ECB Monetary Policy Strategic Review under an Money Market's perspective

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ECB's Unconventional Measures – what are the Footprints (if any)?

- Data analysis- primary impact:
  - Excess liquidity within the Eurozone

- Data analysis on secondary impacts in selected markets and products:
  - distortion of volume (market depth)
  - distortion of maturity profile
  - distortion of rates

- Potential path going forward
  - Euribor and €STR
  - OISBOR

- Impact on NFCs
  - observable impact on NFC behavior
ECB's Unconventional Measures – what are its Footprints (if any)?

Data Analysis – Direct Impact

- Excess Liquidity within the Eurozone
  - Netting out TLTRO II pre-payments and LTRO netting with TLTRO III a net liquidity injection of €548bln

Excess liquidity within the euro zone with indications of non-standard measures conducted by the ECB (Sources: Bloomberg, Unicredit)
ECB's Unconventional Measures – what are its Footprints (if any)?
Data Analysis – Secondary Impact

GC Pooling volumes/rates started to decline with the introduction of the LTROs – volumes continued to decline whereas the ECB's deposit rate functions as "natural" floor to the rate.

GC Pooling traded volume versus traded price (Sources: Bloomberg Unicredit)
ECB's Unconventional Measures – what are its Footprints (if any)?
Data Analysis – Secondary Impact

GC Pooling rates and €STR rates declined almost in sync with the €STR rates show a kind of lackluster willingness of banks to trade at rates above -50Bps
ECB's Unconventional Measures – what are its Footprints (if any)?

Data Analysis – Secondary Impact

GC Pooling volumes and Eurozone excess liquidity development suggest a negative correlation

GC Pooling traded volume versus euro zone excess liquidity (Sources: Bloomberg, Unicredit)
ECB's Unconventional Measures – what are its Footprints (if any)?

Data Analysis – Secondary Impact

- Compression of EURIBOR rates and correlating OISBOR spreads
ECB's Unconventional Measures – what are its Footprints (if any)?

Data Analysis – Secondary Impact

- Impact of TLTRO III and QE was gradually rather than an big-bang-event
ECB's Unconventional Measures – what are its Footprints (if any)?

Data Analysis – Secondary Impact

- Outstanding volume in Short-Term European Paper (STEP) has increased significantly after the allocation of TLTRO III.4 but declined during the summer brake.

Volumes in bn outstanding STEP denominated in Euro (Sources: ECB, Unicredit)

Issue yield on zero coupon STEPs NFC sector upper chart and MFIs lower chart (Sources: ECB)
ECB's Unconventional Measures – what are its Footprints (if any)?

Data Analysis – Secondary Impact

Aggregate notional volumes of L1 + L2.2 transactions (Sources: EMMI, Unicredit)

Percentage of L3 contributions per tenor (Sources: EMMI, Unicredit)

EMMI data does confirm a recovery of MM activity whereas the percentage of L3 contribution remains high.
ECB's Unconventional Measures – what are its Footprints (if any)?

Outlook

So how does all of that translate for potential future developments e.g. market prices, market depth and functionality of markets?
ECB's Unconventional Measures – what are its Footprints (if any)?

Outlook

- In comparison with the Euribor evolution €STR fixing has only declined by 0.6bp since the allocation of TLTRO III.4 – worth to be mentioned is that the rates for the lower 25% percentile of submitted transactions has declined by 2bp. Most likely an adjusted behavior of banks being reluctant to accept extra inflows and reflecting their cash position.

Source: Bloomberg, ECB, UniCredit Research
ECB's Unconventional Measures – what are its Footprints (if any)?

Outlook

- Regression analysis suggests that Euribor fixing could decline further

EXCESS LIQUIDITY AND 3M EURIBOR

The relation between 3M EUR-depo and excess liquidity is estimated with a log specification using weekly data over the sample 1Jan13-31Dec19, excluding the period Jun-Sep19.

Source: Bloomberg, ECB, UniCredit Research
ECB's Unconventional Measures – A Quick Sidestep into the Corporate World

During the high of the Covid-19 crisis borrowing via loans surged and given the risk-off market environment debt issuance declined. The trend reversed vice-versa in the later stage. The surge in loans surprisingly has come along with an significant increase in deposits they placed with MFIs.

The parallel trend between fund sourcing and deposit placement points to a precautionary behavior rather than a true demand. Recent reports confirm the "new meaning" of working capital to NFC and to ensure it.
ECB's Unconventional Measures – A Quick Sidestep into the Corporate World

Credit demand from eurozone NFCs (net percentage*)

- Fixed investment
- Inventories and working capital

Expected credit demand from eurozone NFCs (net percentage*)

*The “net percentage” indicator for credit demand is defined as the difference between the percentage of banks reporting higher credit demand and the percentage of banks reporting a decrease in credit demand. In the survey for 2Q20, expectations refer to 3Q20.

Source: ECB, UniCredit Research
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