

MARKET EXPECTATIONS FOR ECB MONETARY POLICY MEASURES

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GREAT EXPECTATIONS

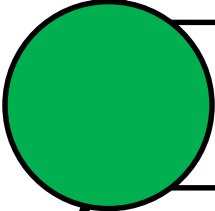
EXPECTATIONS PRIOR TO THE 12 SEPTEMBER ECB MEETING



Rate cut pricing 15 bp for the September meeting, 35 bp in total



Tiering for 3-4 times the mandatory reserve amount

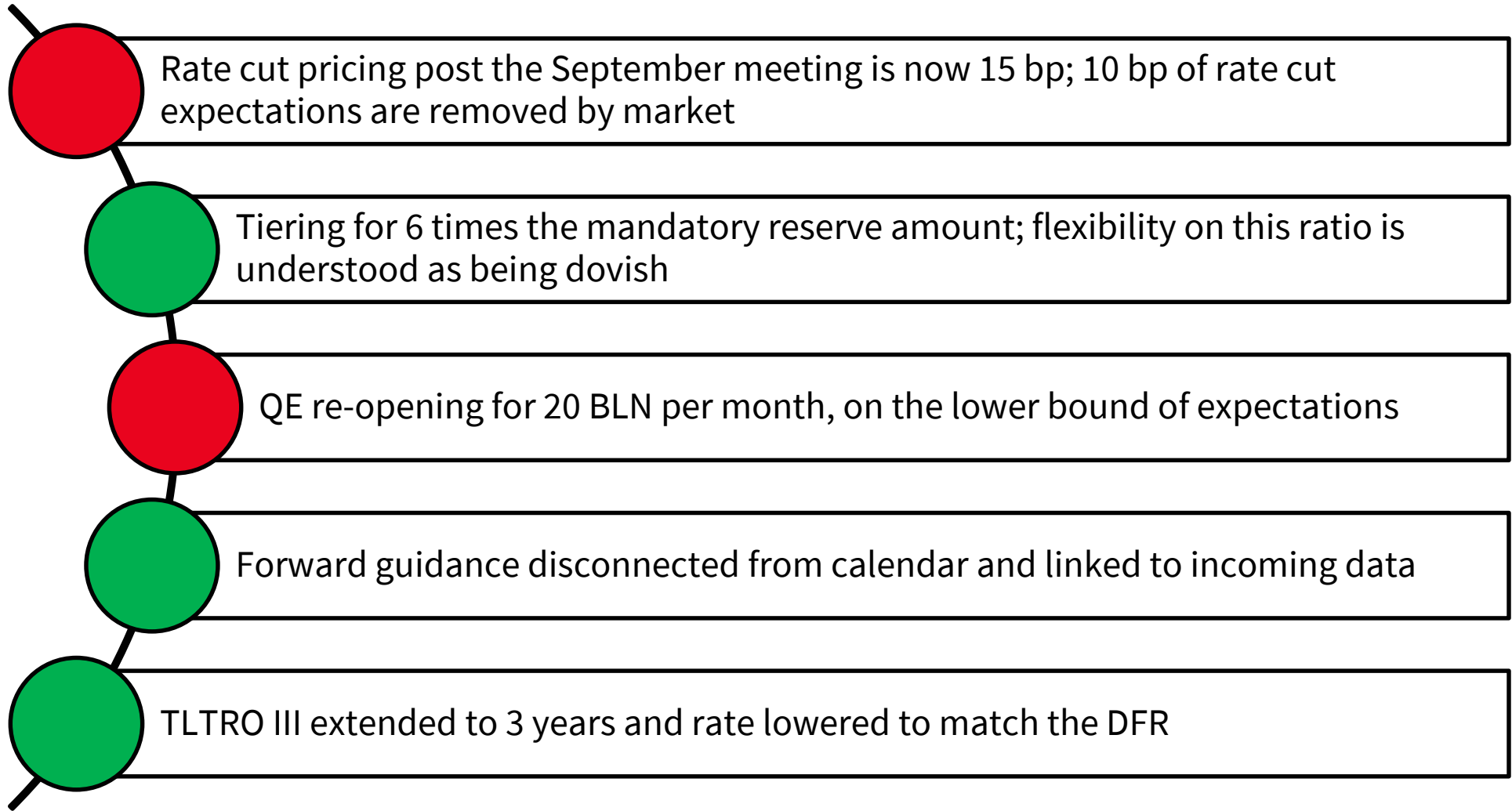


QE re-opening for 20 to 30 BLN per month



Forward guidance to delay the return to higher rates

MARKET PERCEPTION POST 12 SEPTEMBER ECB MEETING IS GLOBALLY VERY POSITIVE ON THE TOTAL PACKAGE ANNOUNCED



1 Y / 1 Y FORWARD EONIA SWAP

- Rate cut expectations built progressively since Sintra Speech, ECB Meeting on July 25th and during the summer
 - Prepared by Mr Draghi (reinforced forward guidance, tiering system, QE reopening)
 - Trade war escalation
 - Brexit noise
- Expected rate cuts cumulate to more than 35 bp as shown in the Eonia forward swaps curve



5Y / 5Y INFLATION

Market is still not very much convinced

Although inflation expectations are somewhat higher than the recent lows, the market is still hovering on historically low levels



BTP – BUND 10 Y SPREAD

At the lowest since the Italian elections gave way to the 5 Star movement



BOTS 3M VS EONIA 3M

3 M Italian Bills could be impacted by the Tiering system



ITALIAN AND GERMAN O/N REPO MOVING IN TANDEM AFTER RATE CUT

Rate cut impact on GC is similar on all markets

However, there may be an incentive for banks who do not hold the maximum amount of excess reserves today to arbitrage the tiering rate and the respective government bonds repos starting October 30th



IN PARTICULAR, SHORT TERM ITALIAN BILLS COULD BE IMPACTED BY THE TIERING SYSTEM

Graph 4: Excess liquidity, exempted reserves and arbitrage incentive by country

Country	Minimum reserves (July 2019)	Deposit facility and current account holdings (July 2019)	Excess liquidity	Exempted reserves (6 times minimum reserves)	max(0, Exempted reserves minus excess liquidity)
Germany	35.5	631.0	595.5	213.0	0.0
France	24.1	537.7	513.6	144.6	0.0
Italy	15.8	78.0	62.2	95.0	32.8
Spain	12.6	99.2	86.6	75.6	0.0
Netherlands	10.7	169.9	159.2	64.2	0.0
Belgium	5.5	67.7	62.2	33.0	0.0
Austria	3.7	38.3	34.6	22.2	0.0
Finland	2.7	93.0	90.3	16.2	0.0
Luxembourg	4.8	124.7	119.9	28.8	0.0
Ireland	2.1	26.2	24.1	12.6	0.0
Portugal	2.0	11.9	9.9	12.0	2.1
Greece	1.0	2.3	1.3	6.0	4.7
Rest	10.9	36.2	25.3	65.5	na
Total	131.4	1916.3	1784.9	788.7	39.5+

Source: SG Cross Asset Research/Rates