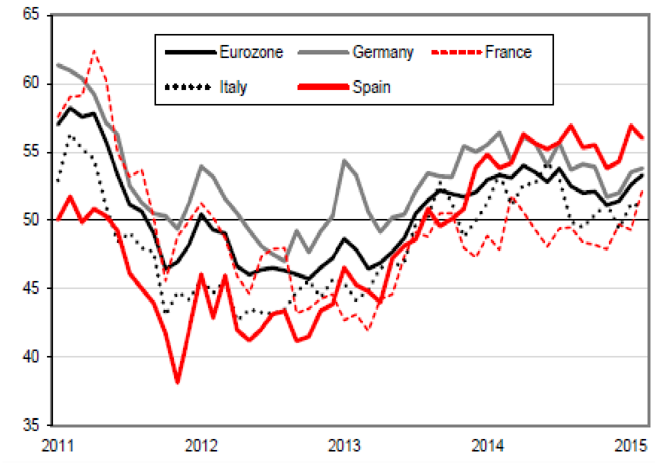
ECB MMCG: Market Developments

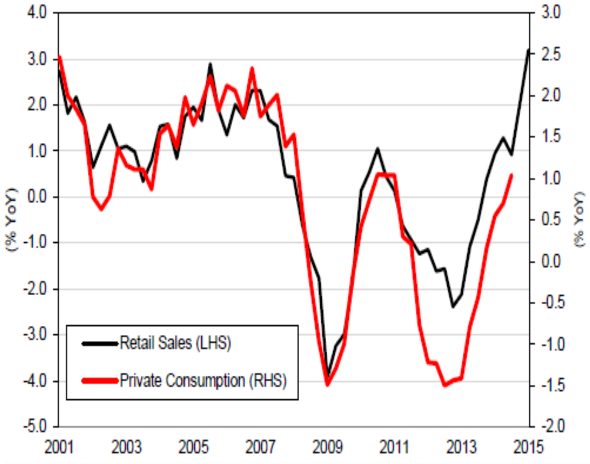
Frankfurt, 18 March 2015

The risk of another economic recession is fading away

Euro Zone- PMI



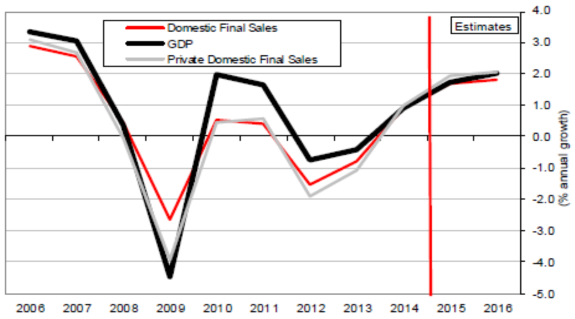
Euro Zone- Private Consumption



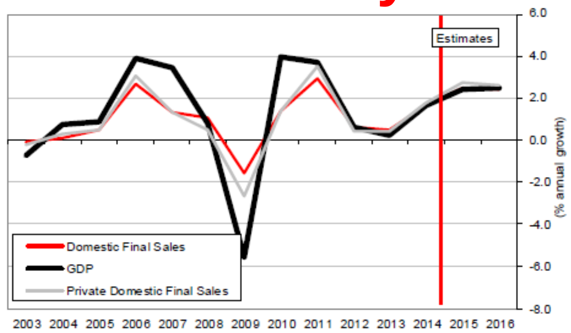
Advanced leading indicator as real data means real economy is gradually recovering and the risk of another recession is fading away

GDP Breakdown

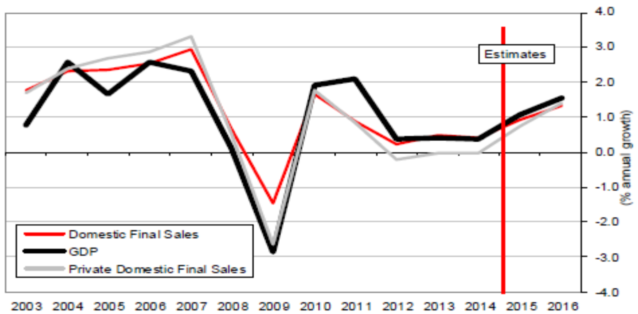
Euro Zone



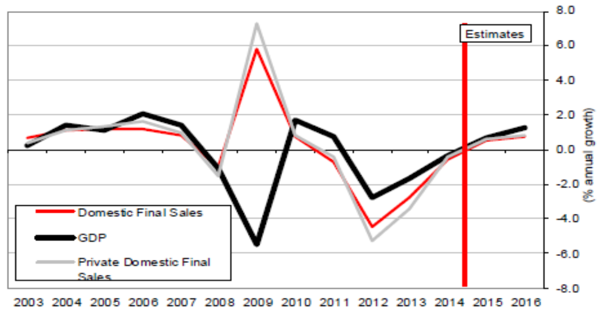
Germany



France

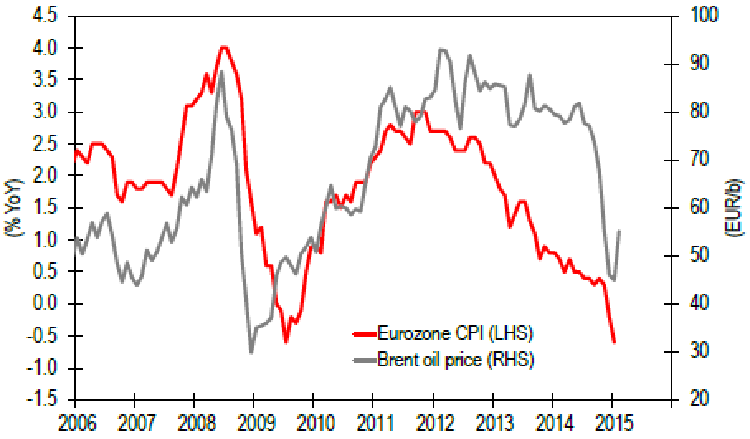


Italy

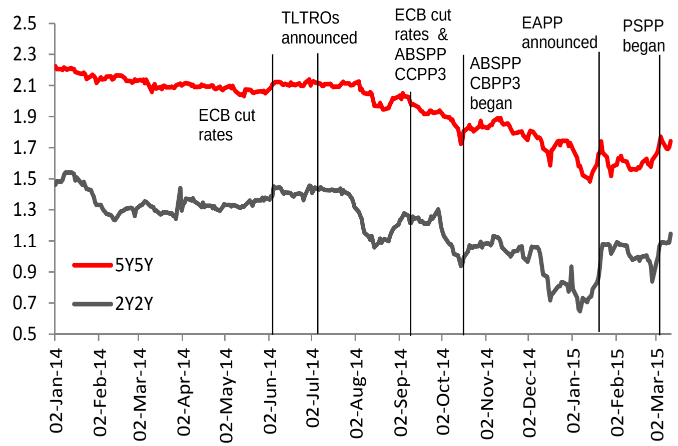


Even France and Italy, which have lagged behind in the past few quarters, are returning to positive growth

Oil Prices and Euro Zone CPI



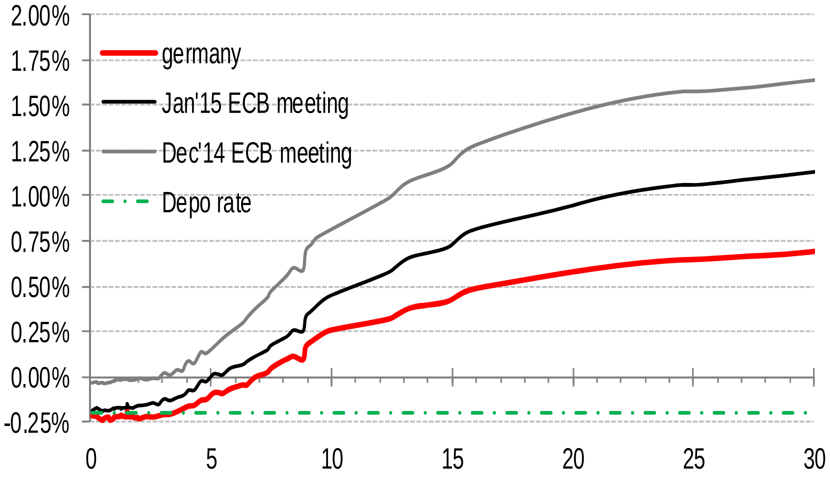
Inflation Expectations



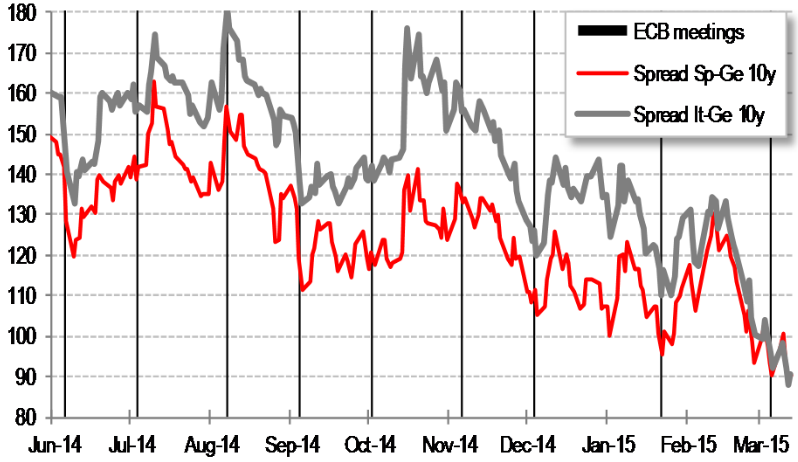
The sharp decline of oil prices had an strong impact on the Euro CPI and also on inflation expectations. However since the ECB announced the QE we have seen inflation expectations increasing even if the oil prices are declining again.

Market Impact : LOWER, FLATTER, TIGHTER

German Curve

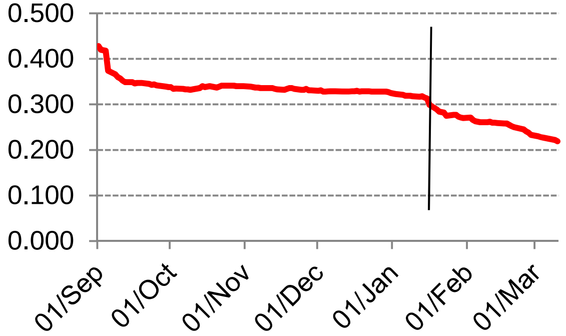


Peripheral Spreads



The impact on the curves are pretty clear. Core and even periphery are going lower. As the front end is reaching the -0.20 floor the movement is spreading into longer-term part of the curve.

3M Euribor



12M-3M Euribor base

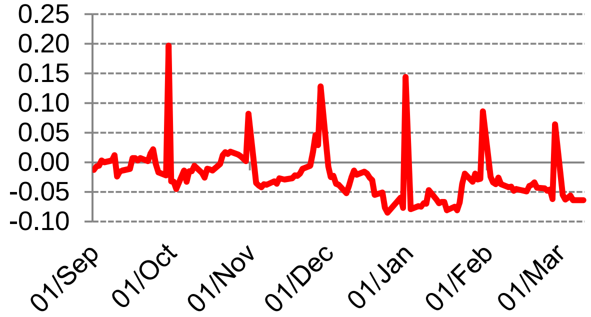
Eur	price	yield
17-jun-15	100.0050	**-0.005**
sep-15	100.0050	**-0.005**
16-dic-15	100.0100	**-0.010**
16-mar-16	100.0100	**-0.010**
jun-16	100.0050	**-0.005**
sep-16	99.9900	**0.010**
dic-16	99.9650	0.035
mar-17	99.9350	0.065
jun-17	99.8950	0.105
sep-17	99.8550	0.145
dic-17	99.8150	0.185
mar-18	99.7700	0.230
jun-18	99.7200	0.280
sep-18	99.6750	0.325
dic-18	99.6250	0.375
mar-19	99.5800	0.420

Eapp

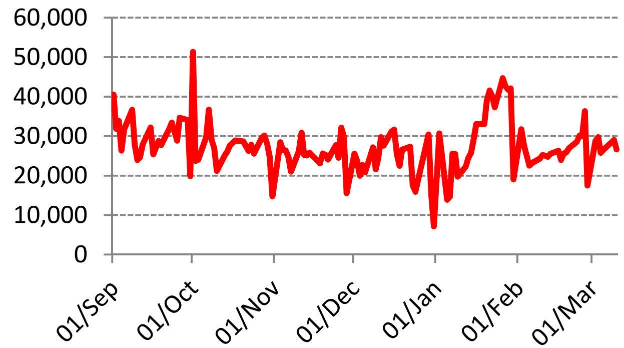
All Euribor since QE was announced are getting all time new lows.
Only negative Euribor in the short term (1M) and occasionally.
12m – 3m spread are compressing as we reach lows.

Euribor futures are pricing the EAPP till next sep16. beyond that possible rates hikes are taking place.

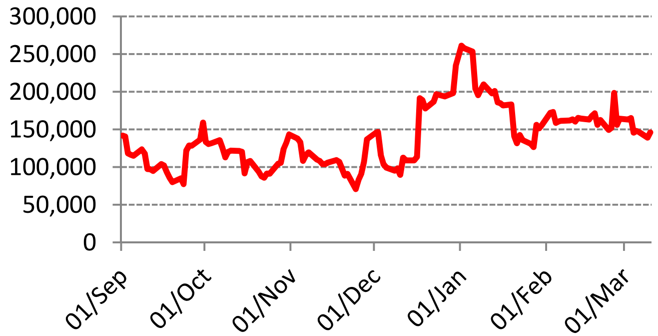
Eonia



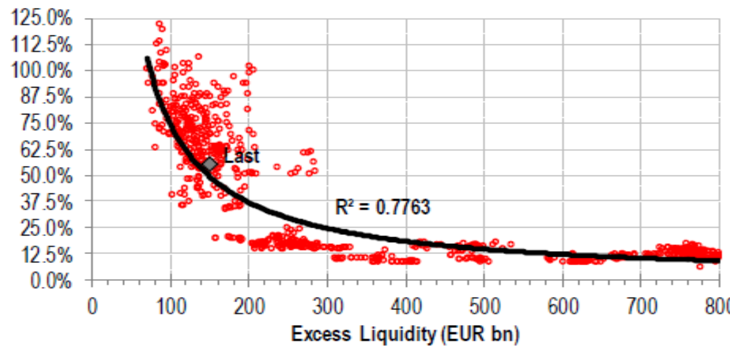
Eonia Volume



Excess Liquidity



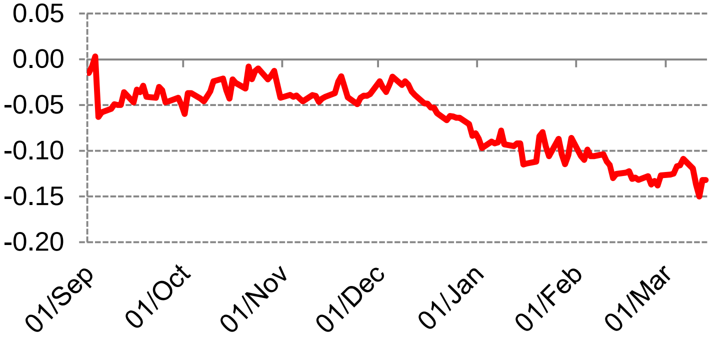
% Refi-Depo corridor



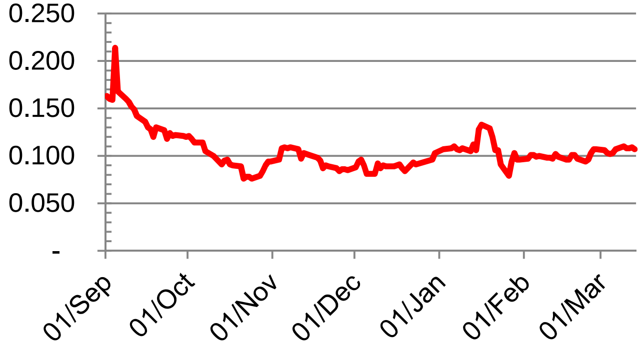
Eonia still suffer the month ends, volume stable in a range (30-20bio) Excess liquidity expected to increase massively due to QE. This should push Eonia down to -15/-20.

First increases in excess liquidity to have bigger impact. Once liquidity reach a given level (300bio) the impact will be more gradual.

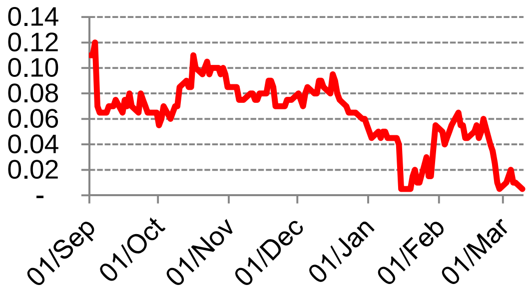
1Y1Y Eonia



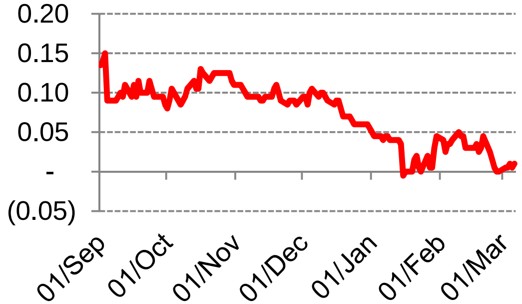
Euribor 3M – Eonia swap 3M



Euribor Future Jun15



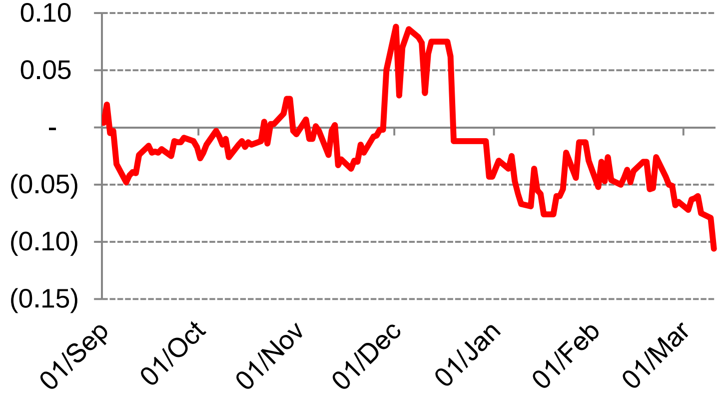
Euribor Future Dec5



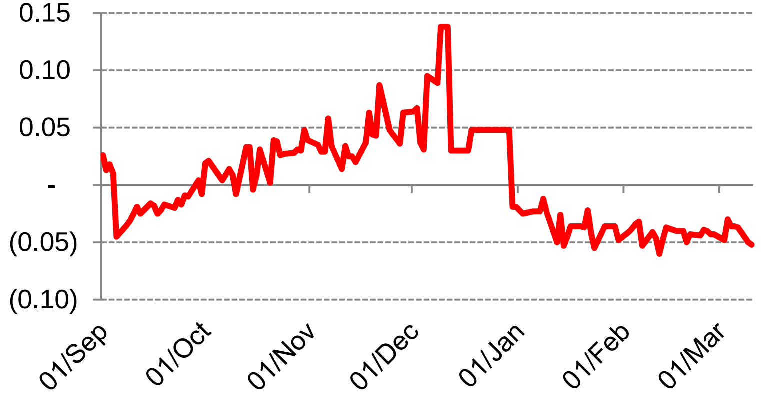
Eonia forward is already pricing in the decline. Euribor- Eonia spread stable at around 10bp.

Futures reaching 0 but rebounding

GC Pooling classic 1M



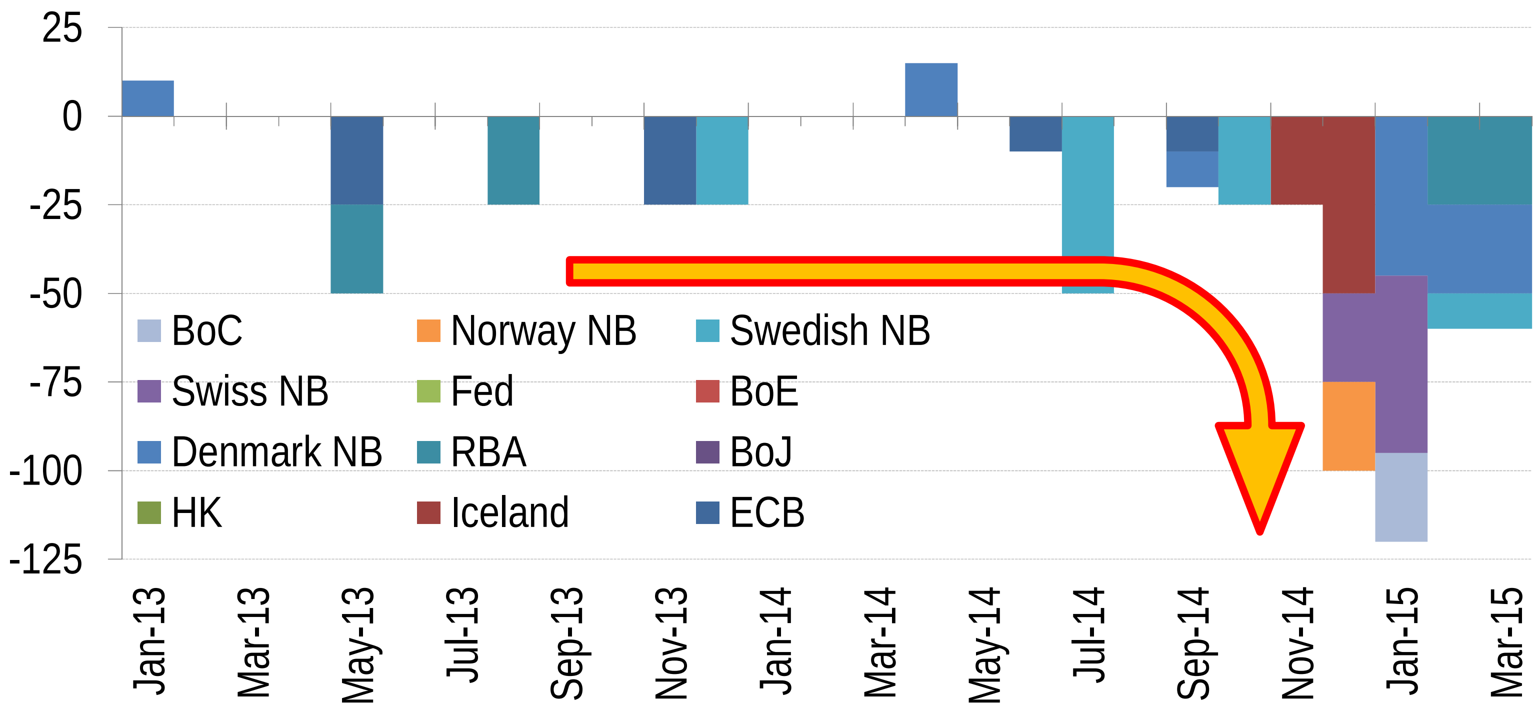
GC Pooling classic 3M



All the repo is trading well negative, the tendency is to go further negative.

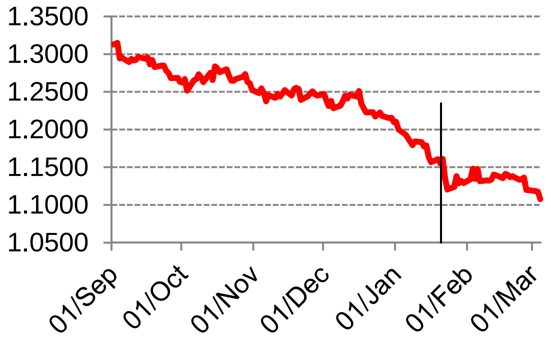
New wave of global easing in monetary policy…

Cummulative monthly changes in major CBs (bp)

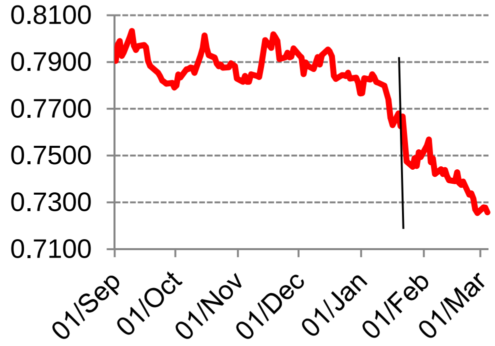


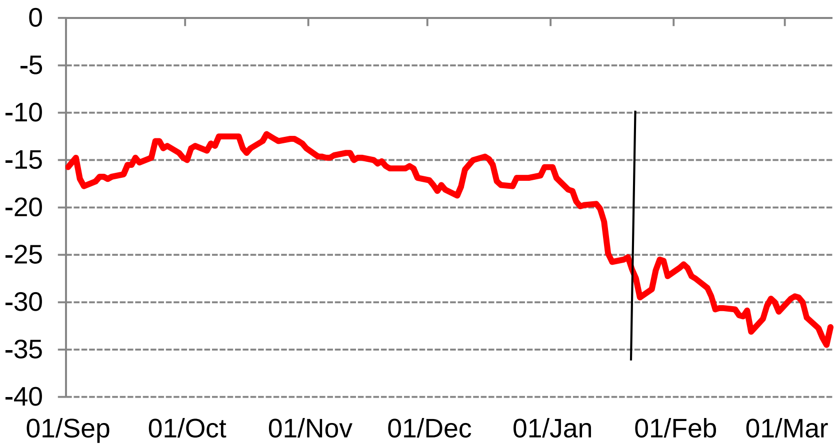
ECB action (rate cut in Jun14 and Sep14 and the EAPP) is pushing other Central Banks into a new wave of easing. At the moment the only Central Banks that seems to be apart are BoE and Fed

EUR/USD



EUR/GBP



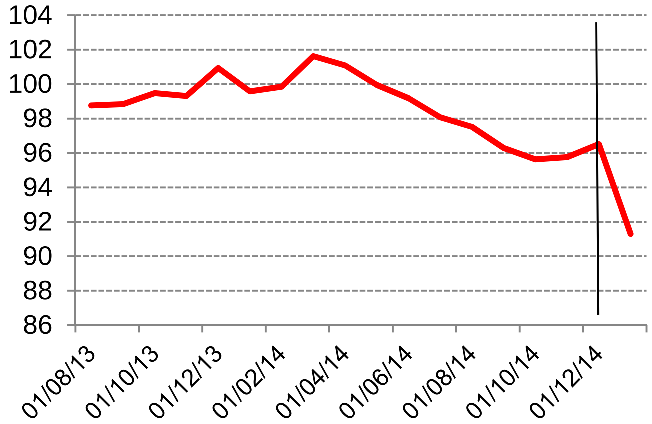


Euro declining versus other currencies from last December and once QE is announced further decline.
USD still at its pace of appreciation.

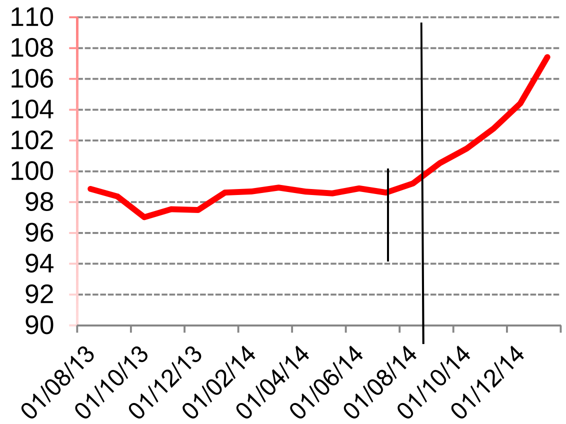
Cross-currency EUR/USD showing the appetite for USD and the lack of interest in the Euro funding.

Bank for International Settlements: Effective Exchange Rate

Euro



US Dollar



Movement in the USD started in last summer period while accelerating from Sep14, related to the change in the rate expectations.

In the Euro zone, the move started last 2014 and it has been particular strong since the QE announcement

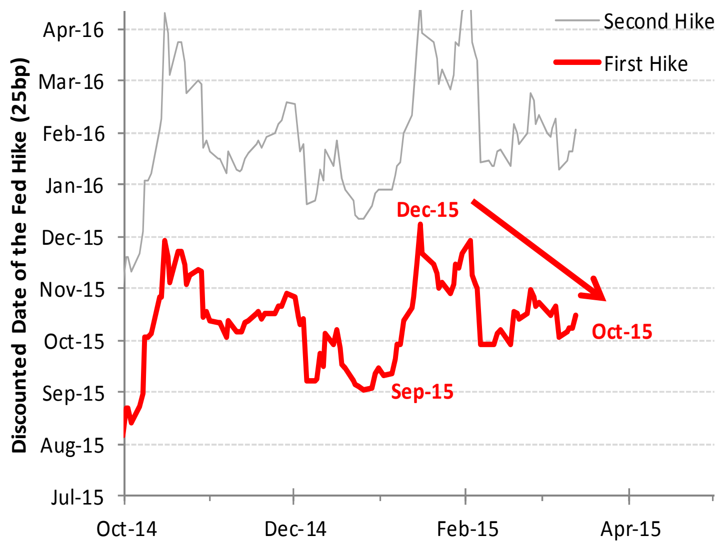
Comparing the ECB's EAPP to other QE programmes

	CB purchases	gross issuance	net issuance		% gross	% net
ECB 2015	473.7	860.0	200.0		55.1%	**236.8%**
BoE 2009-10	180.0	227.6	211.0		79.1%	**85.3%**
BoE 2011-12	105.0	179.4	130.4		58.5%	**80.5%**
Fed 2009	300.0	2197.1	1550.7		13.7%	19.3%
Fed 2010	243.7	2319.8	1606.5		10.5%	15.2%
Fed 2011	773.3	2103.3	1303.4		36.8%	**59.3%**
Fed 2012	534.1	2304.5	991.5		23.2%	**53.9%**
Fed 2013	540.1	2140.0	835.9		25.2%	**64.6%**
Fed 2014	249.9	2215.4	767.1		11.3%	32.6%

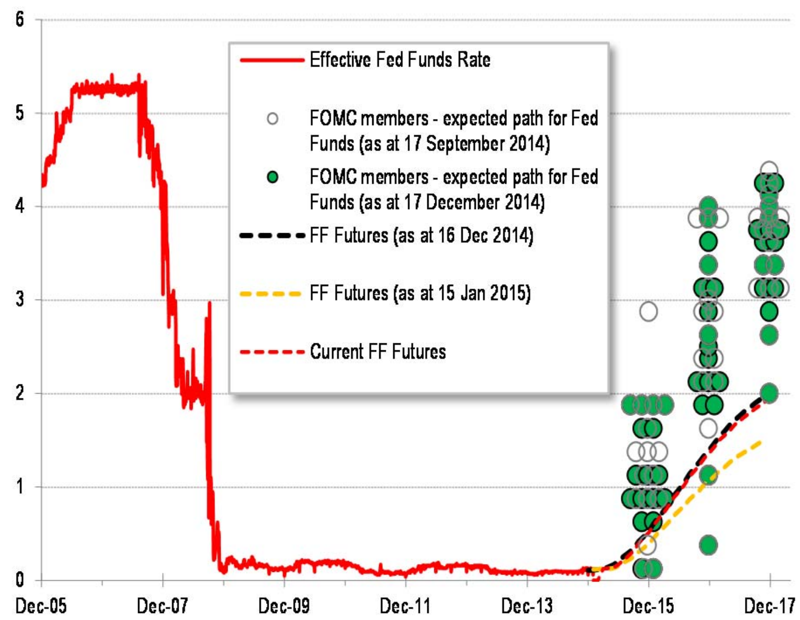
The main difference between the ECB's and the Fed's and BoE's QE is that, in terms of Net issuance of debt, ECB purchases will be significant bigger than the government issuance in the Euro zone (240%). In England (85%) and in the US (60%) central banks purchases were not enough to offset the net government issuance

The Fed is about to start its monetary policy tightening

Expected Date of 1st & 2nd Fed Hikes



Fed Fund Rates – effective and futures vs. FOMC projections

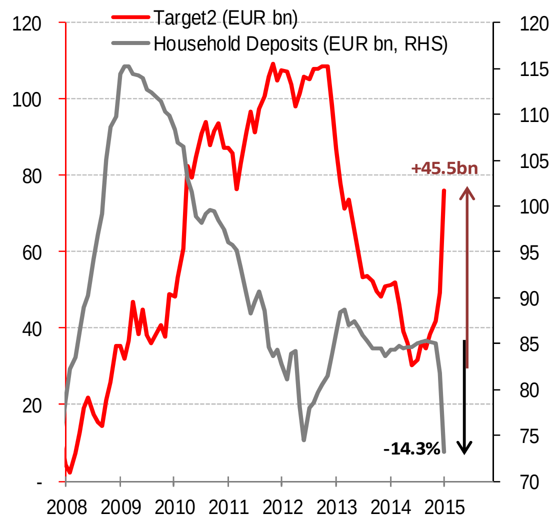


While in the euro zone the market has been moving according to expectations of further easing, in the US the market is pricing in that the Fed could hike rates even sooner.

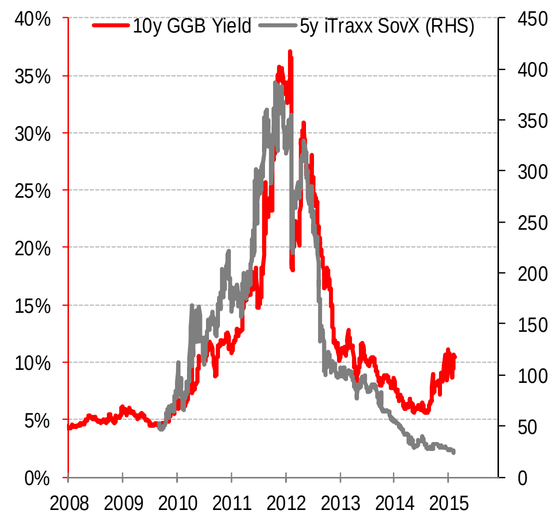
In spite of this correction, the FOMC projection suggest that FOMC members still except official rates to be higher than priced in by the market

The Greek situation: Far from the panic scenario from 2012

The same old ghosts…



…but this time it is not a systemic event



At a domestic level Greece is starting to suffer deposit withdrawals and increasing TARGET2 imbalances. However this time we don't see any contagion to the rest of the Euro Zone.

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