

Outlook of fiscal policies and their impact on the euro area bond markets, changes in issuance patterns and strategy of DMOs

ECB Bond Market Contact Group, 3 March 2021

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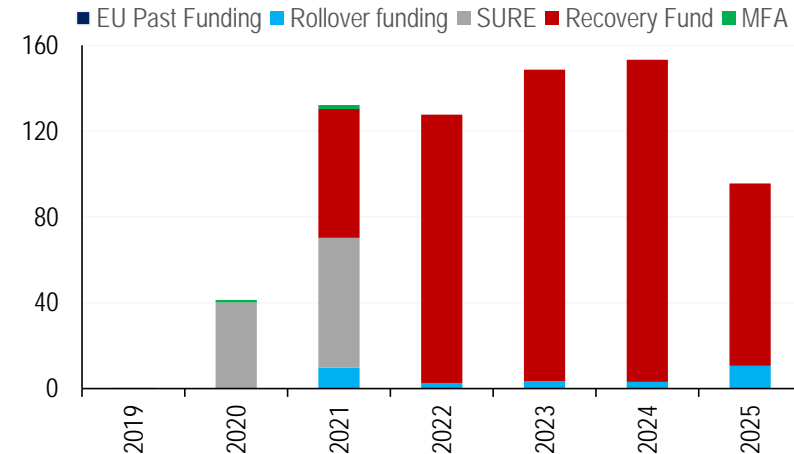
(1) Fiscal outlook – net issuance set to decline, but only slowly

The fiscal outlook remains highly uncertain. As it stands, EMU-11 gross issuance in 2021 (Citi forecast €1.255trn) is likely to be very close to 2020 (€1.218trn).

Fiscal deficit likely to decline, but only slowly (Citi forecasts)

	2019	2020		2021	2022	2023	2024	2025
		Pre-Covid forecast	Final					
Germany	1.2	0.4	-4.8	-6.1	-3.3	-2.1	-1.9	-1.8
France	-3.0	-2.3	-9.6	-6.7	-4.3	-3.1	-2.4	-2.0
Italy	-2.2	-2.3	-10.0	-9.0	-6.3	-4.9	-3.9	-3.6
Spain	-2.2	-2.4	-10.7	-8.4	-5.4	-4.0	-3.3	-3.1
Greece	1.1	0.7	-8.1	-6.0	-3.7	-2.1	-0.7	0.4
Portugal	-0.1	0.0	-7.3	-5.3	-3.5	-2.8	-2.2	-1.1
Netherlands	1.3	0.3	-7.1	-5.3	-3.5	-2.4	-1.7	-2.1
Belgium	-1.2	-1.3	-10.2	-7.2	-5.8	-4.0	-3.1	-3.5
Euro Area	-0.8	-1.0	-7.7	-6.6	-4.4	-3.2	-2.6	-2.4

EU issuance set for rapid growth...



...but it is unlikely to provide a major offset for EGB issuance (table shows Citi forecasts for 2021)

	Government deficit estimates (€bn)	SURE support	Next Generation EU program (Recovery Fund), Citi estimates	Net market funding* (Citi estimate)	Estimated share		Bond redemptions	2021 gross bond supply (Citi estimate)
					Bonds	Bills		
Germany	217		1.6	180	88	92	152	240
France	173		2.4	161	142	20	143	285
Italy	152	10.9	9.0	132	122	10	222	340
Spain	107	11.3	6.8	89	79	10	94	173
Belgium	28	4.2	0.4	23	23	0	15	36
Austria	23		0.2	23	22	1	18	40
Finland	12		0.2	12	11	1	7	16
Ireland	18		0.1	18	20	-2	0	20
Portugal	14	2.9	3.3	4	4	0	11	15
EMU-11	789	30	26	684	551	134	680	1,225

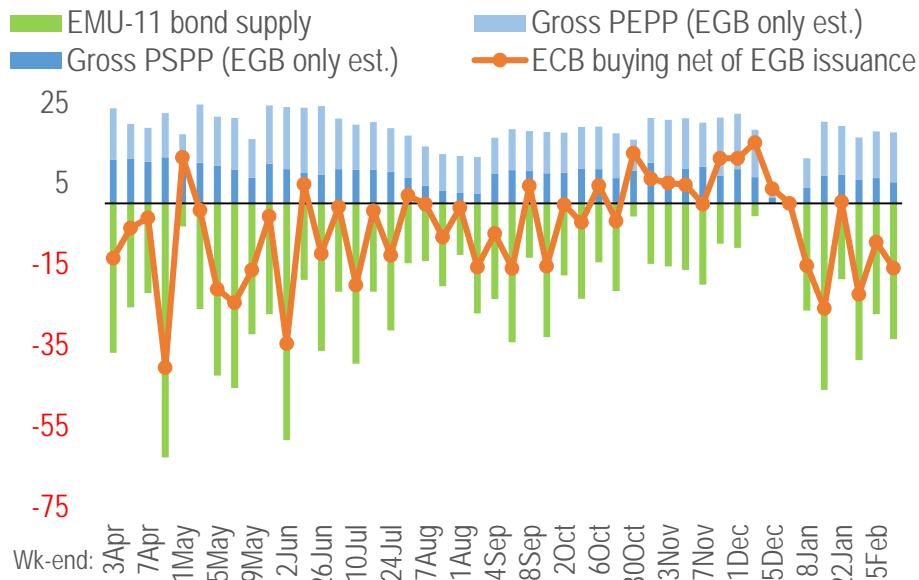
*excludes funding sources like German refugee fund withdrawal/French correspondents' deposits

Source: Citi Research, Citi Economics, EU, DMOs

(2) Bond market impact – issuance vs QE

Heavy DV01 of issuance in early 2021 (given combination of high funding needs, front-loading and issuing longer) has met with a slower pace of PEPP, perhaps contributing to bear-steepening.

The supply burden in early 2021 has risen with the front-loading of issuance vs slowing QE.



The Net Cash Requirement (gross supply – free float coupons – redemptions – net QE) for 2021 looks very different depending on PEPP pace (€60bn/mth would mean second highest NCR since 2015).

	2020							2021		
	2014	2015	2016	2017	2018	2019	2020	Monthly PEPP at €50bn	Monthly PEPP at €60bn	Monthly PEPP at €75bn*
Germany	-1	-120	-193	-136	-82	-10	-56	-2	-15	-34
France	25	-47	-109	-80	8	38	-54	-0	-18	-44
Italy	19	-71	-83	-121	-36	-16	-79	-26	-41	-63
Spain	54	-30	-80	-51	1	-6	-23	-13	-23	-40
Netherlands	13	-19	-42	-39	-30	-13	-4	17	15	12
Belgium	1	-11	-22	-22	-3	1	-6	-4	-6	-9
Austria	-9	-13	-13	-15	-12	-11	-1	2	-0	-4
Finland	2	-6	-10	-8	-0	2	-4	4	3	1
Ireland	5	-1	-14	-0	1	-2	-7	12	10	8
Portugal	-0	-2	-9	-2	-0	1	-2	-10	-12	-14
EMU-11	114	-321	-575	-474	-152	-10	-241	-22	-91	-195

*Full utilisation by March-2022

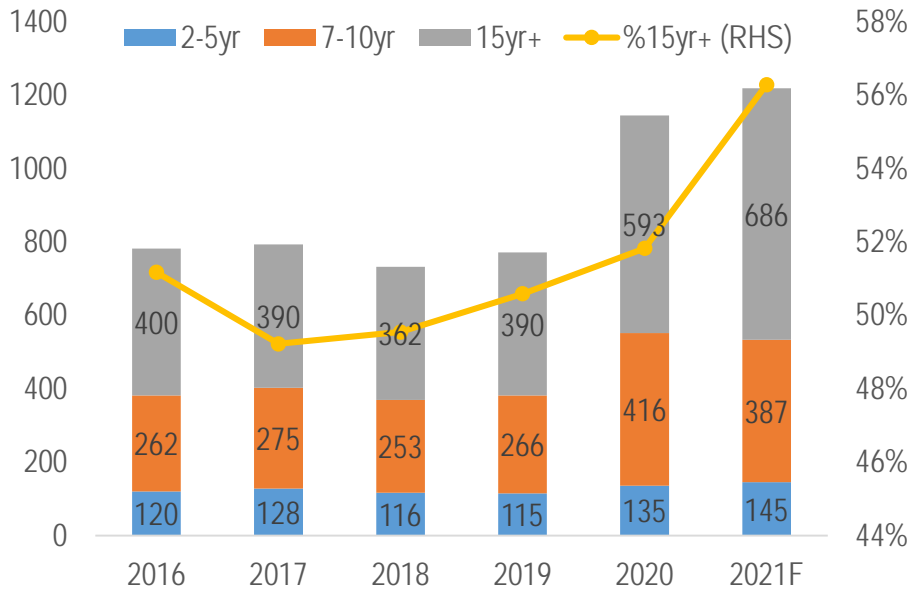
Higher net supply, near historic yield lows, may have been one catalyst for €curve bear-steepening.

Source: Citi Research, DMOs, ECB

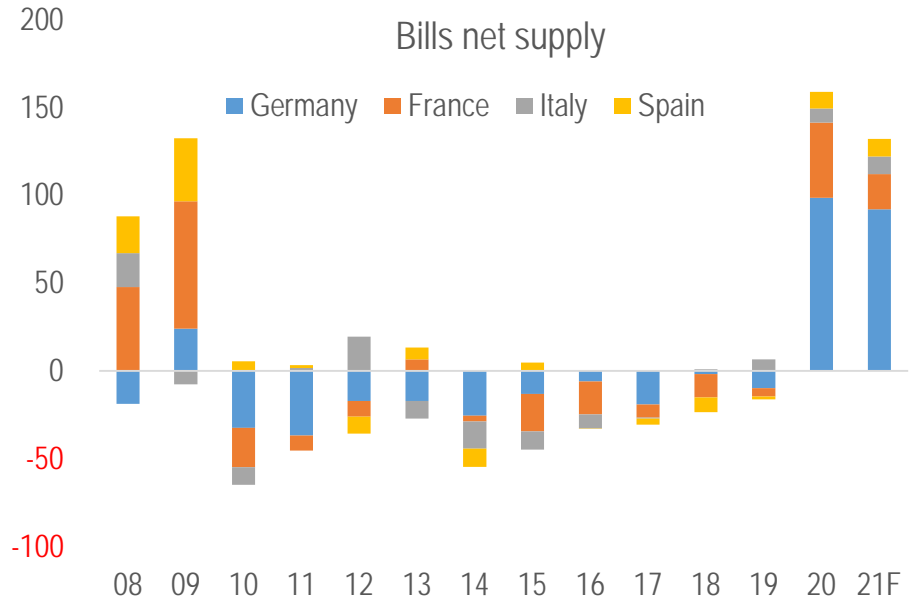
(3) Changes in issuance patterns and strategy

(1) 15yr+ EGB supply continues to rise. (2) Greater reliance on bills, but this may reverse.

DV01 of EMU-11 gross supply by sector (€million/bp): a rising allocation to the 15yr+ sector as issuers take advantage of low long-term yields.



The sharp rise in bill supply – to meet the issuance shock – is likely to reverse in the years ahead (like post GFC)



Issuers looking to term out issuance following the supply shock in 2020

Source: Citi Research, DMOs

Discussion Points

1. Performance of new issues – scale and type of demand, market impact (see Appendix 1)
2. Cross country comparison of Euro Area fiscal policy – how does EA compare to other countries? (see Appendix 2)
3. Should monetary policy continue to support fiscal policy?

Appendix 1a: New issue concessions in EGB and EUR SSA

New issue concessions have been fairly contained and books well oversubscribed

EGB Syndicated Issuance 2021YTD

Pricing	Name	Green	Cur	Amt. (mn)	Maturity	Initial Price Thoughts	Re-offer (RO)	IPT to RO	Now	Change vs RO	NIC* (bp)	Books (mn)	Subs.
16-Feb-21	Italy		EUR	10,000	Aug-31	BTP (04/31)+8A	4	-4	4	Flat	1	65,500	6.6x
16-Feb-21	Italy (inflation)		EUR	4,000	May-51	BTPei (09/41)+27A	22	-5	23	+1	0	16,600	4.2x
09-Feb-21	Spain		EUR	5,000	Oct-71	SPGB (07/66)+15A (+/- 2 wpir)	13	-2	10	(3)	2	65,000	13.0x
03-Feb-21	Portugal		EUR	3,000	Apr-52	ms+88A	85	-3	92	+7	2	40,000	13.3x
02-Feb-21	Finland		EUR	3,000	Apr-52	ms+5A	2	-3	8	+6	1	23,500	7.8x
02-Feb-21	Belgium		EUR	5,000	Jun-71	OLO (06/66)+9A	7	-2	6	(1)	2	53,000	10.6x
27-Jan-21	Greece		EUR	3,500	Jun-31	ms+110A	100	-10	101	+1	4	29,000	8.3x
27-Jan-21	Austria		EUR	4,000	Feb-31	ms-10A	-12	-2	-6	+6	1	32,000	8.0x
19-Jan-21	France		EUR	7,000	May-72	OAT (05/66)+9A	7	-2	6	(1)	1	75,000	10.7x
13-Jan-21	Spain		EUR	10,000	Apr-31	SPGB 10/30 (mid)+8A	4	-4	6	+2	0-1	55,000	5.5x
12-Jan-21	Belgium		EUR	6,000	Oct-31	ms-5A	-7	-2	-2	+5	3	42,000	7.0x
05-Jan-21	Ireland		EUR	5,500	Oct-31	ms+1A	-2	-3	2	+4	0-1	40,000	7.3x
05-Jan-21	Italy		EUR	10,000	Mar-37	BTP 03/36+13A	8	-5	6	(2)	0	105,000	10.5x

Selected EUR SSA Syndications 2021YTD

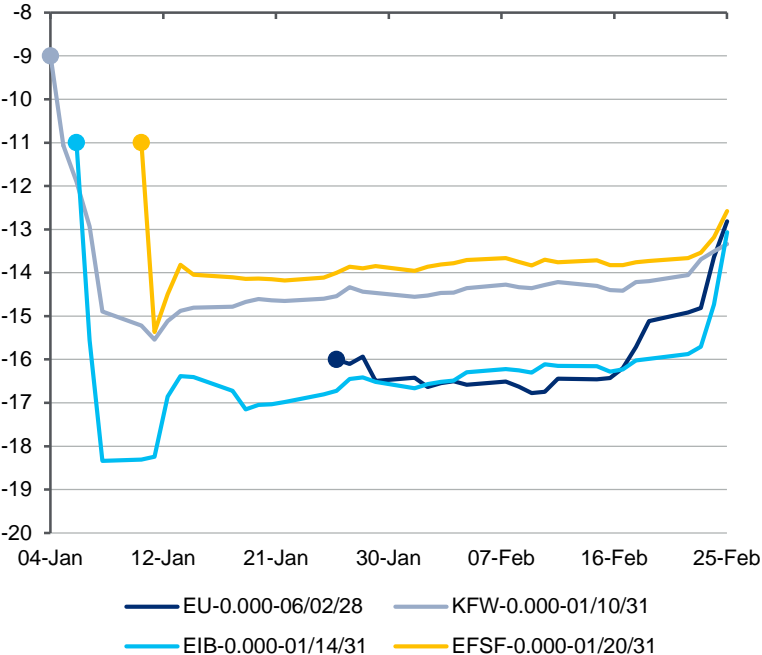
Pricing	Name	Green	Cur	Amt. (mn)	Maturity	Initial Price Thoughts	Re-offer (RO)	IPT to RO	Now	Change vs RO	NIC* (bp)	Books (mn)	Subs.
24-Jan-21	EIB		EUR	3,000	Mar-36	ms-4A	-6	-2	-6	Flat	2-3	21,800	7.2x
09-Feb-21	UNEDIC	Social	EUR	3,000	May-34	OAT (05/34)+18A	15	-3	8	(7)	1	8,000	2.7x
27-Jan-21	CADES	Social	EUR	4,000	May-31	OAT 05/31+18A	16	-2	11	(5)	0	10,000	2.5x
26-Jan-21	EU	Social	EUR	10,000	Jun-28	ms-13A	-16	-3	-13	+3	1-2	83,000	8.3x
26-Jan-21	EU	Social	EUR	4,000	Nov-50	ms+7A	5	-2	6	+1	1-2	49,000	12.3x
11-Jan-21	EFSF		EUR	3,000	Jan-31	ms-9A	-11	-2	-13	(2)	-1	39,000	3.0x
07-Jan-21	EIB		EUR	5,000	Jan-31	ms-9A	-11	-2	-14	(3)	1	48,800	9.8x
05-Jan-21	KfW		EUR	5,000	Jan-31	ms-7A	-9	-2	-14	(5)	2	19,500	3.9x

*New Issue Concession (NIC) is the difference between Re-offer and Fair value spotted by the lead managers at Initial Price Thoughts stage

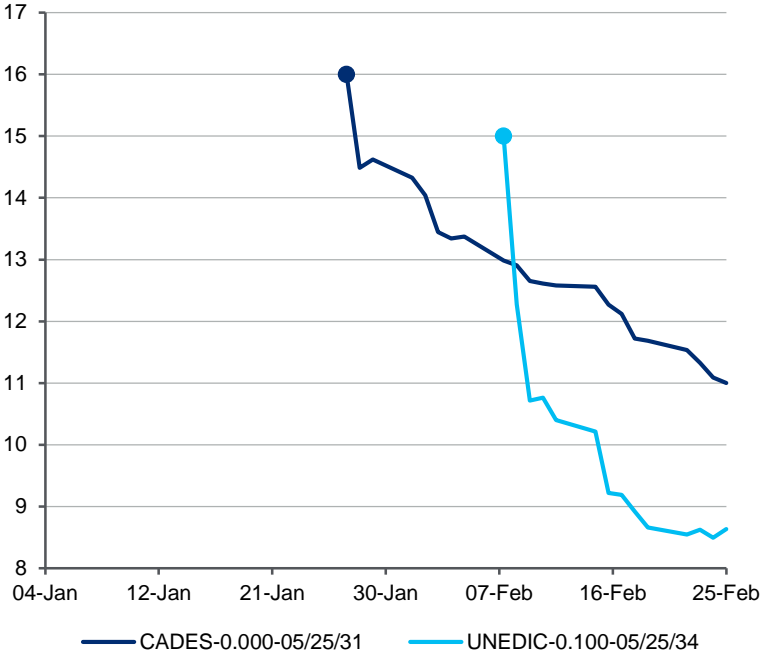
Source: Citi and IFR

Appendix 1b: Secondary Performance

EUR SSA vs Swaps



French Agencies vs OATs



Source: Citi



Appendix 2: Deficit and Debt as % of GDP

Deficit/GDP forecasts (%)

Debt/GDP forecasts (%)

	2019	2020	2021	2022	2023	2024	2025	2019	2020	2021	2022	2023	2024	2025
United States	-5.8	-16.9	-16.5	-6.7	-5.3	-5.5	-5.5	107	126	138	140	141	141	141
Japan	-3.4	-18.0	-10.0	-4.0	-3.0	-2.5	-2.0	240	270	274	274	274	274	274
United Kingdom	-2.6	-19.7	-6.8	-3.6	-3.0	-2.4	-2.0	81	101	105	103	103	102	101
Euro Area	-0.6	-7.7	-6.6	-4.4	-3.2	-2.6	-2.4	86	101	102	104	103	102	102
EA + est. EU	-0.6	-9.1	-10.6	-8.3	-7.6	-7.0	-4.8	86	103	108	113	116	120	121
Germany	1.4	-4.8	-6.1	-3.3	-2.1	-1.9	-1.8	59	73	76	74	73	73	72
France	-3.0	-9.6	-6.7	-4.3	-3.1	-2.4	-2.0	98	114	114	114	114	113	112
Italy	-1.6	-10.0	-9.0	-6.3	-4.9	-3.9	-3.6	135	157	159	157	157	157	157
Spain	-2.6	-10.7	-8.4	-5.4	-4.0	-3.3	-3.1	95	118	118	116	116	114	112
Greece	1.5	-8.1	-6.0	-3.7	-2.1	-0.7	0.4	177	216	220	212	209	206	203
Portugal	0.2	-7.3	-5.3	-3.5	-2.8	-2.2	-1.1	117	132	131	127	126	123	120
Netherlands	1.7	-7.1	-5.3	-3.5	-2.4	-1.7	-2.1	49	57	59	61	61	62	64
Belgium	-1.9	-10.2	-7.2	-5.8	-4.0	-3.1	-3.5	99	114	116	116	116	116	116

Citi Forecast for EU Gross Issuance (EUR billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
EU	0	41	132	128	149	153	96	25	15

Source: Citi

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