"Thanks to PEPP’s flexibility, the ECB is also able to provide overall monetary stimulus beyond addressing the fragmentation risks”

Christine Lagarde
11th November

"So far, we’ve been indicating that the pandemic emergency purchase programme (PEPP) and the targeting longer-term financing operations (TLTRO) have been very effective”

Olli Rehn
24th November

"The recalibration of monetary policy instruments in response to this second wave should at least focus or include further recourse toward our PEPP and also further recourse toward our TLTROs”

Pablo Hernandez de Cos
19th November

"Perhaps PEPP by itself is not the best tool to provide further support, and we should at least think about a combination of different measures…speaking of TLTROs it would be a possible tool that should be on the table”

Madis Muller
11th November

"While all options are on the table, the pandemic emergency purchase program (PEPP) and targeted longer-term refinancing operations (TLTRO) have proven their effectiveness”

Phillip Lane
22nd November

"By focusing more on the duration of policy support, central banks may effectively mitigate potential risks to financial stability arising from a more intense usage of their policy instruments in the pursuit of their mandate”

Isabel Schnabel
24th November
Why additional asset purchases?

Debt/GDP

GDP Weighted EGB Spread

Source: Eurostat, Bloomberg, J.P. Morgan

Source: Bloomberg
PEPP & APP

PEPP

Characteristics
• Right-sized to serve as credible backstop
• Extremely flexible
• ‘Emergency’ measure

APP

Characteristics
• More ‘traditional’ instrument
• Issuer and ISIN limits a constraint
• Fixed target monthly purchase amount

Debates to Re-emerge
• Diminishing returns?
• Market function impinged by dominant Central Bank flows?
• Private investors subordinated to Central Bank resurface?
Expectations

- PEPP increase of €400-500bn
- Extension of PEPP expiry to December 2021
- Not the time for a change to APP

Source: Multiple

Expectations for boost to PEPP envelope at Dec ECB

€ in billions

Participant Forecasts

Source: Multiple
What’s the Market Thinking?

Source: Bloomberg

- Euro Investment Grade Spread
- GDP weighted EGB Spread
- Euro High Yield Spread
Negative Net Supply

Current ECB 2021
- €20bn APP per month
- €1,350bn PEPP terminating June’21

ECB+ 2021
- €20bn APP per month
- Additional €500bn PEPP with extension to December’21

Source: Eurostat, J.P. Morgan
Excess Liquidity Outlook

**Excess Liquidity**

Current  3,285bn  
APP      20bn p/m  
PEPP    1,850bn  
TLTRO  c.75bn  

End 2021 Projection 4,500bn

*assumption remaining APP envelope fully utilised 2020

Source: Bloomberg