

The European Repo-Segment under the impact of Tiering



Harald Bäsich

Managing Director
UniCredit Bank AG

MMCG
Frankfurt December 3rd, 2019

Banking that matters. |  **UniCredit**

Main Takeaways from TIERING

- After ECB monetary policy decision (12/09), market repriced future rate expectations with repo curves moving along with EUR OIS curve
- The announcement of the entity of X6 tiering multiplier spread some doubts about the excess of liquidity held within the Italian banking system – which appeared not sufficient to fully benefit from 0% on tiered amount.
- As a consequence, during second half of September Italian repo rates were exposed to upward pressures with rates from 2M to 1y around -40bps. Market reaction was particularly pronounced during 12.09 with 6M GC trading from -0.52 to -0.40
- In the period towards the beginning of the tiering (30.10), Italian banks efficiently front-loaded liquidity in order to arrive well prepared at the start of the maintenance period. Uncertainties surrounding future development led to increasing volumes over tenors below 1month.
- Some upward pressures were recorded also on core paper with repo rates tightening toward the level of the deposit facility.
- Italian repo market was extremely resilient during the beginning of the tiering showing good liquidity conditions both in terms of rates and volumes (140bpb daily). After the first 3 days spike (ON at -40bps) short term rates found a consolidation level around -0.46.
- Sentiment over the first tiered maintenance period appears positive in an environment of good cross-border flows and declining volatility
- A good test of the Italian repo market's resilience will be the next maintenance period starting from 17.12.19 when the combination of Tiering and year-end would be a great challenge for market participants.



Evolution of the Italian Repo Market

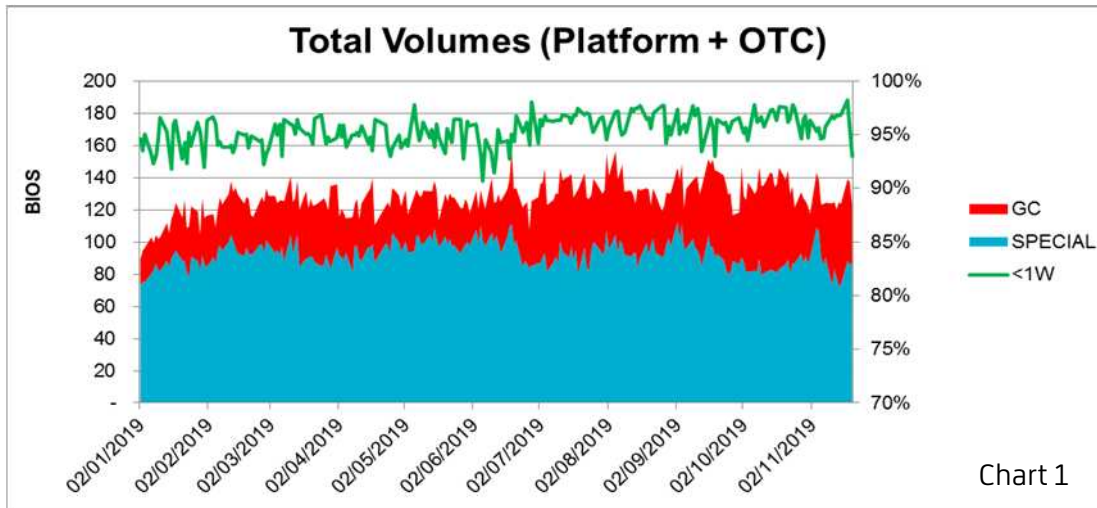


Chart 1

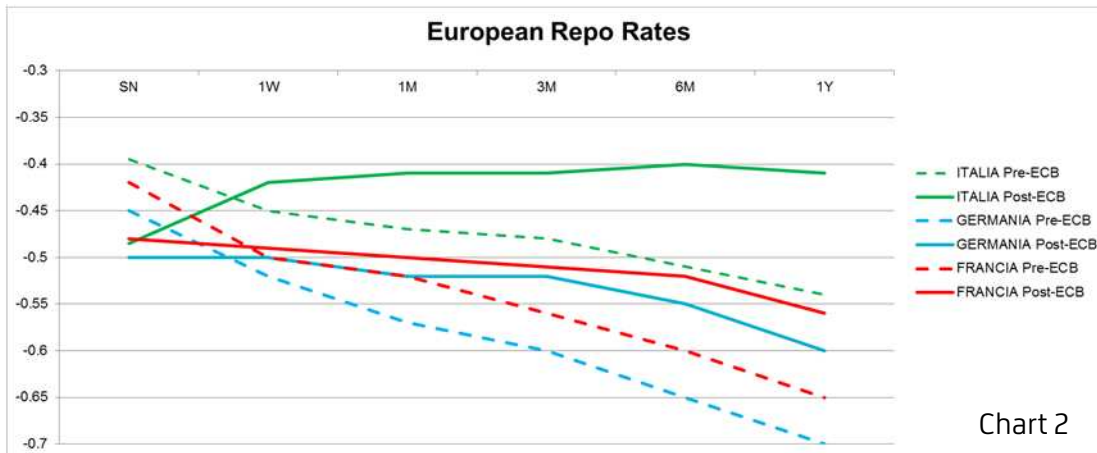


Chart 2

Pre-ECB DATE: 12.09.19 Post-ECB DATE: 24.10.19

- Italian repo market was extremely resilient during the beginning of the tiering showing good liquidity conditions both in terms of rates and volumes (140bios daily) – Table 1
- Volumes were mainly focused within maturities below 1 month – Chart 1
- Activity were mainly liquidity driven as shown by the increasing weight of GC trades – Chart 1
- The tiering announcement generated an overshooting of the Italian repo curve. Before beginning of tiering, the curve appeared almost flat around -40bps – Chart 2
- European core paper tightened toward the deposit facility level over the entire curve and remained linked to the shifts of EUR OIS curve – Chart 2

(*) The sample includes only trades done on MTS via platform and OTC. Please note that trades executed on BTEC were excluded. Please note that trades executed on MTS via RFQ were excluded.



Day-by-Day Activity (**)

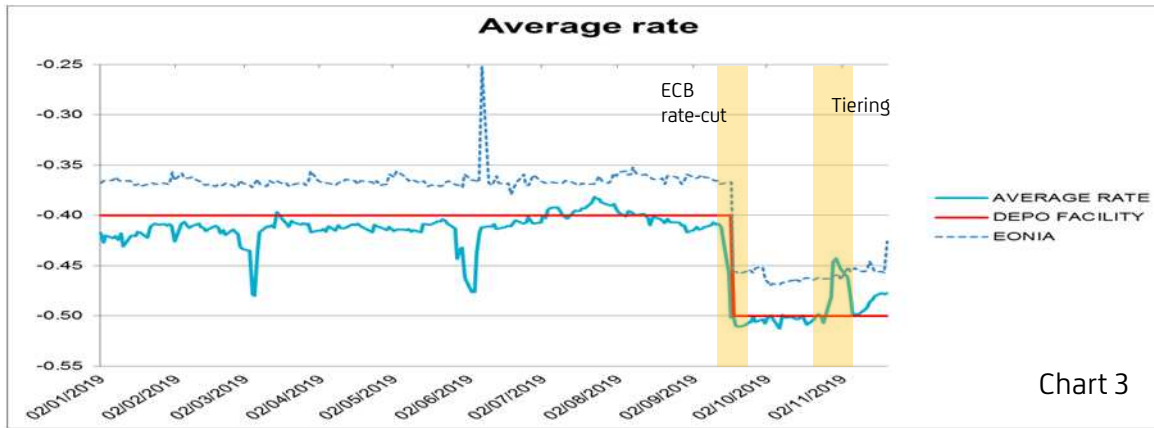


Chart 3

- Uncertainties regarding future development (Rate cut + modification of Tiering Multiplier) led banks to focus on shorter tenors – Chart 1
- Spreads of Italian repo rates against EONIA remained quite stable. Market traded at EONIA +5bps only during first 3 days of maintenance period – Chart 3

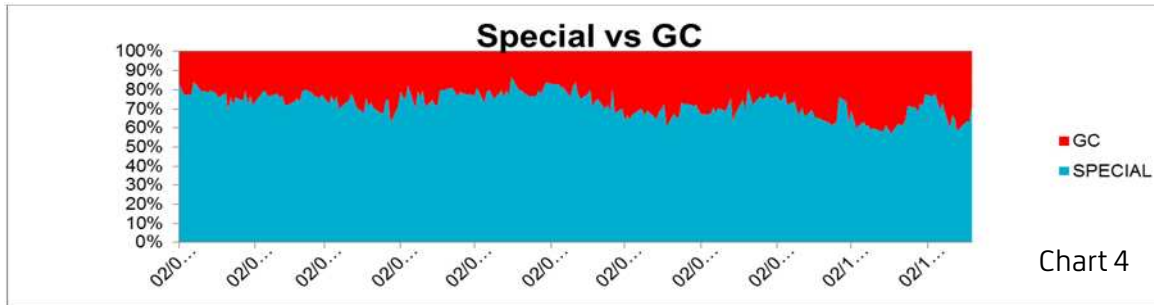


Chart 4

- The special activity gradually dropped in terms of volumes with everyone focusing on liquidity – Chart 4
- Special rates converged toward GC and day-by-day price volatility declined as shown by the tightening of Max-min average spreads – Chart 5

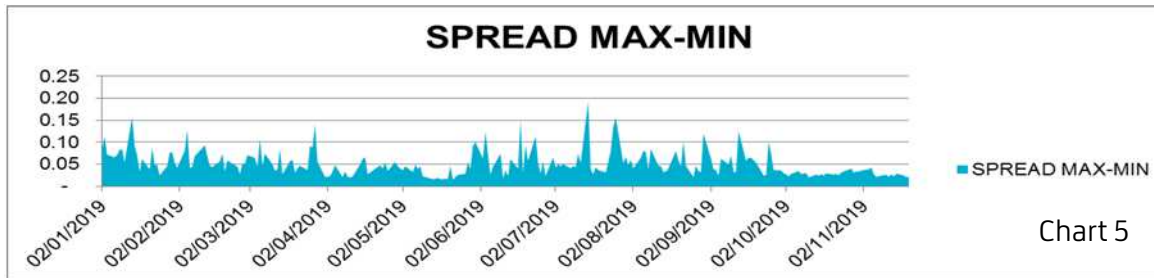
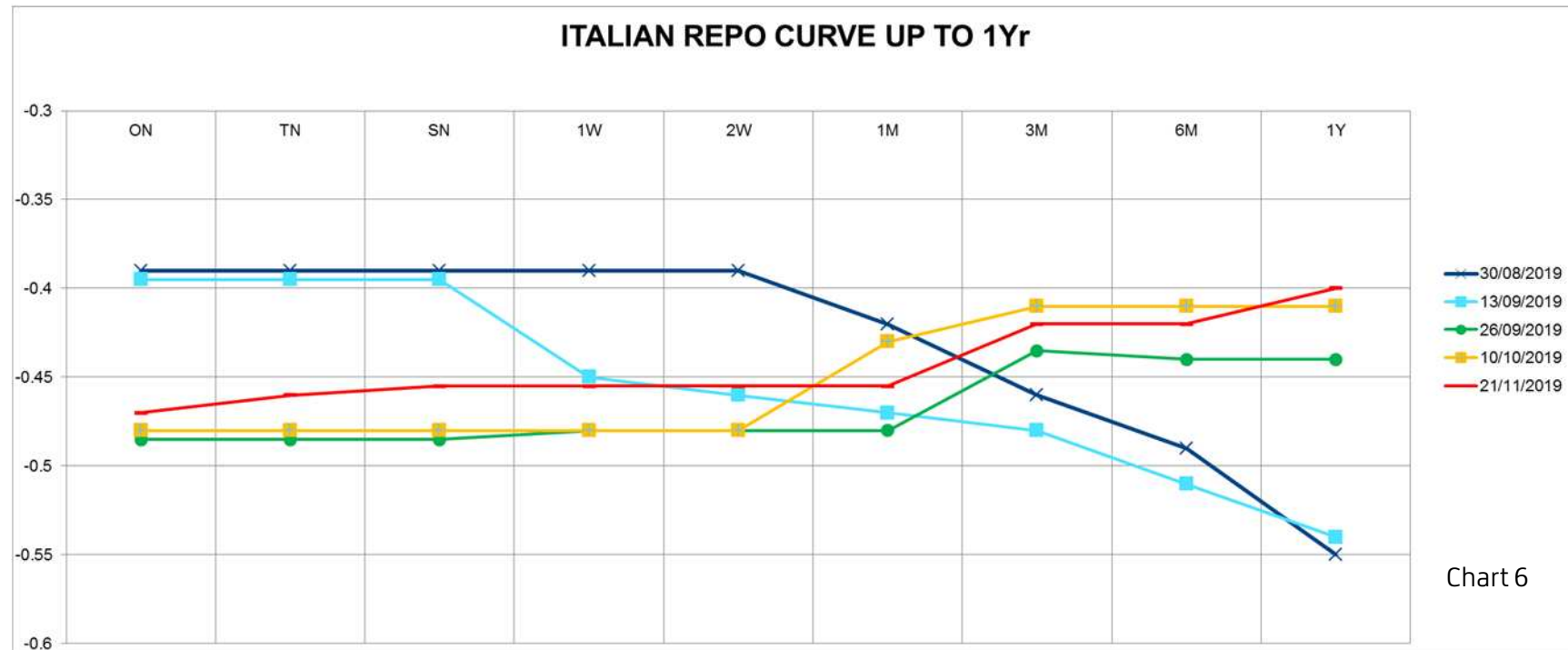


Chart 5

- (*) The sample includes only trades done on MTS via platform and OTC. Please note that trades executed on BTEC were excluded. Please note that trades executed on MTS via RFQ were excluded.
- (**) Analysis considers only trades with maturity below 1



Italian Repo Curve



- Before ECB Sep meeting, Italian repo curve moved according to EUR OIS curve.
- After ECB meeting and tiering announcement, Italian curve appeared totally delinked from OIS curve. The immediate reaction was impressive during 12.09 with 6M GC trading from -0.52 to -0.40.
- During October, Italian repo rates were trading above EONIA for tenors longer than 1 month. On the contrary, core paper remained below EONIA but tightened toward the deposit facility level.
- The beginning of the tiering came better than expected. Short term Italian repo rates found a consolidation level around -45/-46 bps and slightly influenced longer rates.
- Potential tension over the year-end kept weighting on rates from 2months on.

(*) The sample includes only trades done on MTS via platform and OTC. Please note that trades executed on BTEC were excluded. Please note that trades executed on MTS via RFQ were excluded.



Italian Banks Front-Loaded Liquidity in a Environment of Uncertainties (**)

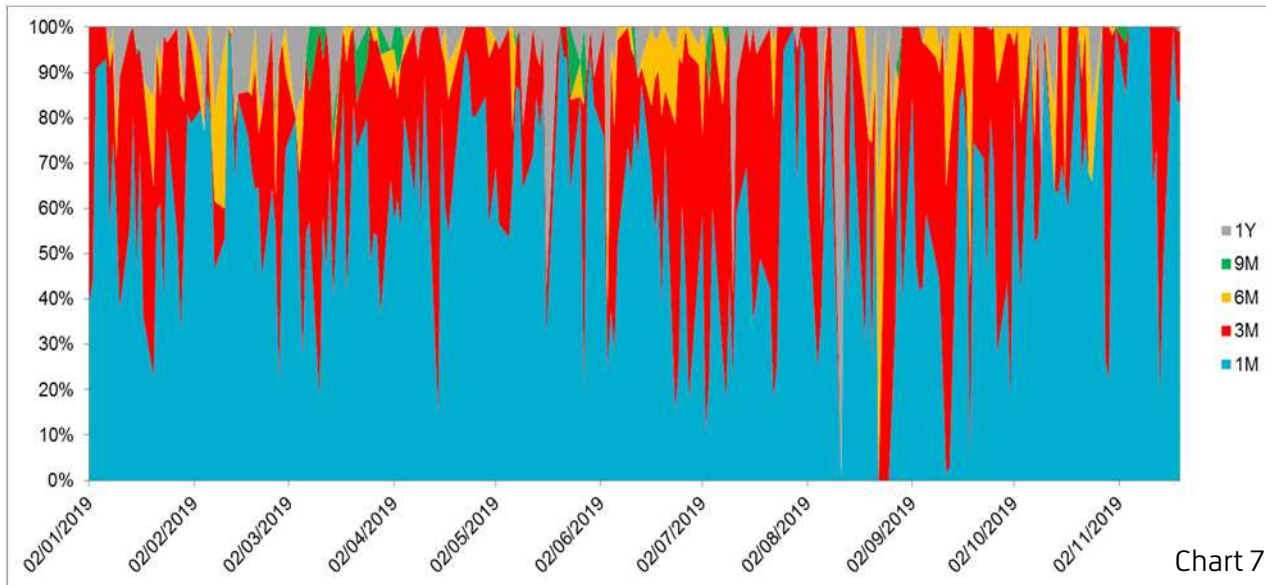


Chart 7

- Italian banks were able to tempestively fund their portfolios – Chart 9
- Significant funding activity was recorded for bonds not tradable on the platform (BTP Italia, Rep of Italy, CB)
- Duration of funding strategies was reduces below 1M – Chart 7
- Banks were interested in collecting liquidity with an increasing weight of GC segment – Chart 8

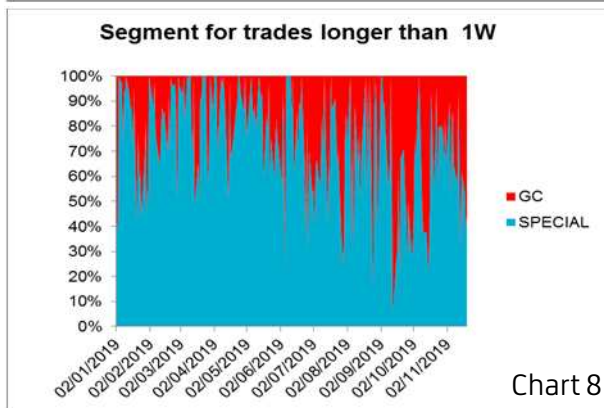


Chart 8

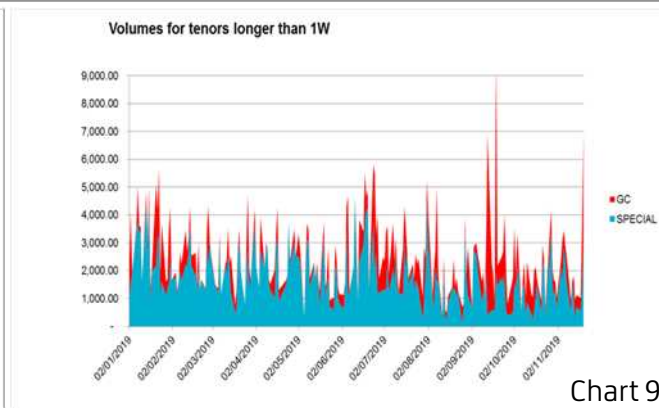


Chart 9

- Spikes in volumes during the second half of September were the combined effect of front-loading activity and unwinding of speculative positions – Chart 9
- During the End of November counterparts started to focus on year-end, pricing in a 0% rate for the 31/12-02/01 period

• (*) The sample includes only trades done on MTS via platform and OTC. Please note that trades executed on BTEC were excluded. Please note that trades executed on MTS via RFQ were excluded.

• (**) The following analysis consider only trades with tenor longer than 1M



Disclaimer

This publication is presented to you by:
Corporate & Investment Banking
UniCredit Bank AG
Arabellastr. 12
D-81925 Munich

The information in this publication is based on carefully selected sources believed to be reliable. However we do not make any representation as to its accuracy or completeness. Any opinions herein reflect our judgement at the date hereof and are subject to change without notice. Any investments presented in this report may be unsuitable for the investor depending on his or her specific investment objectives and financial position. Any reports provided herein are provided for general information purposes only and cannot substitute the obtaining of independent financial advice. Private investors should obtain the advice of their banker/broker about any investments concerned prior to making them. Nothing in this publication is intended to create contractual obligations. Corporate & Investment Banking of UniCredit consists of UniCredit Bank AG, Munich, UniCredit Bank Austria AG, Vienna, UniCredit S.p.A., Rome and other members of the UniCredit. UniCredit Group and its subsidiaries are subject to regulation by the European Central Bank. In addition UniCredit Bank AG is regulated by the Federal Financial Supervisory Authority (BaFin), UniCredit Bank Austria AG is regulated by the Austrian Financial Market Authority (FMA) and UniCredit S.p.A. is regulated by both the Banca d'Italia and the Commissione Nazionale per le Società e la Borsa (CONSOB).

Note to UK Residents:

In the United Kingdom, this publication is being communicated on a confidential basis only to clients of Corporate & Investment Banking of UniCredit (acting through UniCredit Bank AG, London Branch) who (i) have professional experience in matters relating to investments being investment professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FPO"); and/or (ii) are falling within Article 49(2)(a) – (d) ("high net worth companies, unincorporated associations etc.") of the FPO (or, to the extent that this publication relates to an unregulated collective scheme, to professional investors as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 and/or (iii) to whom it may be lawful to communicate it, other than private investors (all such persons being referred to as "Relevant Persons"). This publication is only directed at Relevant Persons and any investment or investment activity to which this publication relates is only available to Relevant Persons or will be engaged in only with Relevant Persons. Solicitations resulting from this publication will only be responded to if the person concerned is a Relevant Person. Other persons should not rely or act upon this publication or any of its contents.

The information provided herein (including any report set out herein) does not constitute a solicitation to buy or an offer to sell any securities. The information in this publication is based on carefully selected sources believed to be reliable but we do not make any representation as to its accuracy or completeness. Any opinions herein reflect our judgement at the date hereof and are subject to change without notice.

We and/or any other entity of Corporate & Investment Banking of UniCredit may from time to time with respect to securities mentioned in this publication (i) take a long or short position and buy or sell such securities; (ii) act as investment bankers and/or commercial bankers for issuers of such securities; (iii) be represented on the board of any issuers of such securities; (iv) engage in "market making" of such securities; (v) have a consulting relationship with any issuer. Any investments discussed or recommended in any report provided herein may be unsuitable for investors depending on their specific investment objectives and financial position. Any information provided herein is provided for general information purposes only and cannot substitute the obtaining of independent financial advice.

UniCredit Bank AG London Branch, Moor House, 120 London Wall, London, EC2Y 5ET, is subject to regulation by the European Central Bank (ECB) and is authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request.

Notwithstanding the above, if this publication relates to securities subject to the Prospectus Directive (2005) it is sent to you on the basis that you are a Qualified Investor for the purposes of the directive or any relevant implementing legislation of a European Economic Area ("EEA") Member State which has implemented the Prospectus Directive and it must not be given to any person who is not a Qualified Investor. By being in receipt of this publication you undertake that you will only offer or sell the securities described in this publication in circumstances which do not require the production of a prospectus under Article 3 of the Prospectus Directive or any relevant implementing legislation of an EEA Member State which has implemented the Prospectus Directive.

Note to US Residents:

The information provided herein or contained in any report provided herein is intended solely for institutional clients of Corporate & Investment Banking of UniCredit acting through UniCredit Bank AG, New York Branch and UniCredit Capital Markets LLC (together "UniCredit") in the United States, and may not be used or relied upon by any other person for any purpose. It does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other US federal or state securities laws, rules or regulations. Investments in securities discussed herein may be unsuitable for investors, depending on their specific investment objectives, risk tolerance and financial position.

In jurisdictions where UniCredit is not registered or licensed to trade in securities, commodities or other financial products, any transaction may be effected only in accordance with applicable laws and legislation, which may vary from jurisdiction to jurisdiction and may require that a transaction be made in accordance with applicable exemptions from registration or licensing requirements.

All information contained herein is based on carefully selected sources believed to be reliable, but UniCredit makes no representations as to its accuracy or completeness. Any opinions contained herein reflect UniCredit's judgement as of the original date of publication, without regard to the date on which you may receive such information, and are subject to change without notice.

UniCredit may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in any report provided herein. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. Past performance should not be taken as an indication or guarantee of further performance, and no representation or warranty, express or implied, is made regarding future performance.

We and/or any other entity of Corporate & Investment Banking of UniCredit may from time to time, with respect to any securities discussed herein: (i) take a long or short position and buy or sell such securities; (ii) act as investment and/or commercial bankers for issuers of such securities; (iii) be represented on the board of such issuers; (iv) engage in "market-making" of such securities; and (v) act as a paid consultant or adviser to any issuer.

The information contained in any report provided herein may include forward-looking statements within the meaning of US federal securities laws that are subject to risks and uncertainties. Factors that could cause a company's actual results and financial condition to differ from its expectations include, without limitation: Political uncertainty, changes in economic conditions that adversely affect the level of demand for the company's products or services, changes in foreign exchange markets, changes in international and domestic financial markets, competitive environments and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

Corporate & Investment Banking

UniCredit Bank AG
as of 27 November, 2019

