


# 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)?

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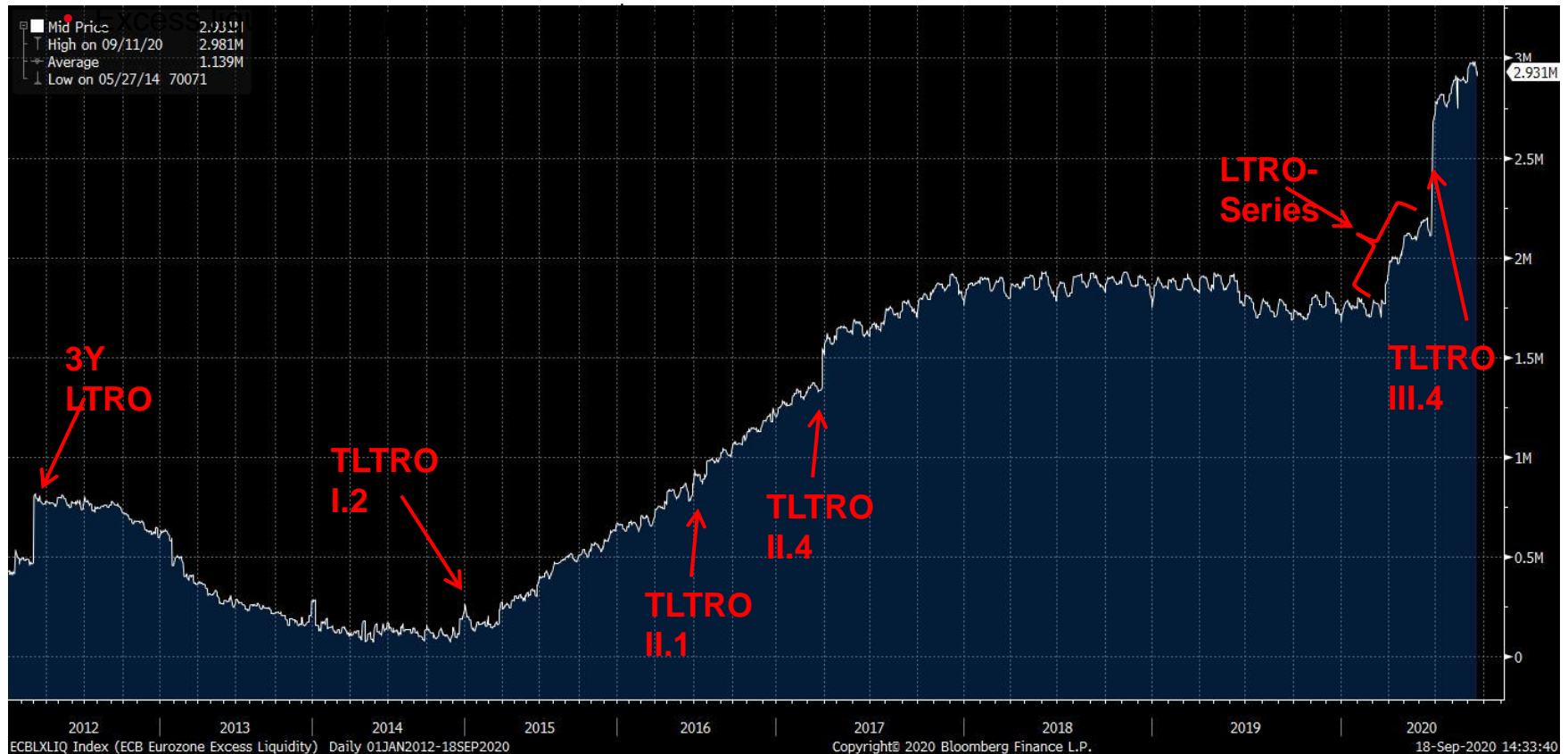
- Data analysis- primary impact:
  - Excess liquidity within the Eurozone
- Data analysis on secondary impacts in selected markets and products:
  - distortion of volume (market depth)
  - distortion of maturity profile
  - distortion of rates
- Potential path going forward
  - Euribor and €STR
  - OISBOR
- 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



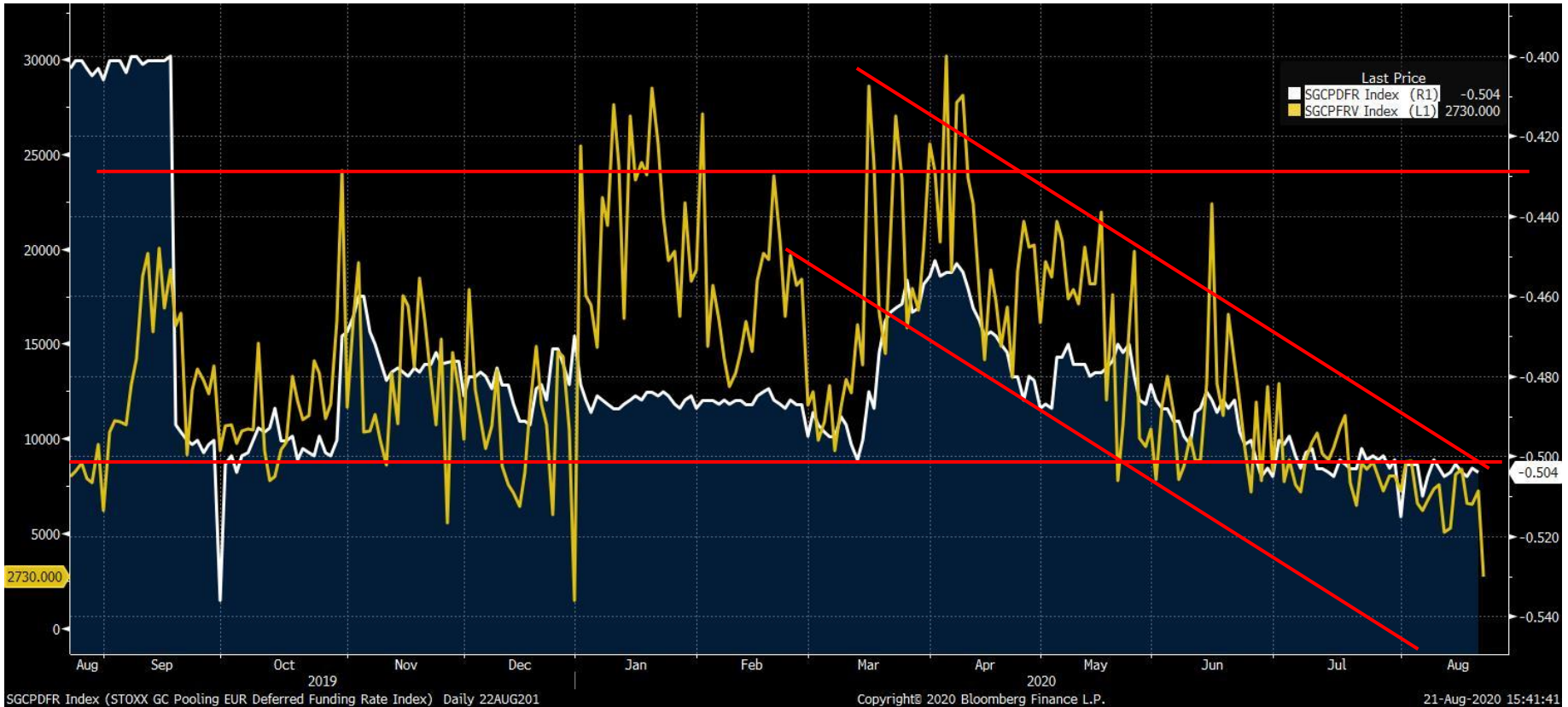
Excess liquidity within the euro zone with indications of non-standard measures conducted by the ECB (Sources: Bloomberg, Unicredit)



# 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



GC Pooling traded rates versus €STR fixings (Sources: Bloomberg, Unicredit)



# 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



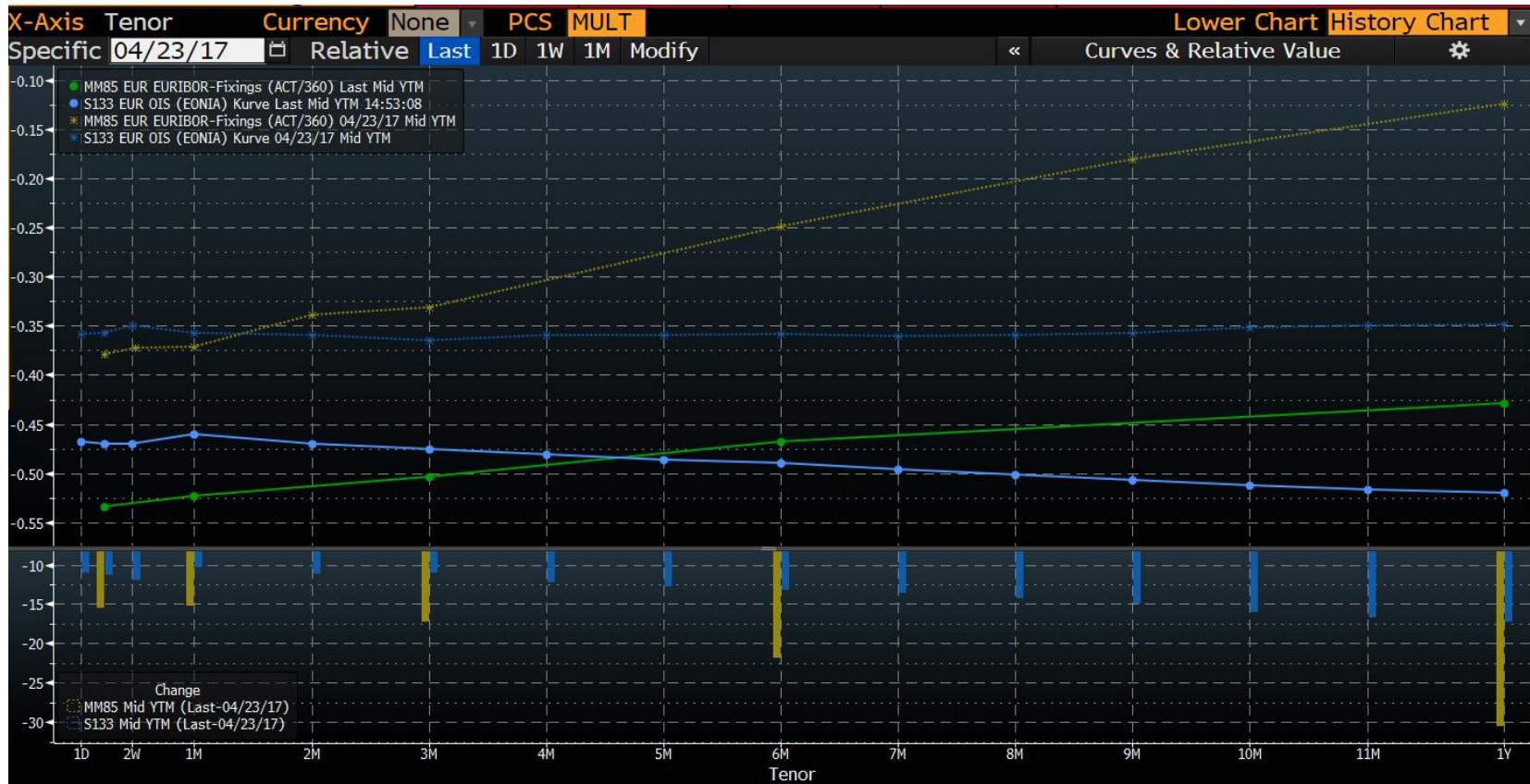
GC Pooling traded volume versus euro zone excess liquidity (Sources: Bloomberg, Unicredit)



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

## Data Analysis – Secondary Impact

- Compression of EURIBOR rates and correlating OISBOR spreads



OISBOR spread development (Sources: Bloomberg, Unicredit)

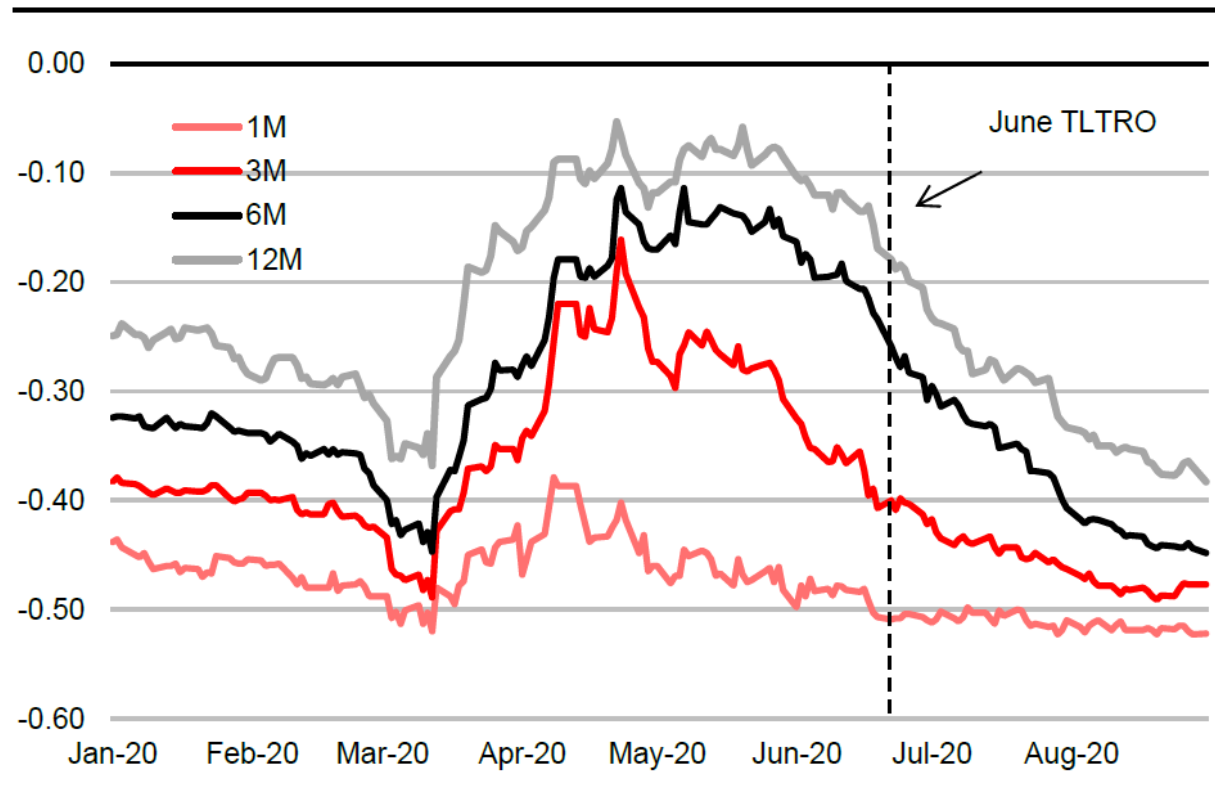


# ECB's Unconventional Measures – what are its Footprints (if any)?

## Data Analysis – Secondary Impact

- Impact of TLTRO III and QE was gradually rather than an big-bang-event

EURIBOR RATES HAVE DECLINED AFTER THE TLTRO



Source: Bloomberg, UniCredit Research

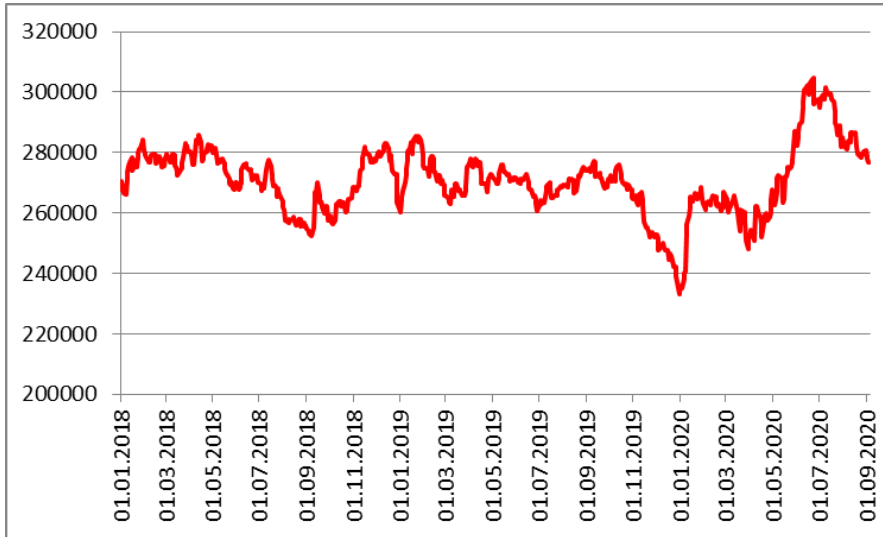




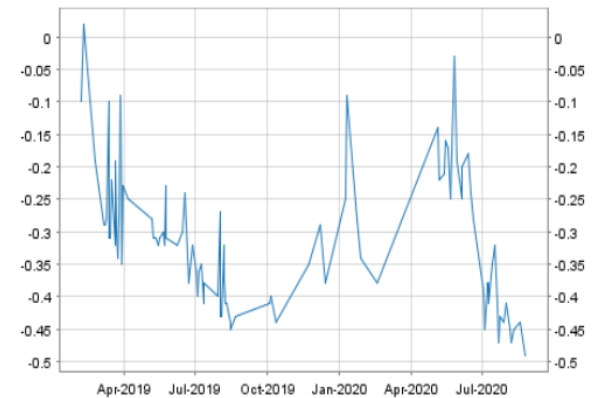
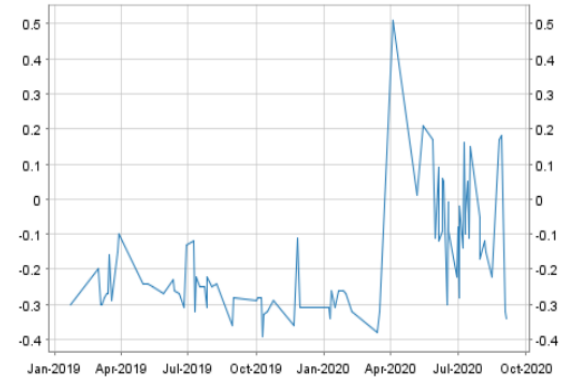
# ECB's Unconventional Measures – what are its Footprints (if any)?

## 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)

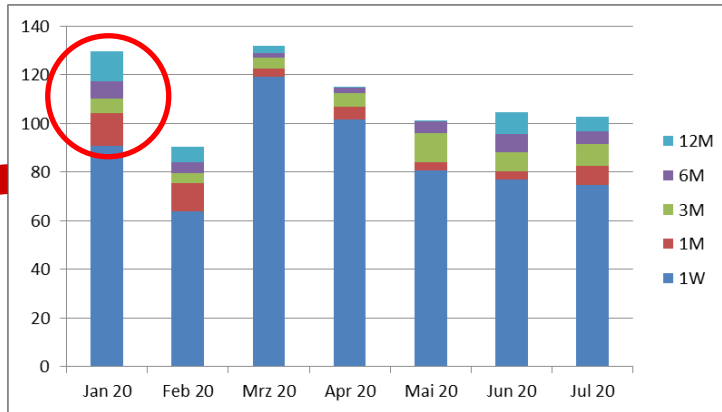


Issue yield on zero coupon STEPs NFC sector upper chart and MFIs lower chart (Sources: ECB)

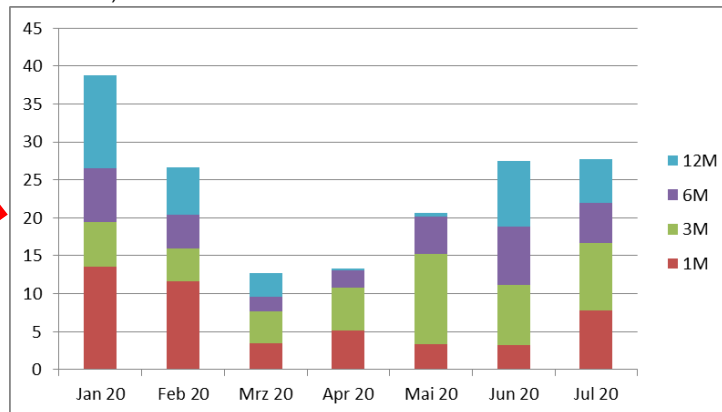


# ECB's Unconventional Measures – what are its Footprints (if any)?

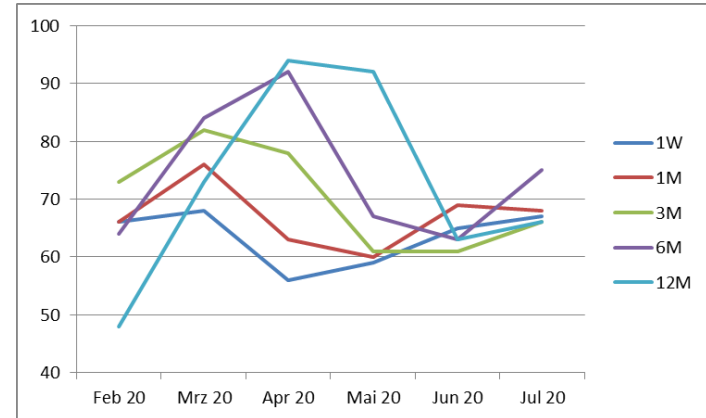
## Data Analysis – Secondary Impact



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



Aggregate notional volumes of L1 + L2.2 transactions tenors 1M – 12M (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

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So how does all of that translate for potential future developments e.g. market prices, market depth and functionality of markets?

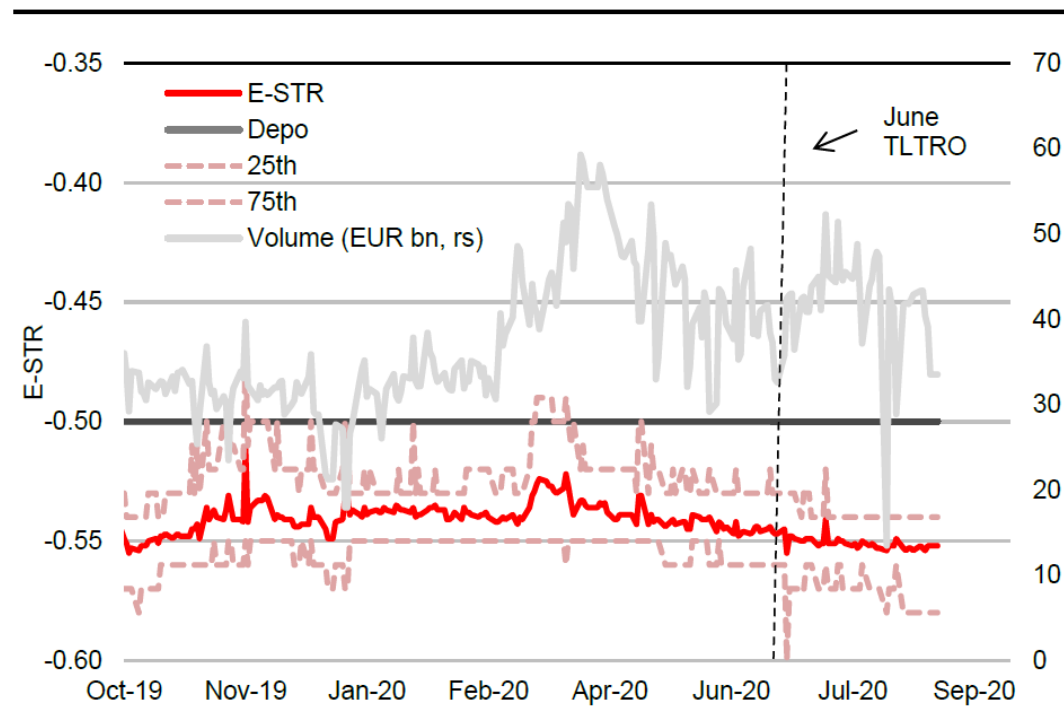


# ECB's Unconventional Measures – what are its Footprints (if any)?

## 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

€STR HAS DECLINED ONLY MODESTLY AFTER THE TLTRO



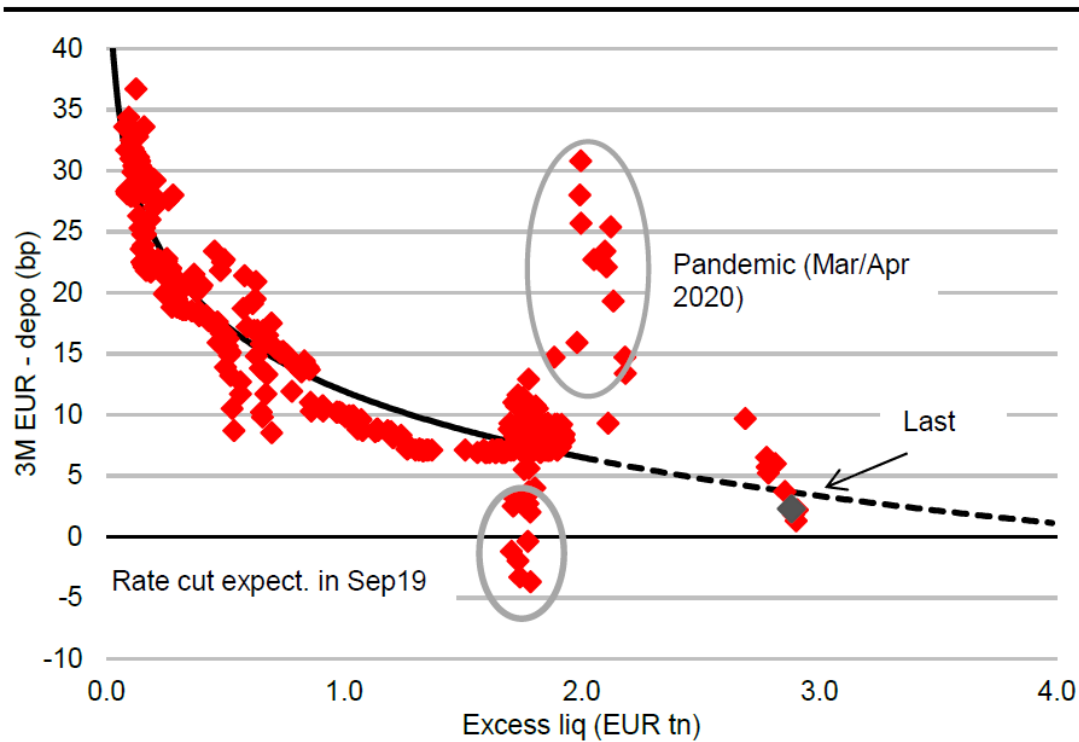
Source: Bloomberg, ECB, UniCredit Research



# 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



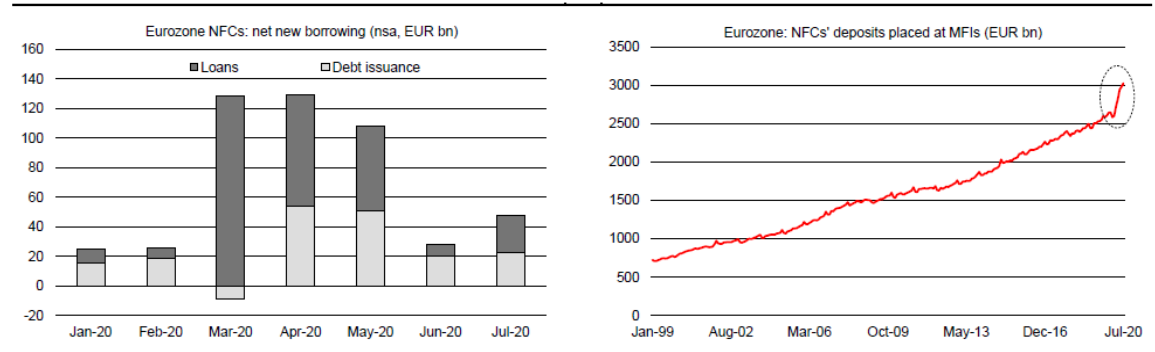
The relation between 3M EUR-depo and excess liquidity is estimated with a log specification using weekly data over the sample 1Jan13-31Dec19, excluding the period Jun-Sep19.

Source: Bloomberg, ECB, UniCredit Research



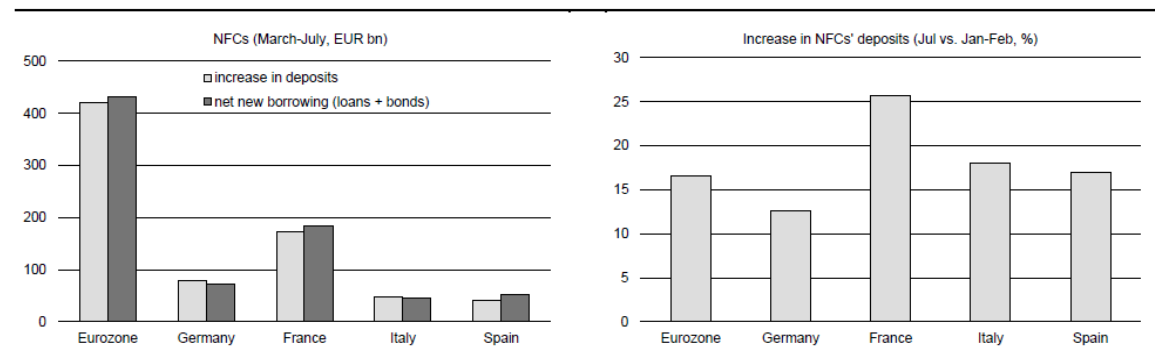
# ECB's Unconventional Measures – A Quick Sidestep into the Corporate World

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.



Source: ECB, UniCredit Research

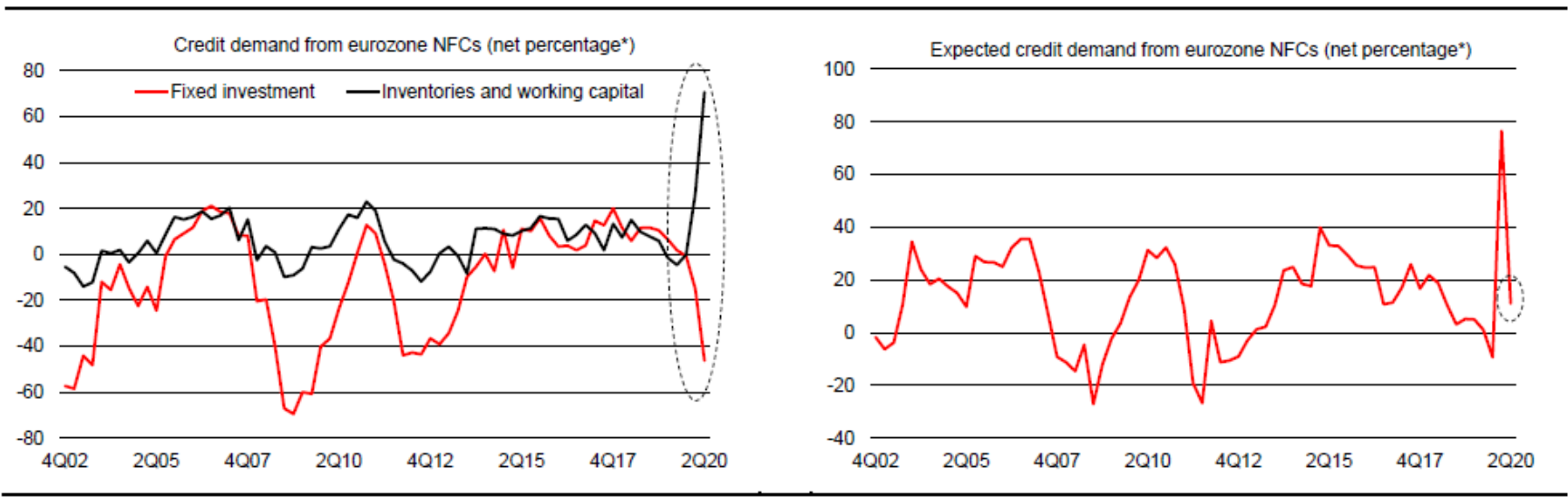
The parallel trend between fund sourcing and deposit placement points to a precautionary behavior rather than a true demand. Recent reports confirm the "new meaning" of working capital to NFC and to ensure it.



Source: ECB, UniCredit Research



# ECB's Unconventional Measures – A Quick Sidestep into the Corporate World



\*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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