

ECB - BMCG

MARKET ABSORPTION CAPACITY IN THE EURO AREA AND THE US BOND MARKET

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BNP Paribas Global Market
28th November 2023

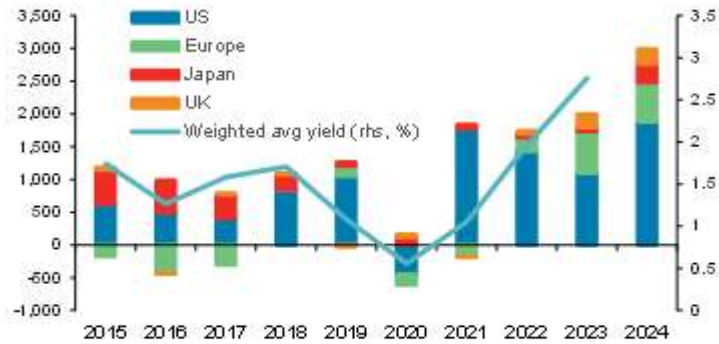


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GLOBAL SUPPLY: MORE DURATION TO DIGEST IN 2024

Global net supply net of QE/QT (ex-bills, USDbn eq.) versus weighted average 5y5y nominal yield: net supply net of QT is set to rise by almost 50% next year, led by the US



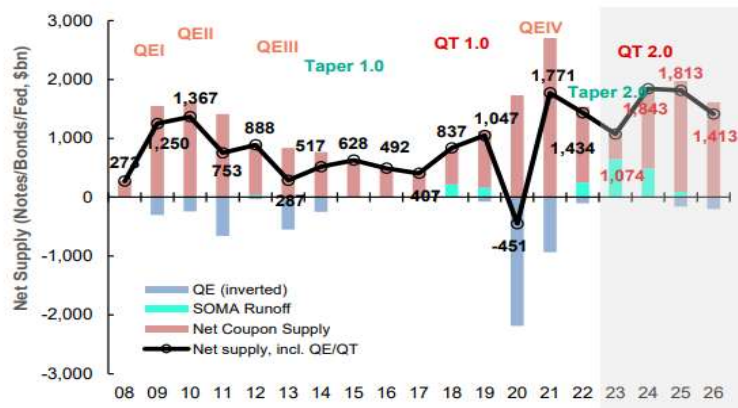
Sources: BNP Paribas

Global supply forecasts: Key summary (USDbn eq., YoY % change)

	2023			2024		
	Gross	Net	Net of QT	Gross	Net	Net of QT
US	3,559	434	1,096	4,412	1,353	1,843
	(-10%)	(-66%)	(-24%)	(24%)	(212%)	(68%)
UK	266	139	208	331	181	231
	(59%)	(304%)	(416%)	(24%)	(31%)	(11%)
Europe	1,341	506	646	1,288	384	652
	(16%)	(30%)	(210%)	(-4%)	(-24%)	(1%)
Japan	1,024	246	48	1,024	273	238
	(3%)	(-37%)	(-19%)	(0%)	(11%)	(397%)
Total	6,190	1,324	1,998	7,055	2,191	2,964

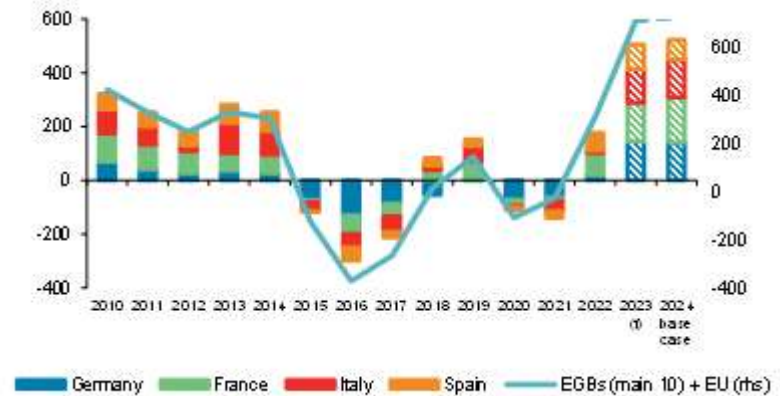
Sources: BNP Paribas

Net Supply of Fed: worsening budget deficit and shift from Tbills to coupon supply explain the increase



Sources: Treasures, ECB, Bloomberg, BNP Paribas

Net supply in the Eurozone will decline, but QT will offset some of this, leaving net supply net of QT elevated in 2024 (EURbn)



Sources: Treasures, ECB, Bloomberg, BNP Paribas

DEMAND: SUMMARY TABLE

Inflows/outflows of sovereign debt by investor type (EURbn)

EUR bn	ECB			
	Germany	France	Italy	Spain
2015	115.63	91.77	79.21	56.82
2016	188.32	149.10	130.40	93.52
2017	155.37	134.90	117.12	79.93
2018	59.24	44.49	38.63	30.56
2019	9.28	4.90	(1.57)	(1.82)
2020	213.01	175.18	165.58	111.01
2021	260.60	187.10	150.94	105.63
2022	61.85	46.28	50.28	35.44
2023	(50.03)	(29.79)	(21.81)	(14.90)

EUR bn	Insurers			
	Germany	France	Italy	Spain
2015	8.00	16.37	3.69	2.76
2016	33.90	32.35	30.89	6.82
2017	25.10	(7.70)	8.00	1.59
2018	19.80	17.63	0.66	6.04
2019	13.80	51.44	15.65	(0.59)
2020	11.70	(15.75)	22.32	(3.44)
2021	9.70	(26.65)	(0.89)	(8.56)
2022	8.60	(31.92)	1.12	5.02
2023	5.10	(5.60)	3.66	4.97

EUR bn	MFIs			
	Germany	France	Italy	Spain
2015	0.27	(14.42)	(15.10)	(31.54)
2016	(23.30)	(7.75)	(14.50)	(26.65)
2017	(28.48)	(11.75)	(48.08)	(12.57)
2018	(27.04)	(18.22)	54.69	(7.56)
2019	(9.08)	7.48	(9.22)	(17.40)
2020	(0.67)	48.00	24.66	17.04
2021	(13.06)	(17.73)	(3.99)	(30.73)
2022	(16.34)	12.19	7.99	20.85
2023	(1.87)	19.57	(12.59)	1.27

EUR bn	Japanese Investors			
	Germany	France	Italy	Spain
2015	(12.17)	2.17	2.97	
2016	(5.07)	28.79	1.07	
2017	6.73	(11.95)	(0.27)	
2018	(7.27)	13.88	0.32	
2019	(12.90)	29.22	2.53	
2020	1.16	(10.40)	16.13	
2021	(4.15)	(4.74)	(0.19)	
2022	(7.85)	(15.75)	(1.85)	
2023	(1.91)	(1.43)	(0.03)	

EUR bn	Retail Investors			
	Germany	France	Italy	Spain
2015			(33.35)	1.07
2016			(14.56)	(1.09)
2017	67.87		(14.27)	(0.99)
2018	(0.71)		6.73	(0.06)
2019	0.67		(37.16)	(0.23)
2020	4.35		3.68	(0.26)
2021	(8.59)		(20.06)	(0.15)
2022	30.28		50.95	0.41
2023	21.94		80.74	0.48

EUR bn	Eurozone				
	ECB	Japanese Investors	MFIs*	Retail*	Insurers*
2015	494.93	(10.92)	(60.79)	(32.28)	30.83
2016	777.90	25.28	(72.20)	(15.65)	103.95
2017	658.41	(4.77)	(100.89)	52.61	27.00
2018	240.04	9.06	1.87	5.96	44.13
2019	26.82	17.09	(28.23)	(36.72)	80.29
2020	916.83	7.89	89.02	7.76	14.83
2021	1,014.28	(6.86)	(65.51)	(28.80)	(26.40)
2022	273.91	(28.02)	24.69	81.63	(17.18)
2023	(147.58)	(3.53)	6.39	103.15	13.85

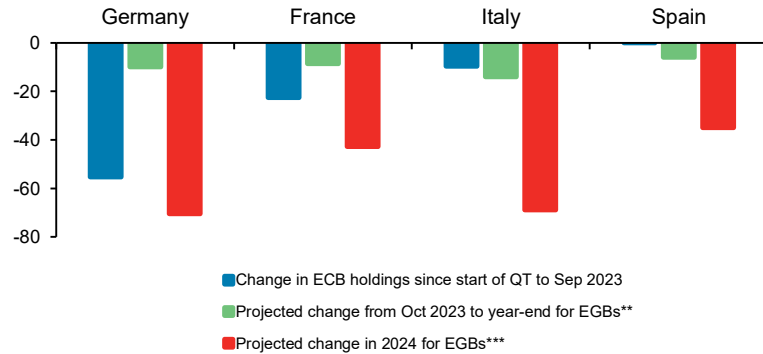
* Eurozone data for MFIs, Retail Investors and Insurers are compiled by combining the data for Germany, France, Italy and Spain

Sources: National Treasuries, ECB, MoF, Bloomberg, Macrobond, BNP Paribas



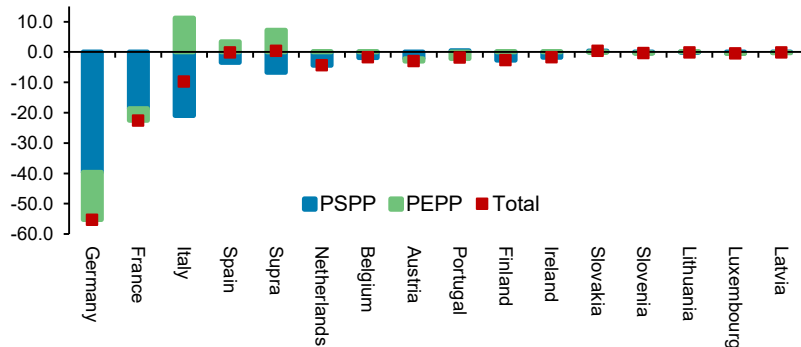
QT IMPACT ON EUROZONE CURVE & SPREADS

QT is catching up the periphery (change in ECB holdings, EURbn)



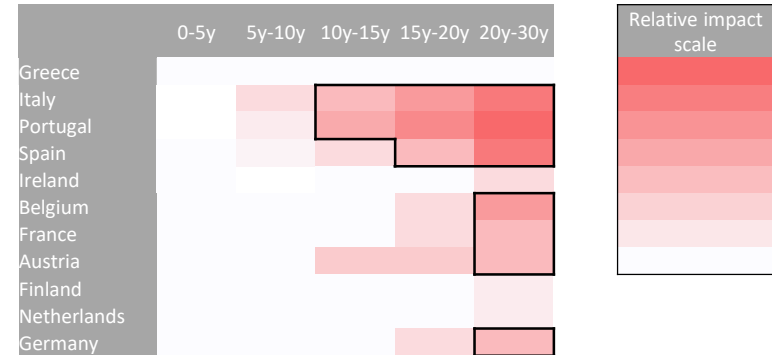
*Change in ECB holdings for APP (since Mar) and PEPP (since Feb) shown for all public sector securities. *For EGBs only. **For EGBs only, and assuming PEPP QT starts from March. Sources: ECB, BNP Paribas

Change in ECB holdings under the PSPP and PEPP - Italy now in second place in terms of PSPP QT (EURbn)



Since March 2023 for the PSPP, and since Apr/May for the PEPP. Sources: ECB, BNP Paribas

In April we flagged how long-end peripheral issuers were at greater risk of steepening from QT



A darker red colour indicates a greater impact of QT, which would be relatively more bearish for that segment. Source: BNP Paribas

Reality: Market moves between 28 Feb and 26 Oct

	2Y	5Y	7Y	10Y	15Y	20Y	30Y
Greece	1	-13	-34	-24	3	18	15
Italy	27	30	38	42	55	59	60
Portugal	-2	-7	-3	4	18	23	27
Spain	15	12	22	33	37	48	52
Ireland	19	7	16	16	30	26	42
Belgium	17	2	22	30	40	48	61
France	5	8	24	30	40	46	51
Austria	24	4	11	21	37	42	53
Finland	8	16	18	28	41	47	49
Netherlands	11	6	13	22	39	43	54
Germany	-2	-3	8	21	35	43	50

Sources: Bloomberg, BNP Paribas



QUESTIONS FOR DISCUSSION

- **“2024 will be a FI year”**. Does that mean the record supply backdrop is fully priced in in the US and what about the Eurozone. Should the focus turn again on the evolution of the economic and CBs cycle
- **2023 saw diversification in terms of products with in particular retails bonds. How sustainable is retail demand?**
- **The market deals well with Passive QT. But should the market be talking about active QT or is it premature?**

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