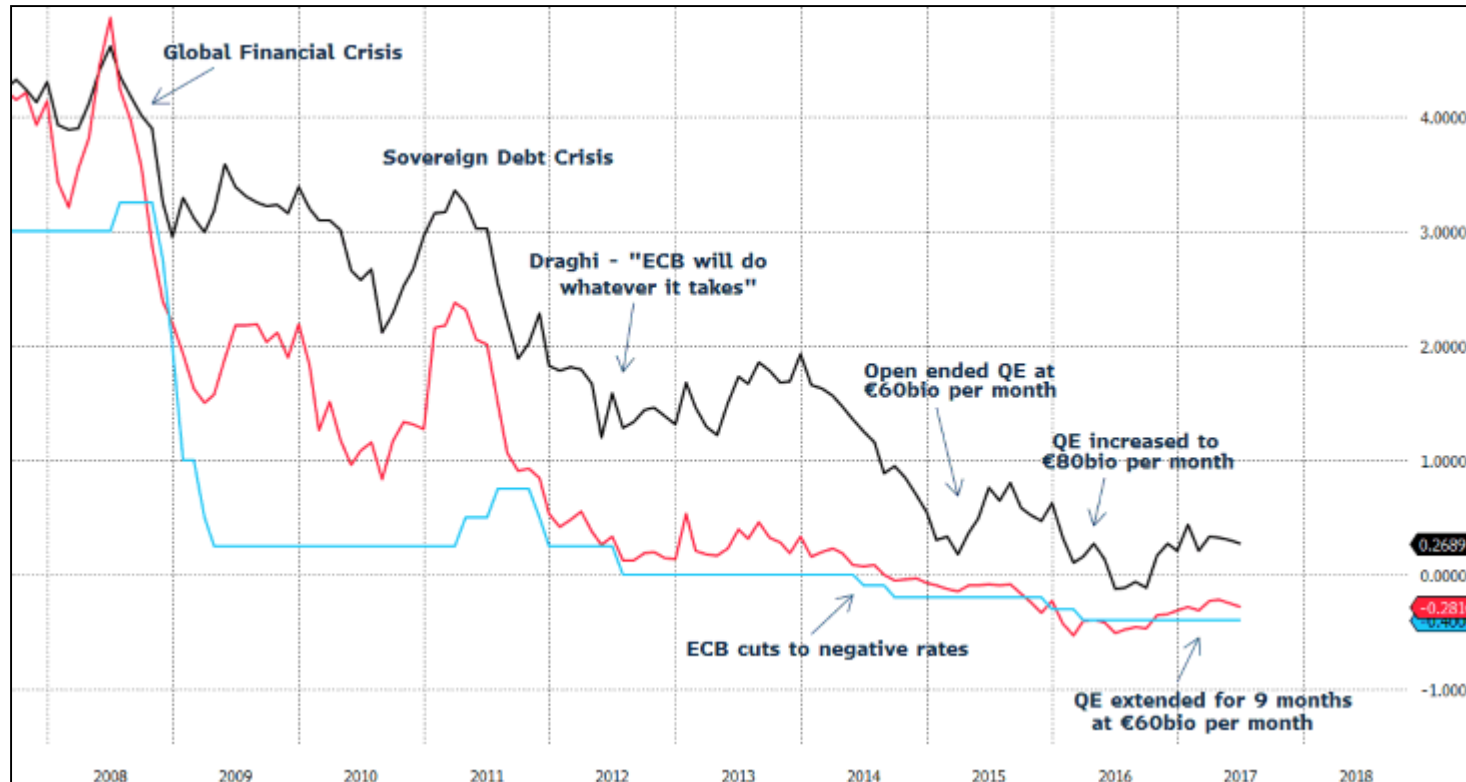
Bank of Ireland 

Global Markets

- ▶ Economic Developments
- ▶ ECB Response
- ▶ Market Expectations
- ▶ Q&A



Economic Developments - Recap

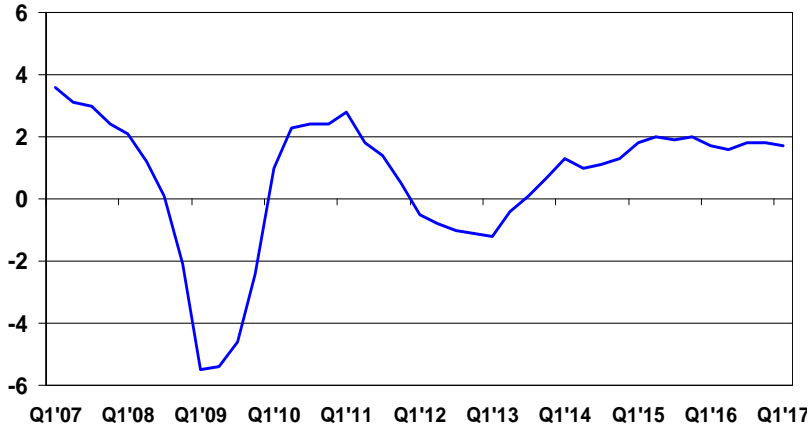


— ECB Depo Rate — GER 10Yr — 1Y1Y Eonia Swap

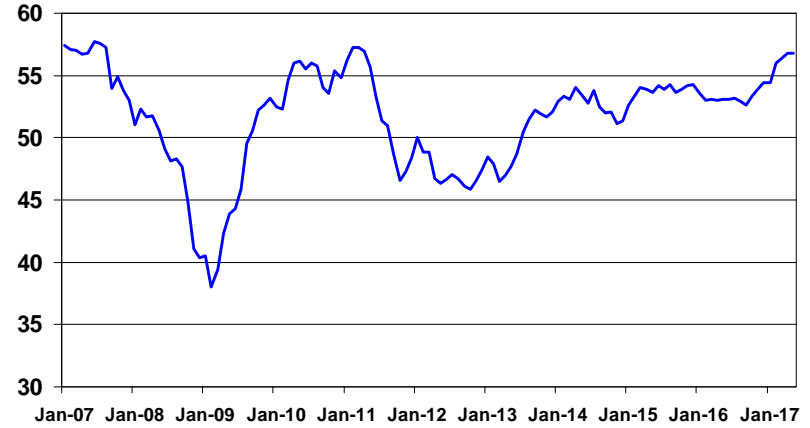
Economic Developments

Growth improving but CPI lagging

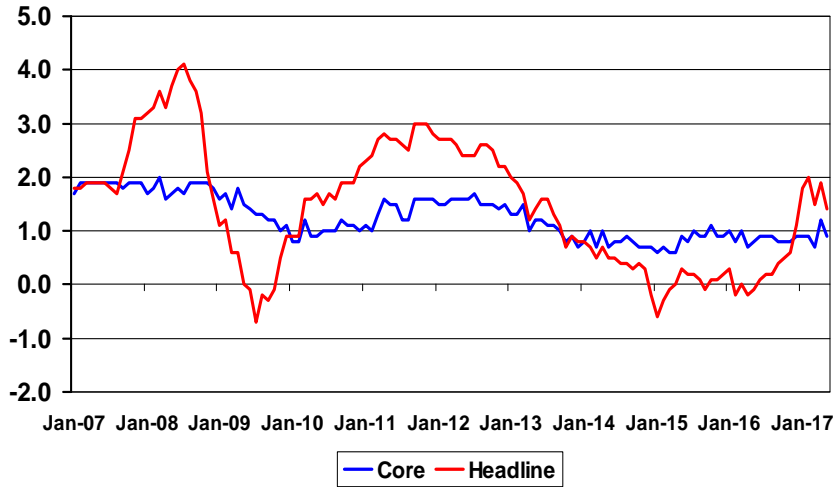
GDP: % Change Year-on-Year



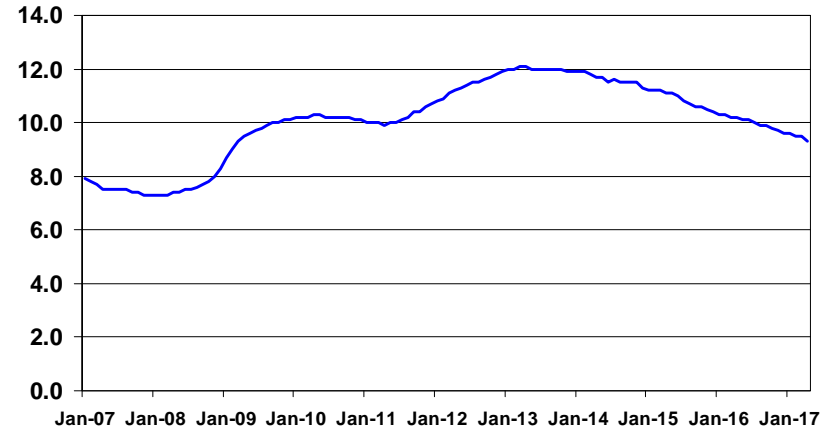
Composite PMI



Annual Inflation (%)

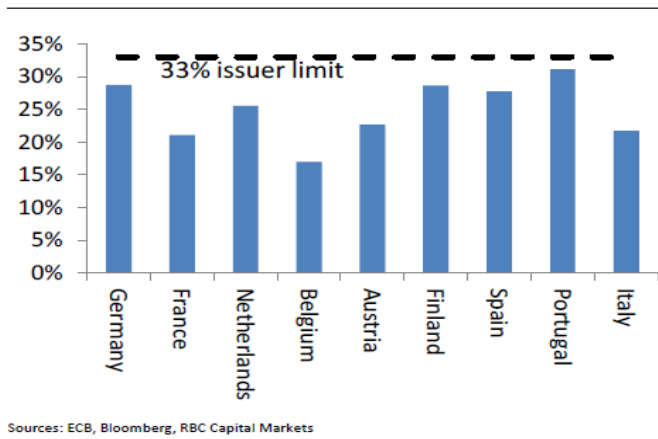


Unemployment Rate (%)



Economic Developments

Non Standard Measures – running into difficulty?



Expected holdings in PSPP portfolio in Dec17 as % of total outstanding

- ▶ Under the current parameters, technical factors are restricting the ECB's options for extending purchases at the current pace beyond the end of this year. In December 2016 the ECB decided to remove the yield floor of -40bps to widen the pool of available bonds but the apparent immovable issuer limit of 33% and the unchanged capital key continue to create difficulties. At its current pace of purchases the ECB will be on track to reach the 33% limit in multiple jurisdictions in H1 2018.
- ▶ Recent ECB data shows that they already seem to be encountering scarcity issues, particularly in Germany where bond purchases in May fell below the capital key for the second month in a row. At the same time, the Weighted Average Maturity (WAM) of monthly German QE purchases declined from 4.7y in April to a new low of 3.99y in May.
- ▶ As the outlook for the Eurozone economy improves, the ECB are expected to announce QE tapering towards the end of 2017 and reduce the rate of purchases over H1 2018. Net purchases are expected to end by the middle of 2018, depending on incoming economic data.
- ▶ €234bio was taken down at the final TLTRO in March. Expectations of further near term TLTROs are low, however some market participants expect this to be a key policy tool should further easing be required.

ECB Response

Normalisation debate begins

Early 2018 rate hike is 'closer to my own expectations' and ECB tapering could be limited to 5-month period. (Knot, 30th & 31st March, 2017)

Some ECB policymakers had suggested hiking rates before the end of QE stimulus. (ECB sources, 10th March, 2017)

Draghi said he did "not anticipate that it will be necessary to lower rates further" (ECB meeting, 9th March, 2017)

"We're sending the same messages to governments, that they have to be prepared for higher long-term financing costs eventually." (Coere, 18th May, 2017)

We should prepare for a change in the policy and as soon as the data is stable and we have a sustainable path towards our objective of price stability then we are well prepared to do (it)." (Lautenschläger, 27th March, 2017)

ECB's current guidance that calls for rates at current or lower levels "for an extended period" and "well past" the end of bond-buying, "could" be shortened." (Visco, 20th March, 2017)

ECB would decide at a later time whether to raise rates before or after its bond-buying program comes to an end." (Nowotny, 24th March, 2017)

"Domestic price pressures are still subdued; the same is true for wages. ... current inflation still contains an element of monetary policy." (Lautenschläger, 31st May, 2017)

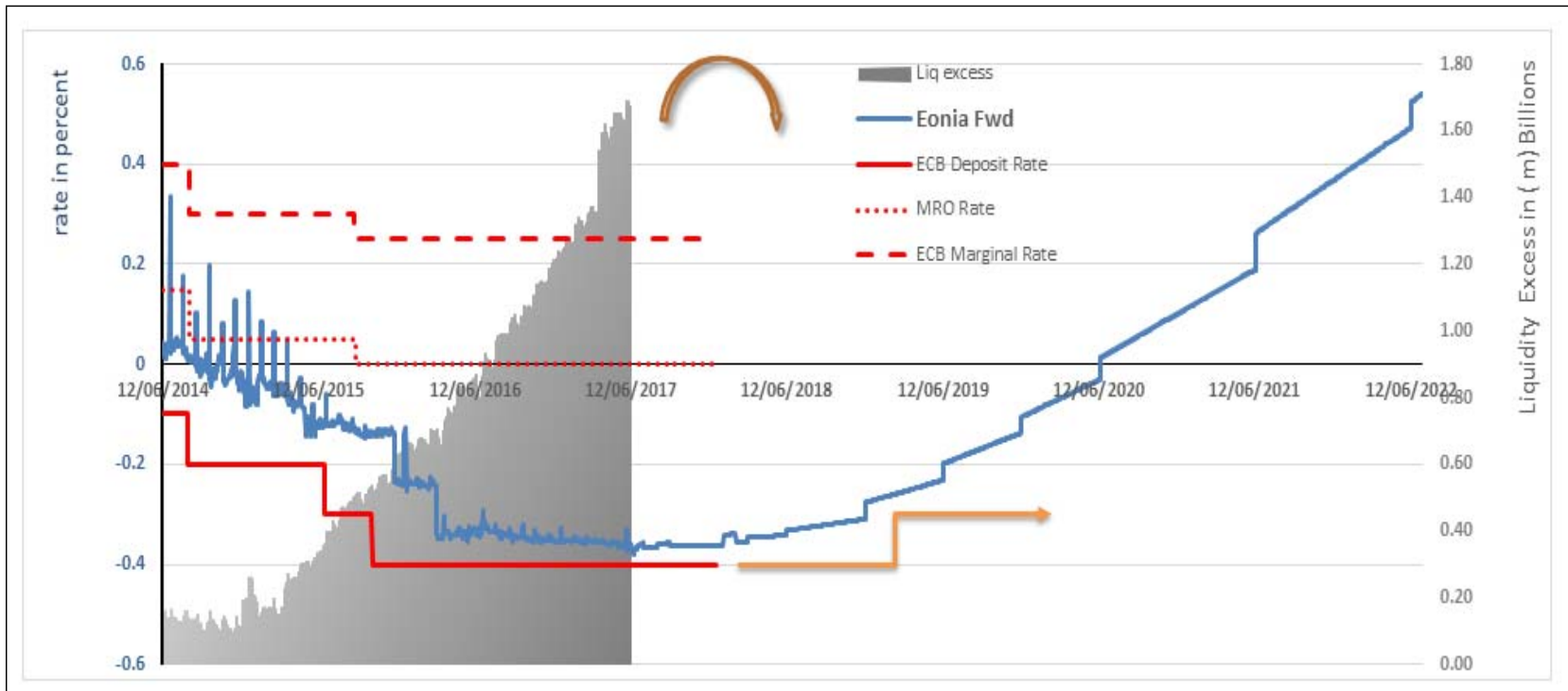
"We have to be very careful when people start talking about regime change or normalization change – we are not there." "We don't want the markets to overshoot the reality." (Praet, 15th March, 2017)

"... we cannot yet be sure that the upturn in inflation is sustainable and self-sustained, that it will be there without our monetary policy support." (Coere, 18th May, 2017)

"Accommodative ECB policy is still needed." (Villeroy, 22nd March, 2017)

Despite a firmer recovery, underlying inflation pressures have remained subdued. We still need very accommodative financing conditions, which are themselves dependent on a fairly substantial amount of monetary accommodation." (Draghi, 29th May, 2017)

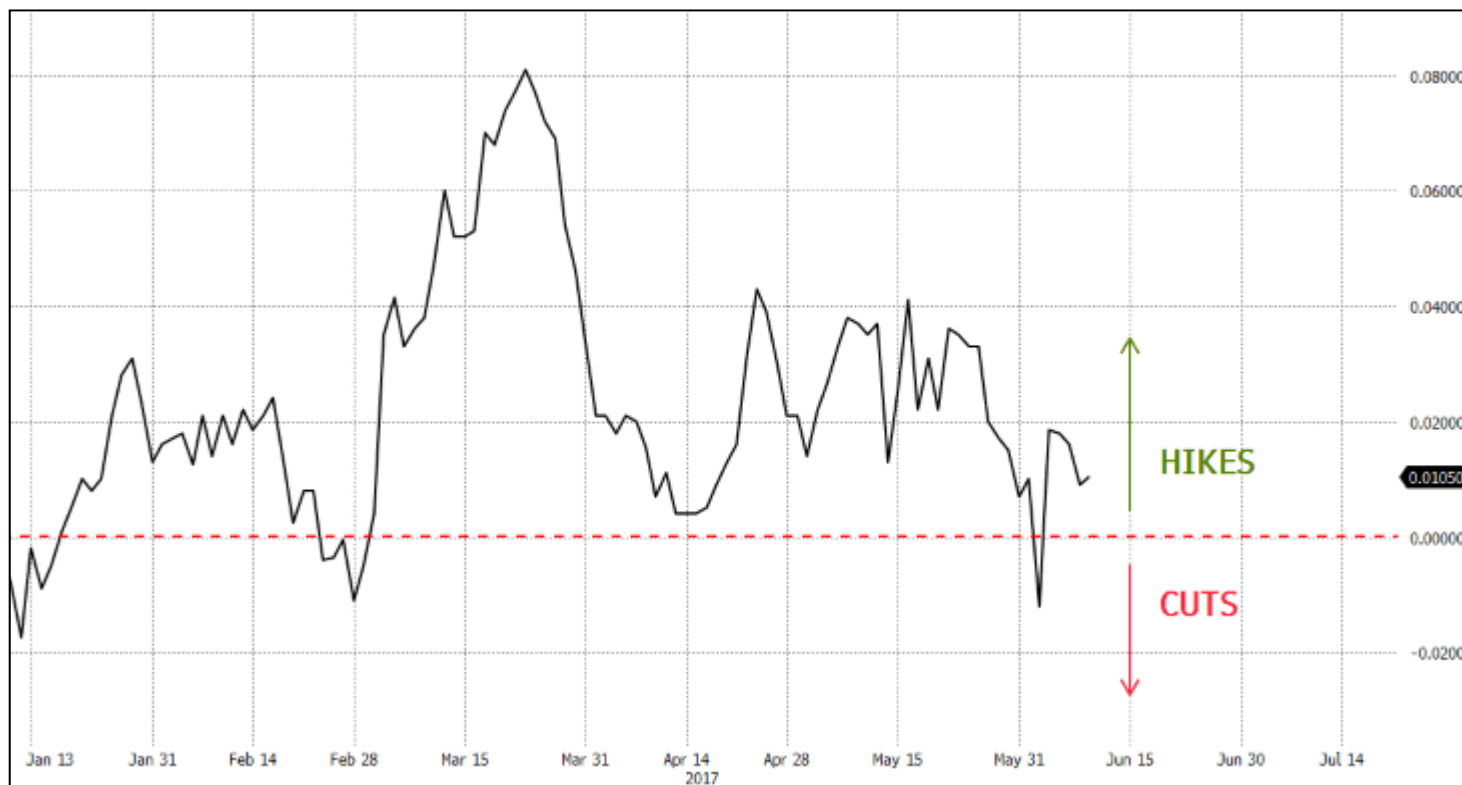
Market Developments Expectations



Market Developments

Pricing

2017 Deposit Rate Expectations



Market Developments

Pricing

1Y-1Y Forward Eonia Swap



— 1y1y Forward Eonia — Eonia Fixing

What does the MMCG think?

Disclaimer



This document has been prepared by the Global Markets Trading Group, a division of The Governor and Company of the Bank of Ireland (“BOI”) for information purposes only and BOI is not soliciting any action based upon it. BOI believes the information contained herein to be accurate but does not warrant its accuracy nor accepts or assumes any responsibility or liability for such information other than any responsibility it may owe to any party under the European Communities (Markets in Financial Instruments) Regulations 2007 as may be amended from time to time, and under the Financial Conduct Authority rules (as applicable), for any loss or damage caused by any act or omission taken as a result of the information contained in this document.

Except as otherwise may be specifically agreed, BOI has not acted nor will act as a fiduciary, financial or investment adviser with respect to any transaction that it has executed or will execute. Any investment decision made by a party shall be on the basis of its own research and judgment and not be influenced or based on any view or opinion expressed by BOI either in this document or otherwise. This document does not address all risks and cannot be relied on for any investment contract or decision. A party should obtain independent professional advice before making any investment decision. Expressions of opinion contained in this document reflect current opinion as at 26th January 2017, and is based on information available to BOI before that date. This document is the property of BOI and its contents may not be reproduced, either in whole or in part, without the express written consent of a suitably authorised member of BOI staff.

The Governor and Company of the Bank of Ireland is authorised and regulated by the Central Bank of Ireland. In the UK, The Governor and Company of the Bank of Ireland is authorised by the Central Bank of Ireland and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request. The Governor and Company of the Bank of Ireland is incorporated in Ireland with limited liability. Registered Office - 40 Mespil Road, Dublin 4, Ireland