ECB MMCG: Market Developments
Frankfurt, 18 March 2015
The risk of another economic recession is fading away

Advanced leading indicator as real data means real economy is gradually recovering and the risk of another recession is fading away
Even France and Italy, which have lagged behind in the past few quarters, are returning to positive growth.
The sharp decline of oil prices had an strong impact on the Euro CPI and also on inflation expectations. However since the ECB announced the QE we have seen inflation expectations increasing even if the oil prices are declining again.
Market Impact: LOWER, FLATTER, TIGHTER

German Curve

Peripheral Spreads

The impact on the curves are pretty clear. Core and even periphery are going lower. As the front end is reaching the -0.20 floor the movement is spreading into longer-term part of the curve.
All Euribor since QE was announced are getting all time new lows. Only negative Euribor in the short term (1M) and occasionally. 12m – 3m spread are compressing as we reach lows.

Euribor futures are pricing the EAPP till next sep16. beyond that possible rates hikes are taking place.
Eonia still suffer the month ends, volume stable in a range (30-20bio) Excess liquidity expected to increase massively due to QE. This should push Eonia down to -15/-20. First increases in excess liquidity to have bigger impact. Once liquidity reach a given level (300bio) the impact will be more gradual.
Eonia forward is already pricing in the decline. Euribor- Eonia spread stable at around 10bp.

Futures reaching 0 but rebounding
All the repo is trading well negative, the tendency is to go further negative.
New wave of global easing in monetary policy…

ECB action (rate cut in Jun14 and Sep14 and the EAPP) is pushing other Central Banks into a new wave of easing. At the moment the only Central Banks that seems to be apart are BoE and Fed.
Euro declining versus other currencies from last December and once QE is announced further decline.
USD still at its pace of appreciation.

Cross-currency EUR/USD showing the appetite for USD and the lack of interest in the Euro funding.
Bank for International Settlements: Effective Exchange Rate

**Euro**

**US Dollar**

Movement in the USD started in last summer period while accelerating from Sep14, related to the change in the rate expectations.

In the Euro zone, the move started last 2014 and it has been particular strong since the QE announcement.
Comparing the ECB’s EAPP to other QE programmes

<table>
<thead>
<tr>
<th></th>
<th>CB purchases</th>
<th>gross issuance</th>
<th>net issuance</th>
<th>% gross</th>
<th>% net</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECB 2015</td>
<td>473.7</td>
<td>860.0</td>
<td>200.0</td>
<td>55.1%</td>
<td>236.8%</td>
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<tr>
<td>BoE 2009-10</td>
<td>180.0</td>
<td>227.6</td>
<td>211.0</td>
<td>79.1%</td>
<td>85.3%</td>
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<tr>
<td>BoE 2011-12</td>
<td>105.0</td>
<td>179.4</td>
<td>130.4</td>
<td>58.5%</td>
<td>80.5%</td>
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<tr>
<td>Fed 2009</td>
<td>300.0</td>
<td>2197.1</td>
<td>1550.7</td>
<td>13.7%</td>
<td>19.3%</td>
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<tr>
<td>Fed 2010</td>
<td>243.7</td>
<td>2319.8</td>
<td>1606.5</td>
<td>10.5%</td>
<td>15.2%</td>
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<tr>
<td>Fed 2011</td>
<td>773.3</td>
<td>2103.3</td>
<td>1303.4</td>
<td>36.8%</td>
<td>59.3%</td>
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<tr>
<td>Fed 2012</td>
<td>534.1</td>
<td>2304.5</td>
<td>991.5</td>
<td>23.2%</td>
<td>53.9%</td>
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<tr>
<td>Fed 2013</td>
<td>540.1</td>
<td>2140.0</td>
<td>835.9</td>
<td>25.2%</td>
<td>64.6%</td>
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<tr>
<td>Fed 2014</td>
<td>249.9</td>
<td>2215.4</td>
<td>767.1</td>
<td>11.3%</td>
<td>32.6%</td>
</tr>
</tbody>
</table>

The main difference between the ECB’s and the Fed’s and BoE’s QE is that, in terms of Net issuance of debt, ECB purchases will be significant bigger than the government issuance in the Euro zone (240%). In England (85%) and in the US (60%) central banks purchases were not enough to offset the net government issuance.
The Fed is about to start its monetary policy tightening

Expected Date of 1st & 2nd Fed Hikes

Fed Fund Rates – effective and futures vs. FOMC projections

While in the euro zone the market has been moving according to expectations of further easing, in the US the market is pricing in that the Fed could hike rates even sooner. In spite of this correction, the FOMC projection suggest that FOMC members still except official rates to be higher than priced in by the market.
The Greek situation: Far from the panic scenario from 2012

The same old ghosts...

...but this time it is not a systemic event

At a domestic level Greece is starting to suffer deposit withdrawals and increasing TARGET2 imbalances. However this time we don’t see any contagion to the rest of the Euro Zone.