



Market expectations for ECB policy measures

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Frank Beset



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Further ECB policy measures



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- I. Monetary policy rates
- II. Recalibration of tiering
 - I. Excess liquidity and distribution
 - II. Minimum reserves requirements
- III. Fragmentation risk
 - I. Changed market perception
- IV. Other policy measures
 - I. More and different purchases
 - II. Bank credit directly to non-banks
 - III. Central Bank Access

1. Policy rates



- Flat eonia/€STR curve
- Current market expectations
 - 4 ticks priced in 1m vs 12 m Eonia swaps
 - 12m/24m (1yr 1yr) fwd Eonia -53bp
- Hardly any market indicators for CB Facility rate spreads
 - But basis consensus is stable spreads, referring to Main Refi rate (0,00%), Marginal lending (0.25%) and Deposit Facility rate (-0.5%)
- Bloomberg survey 28 Response just before June ECB meeting.

Q1: How do you expect interest rates to develop through 2021?



Response Count: 28	Median Estimate		April Survey	
	Deposit rate	Refinancing rate	Deposit rate	Refinancing rate
2020				
June meeting	-0.50%	0.00%	-0.50%	0.00%
July meeting	-0.50%	0.00%	-0.50%	0.00%
September meeting	-0.50%	0.00%	-0.50%	0.00%
October meeting	-0.50%	0.00%	-0.50%	0.00%
December meeting	-0.50%	0.00%	-0.50%	0.00%
2021				
January meeting	-0.50%	0.00%	-0.50%	0.00%
March meeting	-0.50%	0.00%	-0.50%	0.00%
April meeting	-0.50%	0.00%	-0.50%	0.00%
June meeting	-0.50%	0.00%	-0.50%	0.00%
July meeting	-0.50%	0.00%	-0.50%	0.00%
September meeting	-0.50%	0.00%	-0.50%	0.00%
October meeting	-0.50%	0.00%	-0.50%	0.00%

Q2) How do you expect the announced pace of monthly asset purchases under APP – currently 20 billion euros – to develop?



Response Count:	Median	Average	High	Low	Number
June 2020	20	20.00	20	20	27
July 2020	20	20.74	40	20	27
Aug. 2020	20	20.74	40	20	27
Sept. 2020	20	20.74	40	20	27
Oct. 2020	20	20.74	40	20	27
Nov. 2020	20	20.74	40	20	27
Dec. 2020	20	20.74	40	20	27
Jan. 2021	20	18.52	20	0	27
Feb. 2021	20	18.52	20	0	27
March 2021	20	18.52	20	0	27
April 2021	20	18.52	20	0	27
May 2021	20	18.15	20	0	27
June 2021	20	17.78	20	0	27
July 2021	20	17.69	20	0	26
Aug. 2021	20	17.40	20	0	25

2. Recalibration of Tiering



- Big driver: excess liquidity and its distribution.
- With TLTRO II repayment (EUR 214 bln) new take up + roll, is expected to be high.
 - Market consensus is wide range 1 – 1,5 Trl
- Previously market singled a factor of 1/3 of the excess liquidity to be exempt of the “penalty rate”
 - To offset cost of hard to reprice liabilities.
 - Try to incentive distribution of excess liquidity (to banks that have tiering room).
- Market consensus tiering factor could be increased to factor 8-10 times MMR

- MRR Minimum Reserve Requirement
 - 1% of certain liabilities, mainly customers’ deposit.
 - 2% 2012
 - Remuneration rate = 0%
 - No changes expected there

3. Fragmentation risk



- Changed market perception:
 - “We will do what ever it takes” vs “We are not here to close spreads”
- Increased Fragmentation risk-> reflected in Sovereign yields
- Market digested the damage control (more relaxed TLTRO conditions, increased/extended Pepp) very well.
 - ECB showed flexibility, capital key, tenor and avoided widening of sovereign spreads
 - These measure are intended and will encourage banks lending to corporates
 - Encourages or re-encourages carry trades/buying short term government papers.
 - Although lending survey did indicate small increased.
- *“The Governing Council is fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed” (what ever it takes) June meeting.*
 - *Slightly over delivered*

Pandemic Emergency Purchase Program

Expectations before June Meeting



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Do you expect the ECB to increase the size of the Pandemic Emergency Purchase Program?

Response Count:	27	100%
Yes	26	96%
No	1	4%

If "Yes", when?

Response Count:	26	
June 2020	19	73%
July 2020	3	12%
Aug. 2020	0	0%
Sept. 2020	4	15%
Oct. 2020	0	0%
Nov. 2020	0	0%
Dec. 2020	0	0%

If "Yes", how much on top of the 750 billion euros already pledged?

Response Count:	25	
Median	500	billion euros
Low	250	billion euros
High	750	billion euros

How long do you expect PEPP to run?

Rank 1: June 2021, 37% (spot on)

Rank 2: dec 2021, 19%

(April survey: Rank 1 Dec 2020)

4. Other policy measures



- **HY purchases:** Could consider to include HY bonds in its PEPP, focusing primarily on fallen angels, if the euro area faces a wave of credit downgrade in the coming months as the real impact of the crisis will be more visible.
- **Stocks purchases:** Could add stocks to the assets it purchases in an effort to shake its economy out of the doldrums (prompting companies to do more investment and spending). Unlikely given the side effects and risks.
- **More negative rates:** Unlikely due to the negative consequences on banks' profitability./Tiering
- **OMT program:** It is still part of the toolbox, but it is a last-resort measure that could be activated only in case of an unexpected and sudden credit crunch that would limit member states' access to public markets. (Unlikely due to its nature -> single state)
- **Broadening participant access:** ECB facilities (Unlikely given the burden that participants face)
- **Direct lending:** Currently CSPP is filling part of this gap, mainly short.