



# Market Expectations for ECB monetary policy measures

Money Market Contact Group  
Amsterdam, ING

Harald Bänisch  
Werner Driscart

25 June 2019



# ECB Governing Council on 6 June 2019

## ECB seen as 'low for longer' with a slightly easing bias

- The Governing Council expects the key ECB interest rates **to remain at their present levels at least through the first half of 2020** (extension of 6 months).
- Reinvestment of principal payments for an extended period of time past the date when it starts raising the key ECB interest rates.
- Uncertainty and protectionism is leaving its mark on sentiment and activity.
- Weaker growth reflects slower trade.
- **Risks are tilted to the downside.**
- **ECB stands 'ready to act'** in case adverse contingencies materialize.
- **Policy space is there.**
- Prospects of rate cuts and even renewed QE purchases raised by 'several members'
- The effect of negative interest rates on bank profitability is not yet hampering monetary transmission mechanism but this could be so if rates would be cut further...

### Staff forecasts

	GDP		Inflation	
	new	old	new	old
2019	1.3	1.2	1.2	1.1
2020	1.4	1.5	1.4	1.6
2021	1.6	1.6	1.4	1.5



# ECB Governing Council on 6 June 2019 versus Mario Draghi's speech at ECB forum in Sintra on 18 June 2019

Risks are tilted to the downside

Uncertainty and protectionism is leaving its mark on sentiment and activity

Policy space is there

ECB stands 'ready to act' in case adverse contingencies materialize

Renewed QE purchases raised by 'several members

Prolonged economic uncertainty means risks to the Eurozone have solidified

Additional stimulus will be required in the absence of any improvement to the outlook for growth and inflation

The Governing Council is almost ready to add stimulus; rate cuts are part of the ECB toolkit

The Governing Council is almost ready to add stimulus

QE still has considerable headroom



# ECB Governing Council on 6 June 2019 versus Mario Draghi's speech at ECB forum in Sintra on 18 June 2019

The effect of negative interest rates on bank profitability is not yet hampering monetary transmission mechanism but this could be so if rates would be cut further

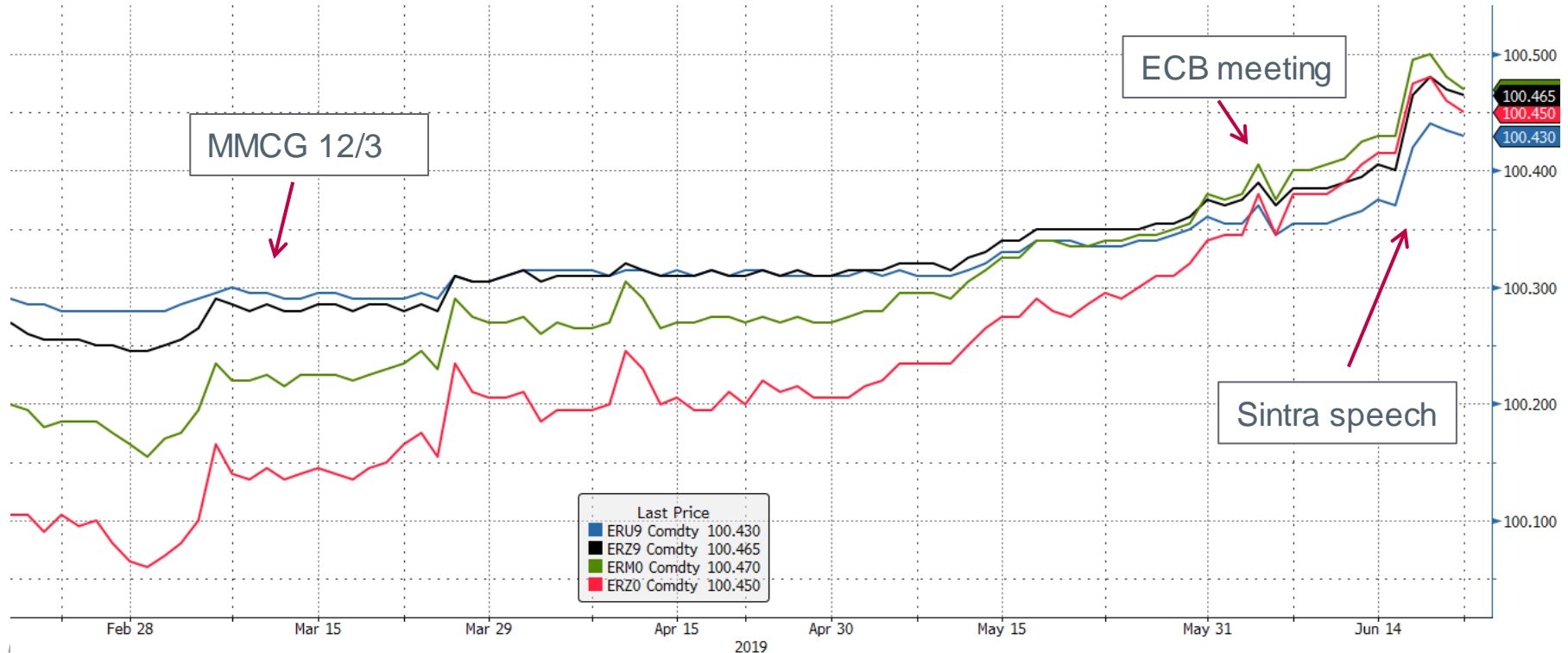


One ECB official said a tiering system that exempts some banks' deposits from the sub-zero penalty would almost certainly be required in the event of further cuts



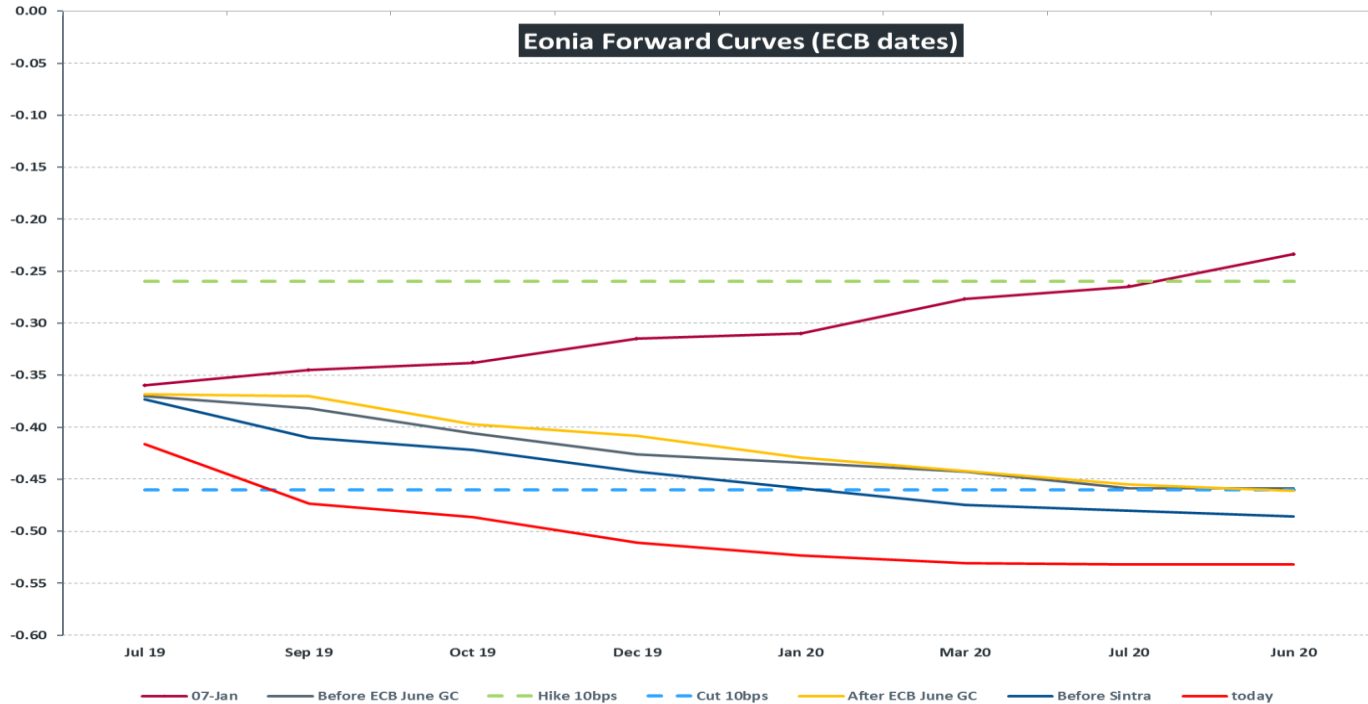
# Market reaction to ECB Governing Council & Sintra speech

Euribor futures reacting more pronounced to Draghi's speech in Sintra



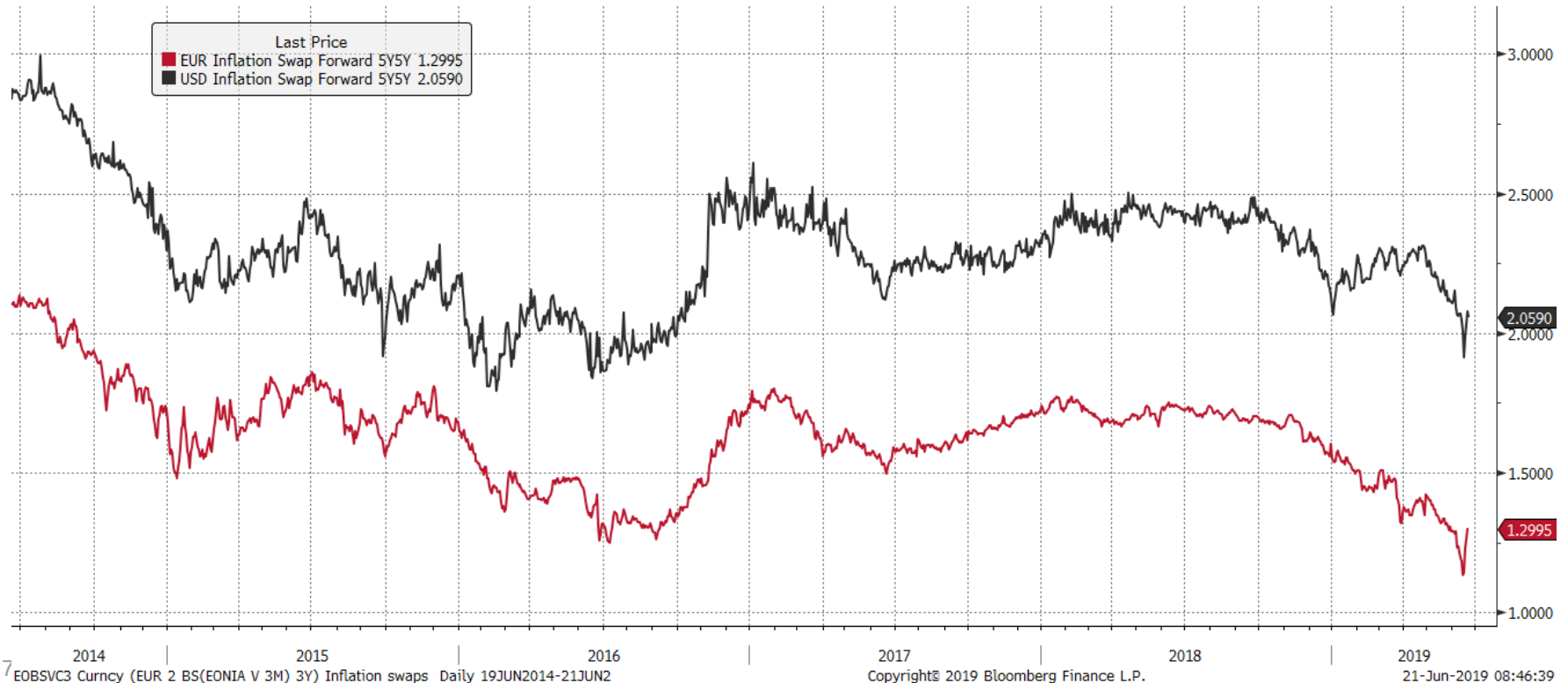
# Market reaction to ECB Governing Council & Sintra speech

Eonia Forward Curves predicting a rate cut as early as September 2019 now



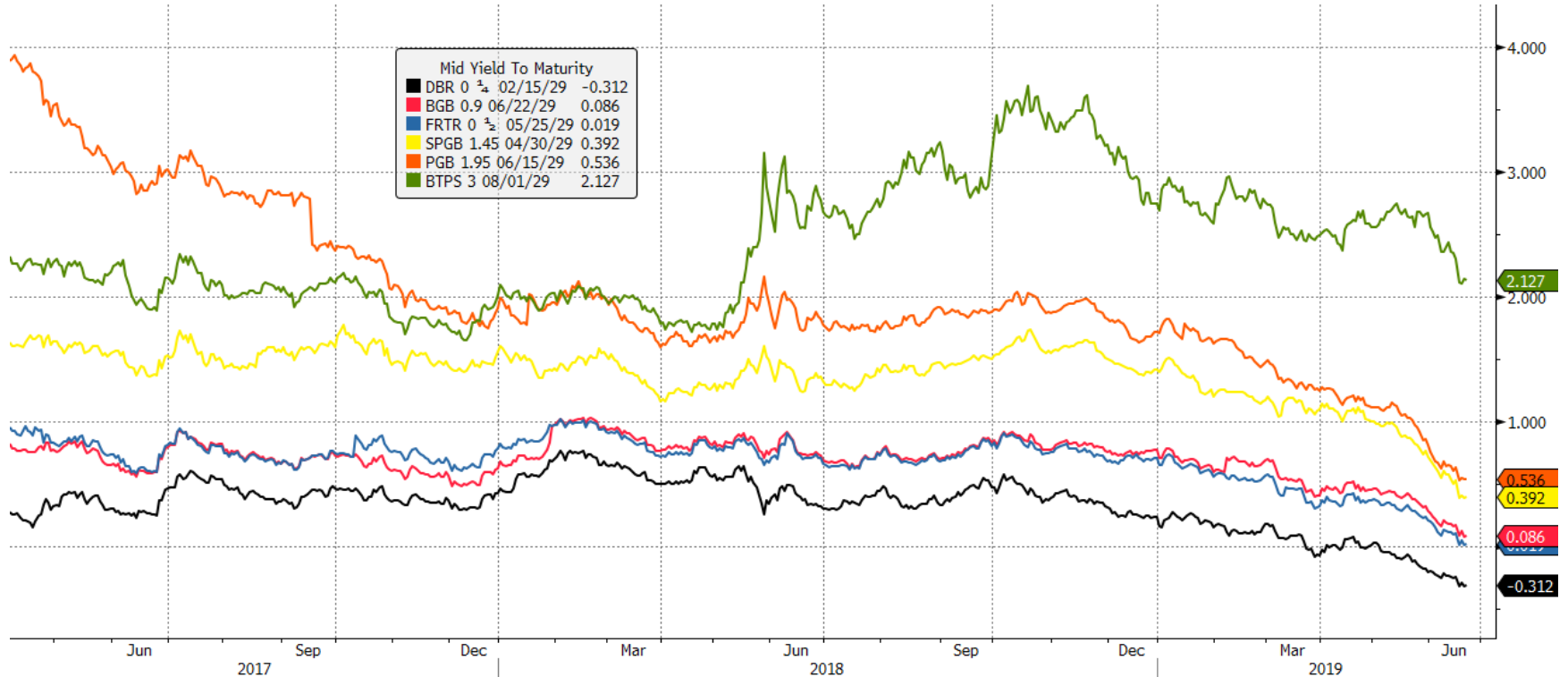
# Market reaction to ECB Governing Council & Sintra speech

Inflation Swaps finally reacting in the right direction... Draghi's take on inflation is 'wishful thinking'?



# Market reaction to ECB Governing Council & Sintra speech

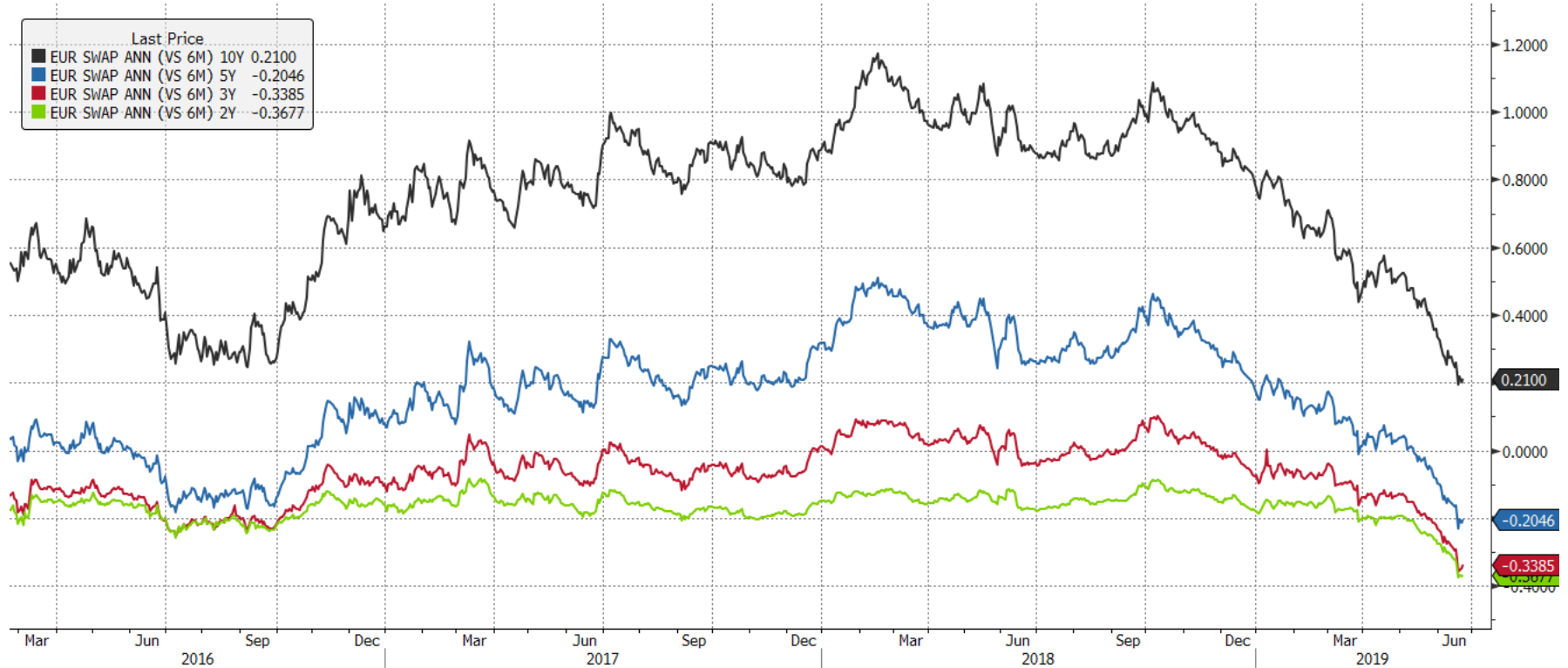
Bond yields reacting to 'more stimulus' remarks





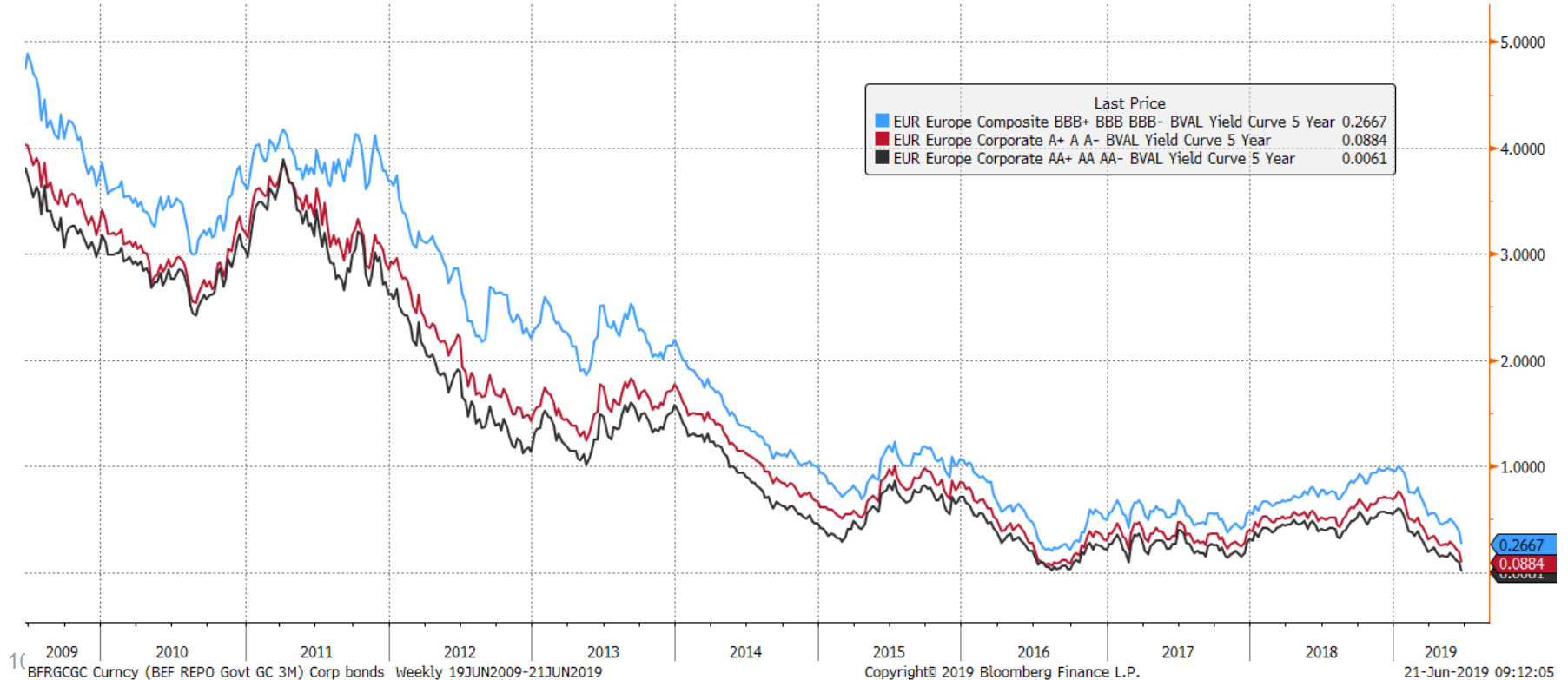
# Market reaction to ECB Governing Council & Sintra speech

Swap yields extending their decline



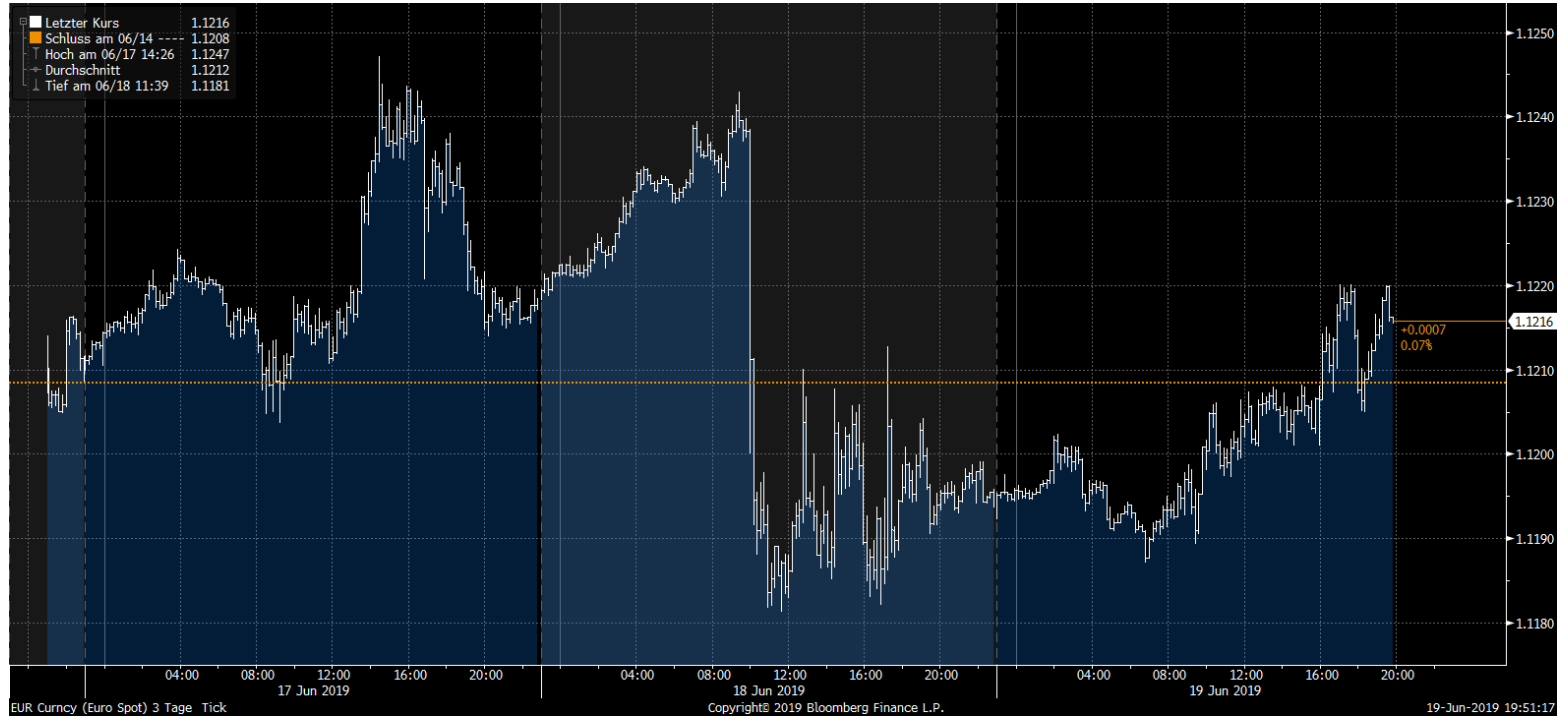
# Market reaction to ECB Monetary Policy

Corporate Bond Yields near the lows



# Market reaction to ECB Monetary Policy

EUR-USD with strong reaction



# TLTRO III

In current circumstances TLTRO III is designed as a liquidity backstop for 'ratio-hungry' banks

	TLTRO II	TLTRO III
<b>Pricing</b>	MRO rate if benchmark not met Deposit rate if benchmark is met Fixed Rate	MRO rate <b>+10bp</b> if benchmark not met Deposit rate <b>+10bp</b> if benchmark is met <b>Average MRO or Deposit rate + 10bp</b>
<b>Term</b>	4Y	<b>2Y</b>
<b>Number of operations</b>	4	<b>7</b>
<b>Frequency</b>	quarterly between 06'16 - 03'2017	quarterly between 09'19 - 03'2021
<b>Borrowing Allowance</b>	30% of eligible stock on 02'16 - take up TLTRO I	30% of eligible stock on 02'19 - take up TLTRO II Outstanding amount of <b>each TLTRO III maximum 10% of eligible loans</b>
<b>Benchmark</b>	If eligible stock increases by 2,5% as at 01'18	If eligible stock increases by 2,5% as at 03'21
<b>Prepayment option</b>	Yes, after 2 year, quarterly thereafter	<b>No</b>



# TLTRO III

**In current circumstances TLTRO III is designed as a liquidity backstop for 'ratio-hungry' banks**

Market considerations on TLTRO III:

- 2 YR secured bank funding at same or lower levels depending on collateral (repo) or issuer (covered bonds)
- But some banks adjusted their senior funding curve to TLTRO III levels
- HQLA investments do yield below this level (arbitrage free?)
- More difficult to reach benchmark in an economic downturn (lack of eligible loans)
- Banks need to smooth TLTRO III participations – therefore limited value in order to cope with the "June19-NSFR-Cliff-Effect"
- Could become attractive if ECB lowers interest rates and/or if secured funding market conditions deteriorate
- Given a lack of economic attractiveness at current levels a participation is potentially not free of stigma

