Main developments in money markets and ECB policy outlook

5 December 2023
CaixaBank
ECB Policy outlook

**October Governing Council meeting**
- No changes, no surprises:
  - Rates kept on hold
  - No changes to QT: no discussion/decision on PEPP reinvestments
  - No change to remuneration on government deposits
  - No change to reserve requirements (some analysts/observers expected an increase to 2%)

**Expectations for the December Governing Council meeting and interest rate expectations going forward**
- Interest rates on hold, no guidance for rate cuts, but market expects three cuts in 2024 and three cuts in 2025
- Reserve requirements could be increased, the door is open
- Possibly announce plans for change in PEPP reinvestments (e.g. from 2H24 onwards keep reinvesting 50% of bond redemptions)
- Possibly lower remuneration on government deposits
- Possible revisions to inflation and growth forecasts (e.g. inflation forecasts could be lowered, if low oil prices persist)
ECB Policy Outlook – Rates

Market expectations for ECB depo rate (as of 25-oct-2023 and 28-nov-2023)

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-oct-2023</td>
<td>-175   (pb) 17%</td>
</tr>
<tr>
<td>28-nov-2023</td>
<td>-175   (pb) 17%</td>
</tr>
</tbody>
</table>

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ECB Policy Outlook - usage of standard refinancing operations

TLTRO

- In dic-23 repayments could be higher than in previous quarters

MRO and LTRO

- After spike in June, MROs averaging around 8bn in the past weeks, LTROs below 1bn in oct-23 (>5bn outstanding)

Outstanding amounts
- Jun-22: 2.125bn
- Nov-23: 491bn

TLTRO III + LTRO

<table>
<thead>
<tr>
<th>Country</th>
<th>TLTRO III + LTRO</th>
<th>Euro area</th>
</tr>
</thead>
<tbody>
<tr>
<td>bn euro</td>
<td>var.</td>
<td>var.</td>
</tr>
<tr>
<td>Italy</td>
<td>432</td>
<td>2125</td>
</tr>
<tr>
<td>France</td>
<td>460</td>
<td>155</td>
</tr>
<tr>
<td>Germany</td>
<td>404</td>
<td>123</td>
</tr>
<tr>
<td>Spain</td>
<td>290</td>
<td>89</td>
</tr>
<tr>
<td>Netherlands</td>
<td>172</td>
<td>33</td>
</tr>
<tr>
<td>Austria</td>
<td>87</td>
<td>25</td>
</tr>
<tr>
<td>Greece</td>
<td>51</td>
<td>4</td>
</tr>
<tr>
<td>Portugal</td>
<td>41</td>
<td>-</td>
</tr>
</tbody>
</table>

Sources: Bloomberg, ECB
ECB Policy Outlook – other decisions

- **Raising Minimum Reserve Requirements**
  - Raising 1% additional: reducing excess liquidity one-for-one (165bn euro as of sept.-2023)
  - Impacts on LCR
    - An increase of the minimum reserve requirement from 1% to 2% could reduce LCRs up to mid/high-single digits, depending on the bank
    - Amplify month-end effects and impact on ESTR fixing

- **Possibly lower remuneration of government deposits**
  - Still some ground to cover:
    - Still large liquidity parked by governments in central banks
    - ECB could reduce government remuneration towards 0%

- **No decisions on reverse tiering system is expected**
  - Market impact in a similar way as a rate cut

Money Market Contact Group – 05-DEC-2023
ECB Policy Outlook – other decisions

› **QT: APP, PEPP**
  
  › This topic was not addressed at the last ECB meeting in October but could be back on the table and could be discussed at the December ECB meeting
    
    › Monetary tightening is not only about whether rates will be hiked further but could also come through larger QT.
  
  › No change for APP is expected. Outstanding amount will continue to decrease with redemptions of approx 28bn/month
  
  › Possibly announce plans for a change in PEPP reinvestments as a likely acceleration of the balance sheet reduction
    
    › For instance, from 2H24 onwards keep reinvesting 50% of bond redemptions. With redemptions of approximately euro 15-20bn/month, the reduction in excess liquidity in 2024 would be around 45-60bn.
  
  › The key question now is about the timing and the magnitude of that run-off, which should negatively reflect on credit spreads (ie, upward risk), with impact depending on the pace of the process.
  
  › Overall ECB balance sheet reduction in 2024 around 800bn.

› **ECB forecast revisions:** including 2026
  
  › possibly lower growth and lower inflation in 2024

<table>
<thead>
<tr>
<th></th>
<th>Bloomberg Consensus</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td></td>
<td>0,7</td>
<td>1,5</td>
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<tr>
<td>CPI</td>
<td></td>
<td>2,7</td>
<td>2,1</td>
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</table>

Sources: Bloomberg (28-nov-2023)