

## Market expectations for TLTRO-III and PELTRO

ECB – Money Market Contact Group – 16 June 2020

## TLTRO and PELTRO: Current figures

Maturity	TLTRO-II (mar-20)	TLTRO II jun-20	Repayment		TLTRO-III	91 day LTROs	PELTRO	Total	USD LTRO	
			TLTRO June	Bridge LTRO					Maturity	Alloted amount (bn USD)
jun-20	157,1		157,1	389		0,6		546,7	11/06/2020	76
sep-20	27,4	5,9	21,5			1,3		28,7	18/06/2020	28
dic-20	41,5	13,5	28					41,5	25/06/2020	16
mar-21	192,2	27,7	164,5					192,2	<b>Total June</b>	<b>120</b>
jun-21										
sep-21							0,9	0,9		
dic-21										
mar-22										
jun-22										
sep-22					3,4			3,4		
dic-22					97,7			97,7		
mar-23					115			115		
<b>Total</b>	<b>418,2</b>	<b>47,1</b>	<b>371,1</b>	<b>389</b>	<b>216,1</b>	<b>1,9</b>	<b>1</b>	<b>1026,2</b>		

## ▶ TLTRO-III

- ▶ 1trn outstanding (TLTRO-II, TLTRO-III and LTRO bridge), total capacity of **close to 3trn**

	Germany	France	Italy	Spain	Portugal	Euro area
TLTRO borrowing allowance*, bn	760	673	462	322	47	2906
T/LTROs (apr-20), bn	116	232	278	174	21	949
<b>Remaining capacity, bn</b>	<b>643</b>	<b>441</b>	<b>183</b>	<b>148</b>	<b>25</b>	<b>1957</b>
<b>Remaining capacity, %</b>	<b>85%</b>	<b>66%</b>	<b>40%</b>	<b>46%</b>	<b>54%</b>	<b>67%</b>

\* 50% of NFC loans and Total loans to households excluding Mortgages (2019-03)

## TLTRO and PELTRO: Key points

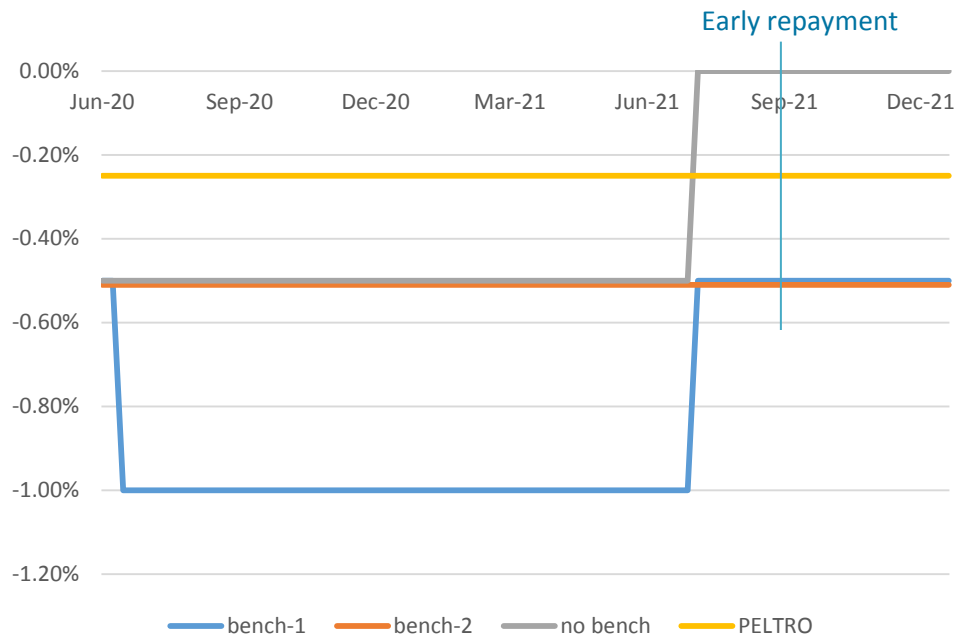
## ▪ TLTRO-III

- **Have become very appealing for any kind of bank** (not only peripheral ones), which can now finance a larger part of their balance sheet at cheap rates. **Mainly due to recent easing conditions** :
  - Lowering the rate to -1%
  - Bringing forward the starting date for the benchmark from 1st April 2020 to 1st March is favorable as loan books have increased in March
  - Few constraint on banks, in part by the temporary easing in collateral rules via the 20% reduction in haircuts on all eligible assets and the expansion of the eligibility criteria for credit claims should not constrain banks
  - Single operation limit was removed
- **Banks will focus on the June operation** so as to benefit from the entire period of generous -1% rate. This is a strong incentive to use June than later operations.
- **Early repayment on September-21 is an additional attractive feature** for the operation, as give banks a chance to reduce their borrowing when no bonus rate is applied.
- **Government guarantee** schemes ensure that the majority of banks qualify for the lowest rates
- Early repayment of almost entire TLTRO II outstanding suggest a roll into TLTRO III given the better conditions. Also a full rollover of the bridge LTRO is expected.
- **Reduction of USD borrowing** could suggest banks focusing on EUR funding
- Banks could obtain a **risk-free carry of 50bps** placing TLTRO borrowing in the ECB account.
- **Carry trades in government bonds is limited** at current yield levels (apart from Italy)

## ▪ PELTRO

- Participants with **limited TLTRO borrowing capacity**
- **Used as a backstop**
- Provide liquidity between TLTRO-III allotments
- Could support Euribor levels for longer tenors

## Comparison TLTRO-III and PELTRO rates



### Take-up Jun-20, with early repayment in Sep-21

#### ▶ TLTRO-III

- ▶ Benchmark 1 (OK): -0.90%
- ▶ Benchmark 2 (OK): -0.50%
- ▶ Without meeting benchmark: -0.40%

#### ▶ PELTRO: -0.25%

Assuming MRO at 0% and DFR at -0,50% for the entire period the period

Benchmark 1: new lending benchmark

Benchmark 2: modified lending benchmark

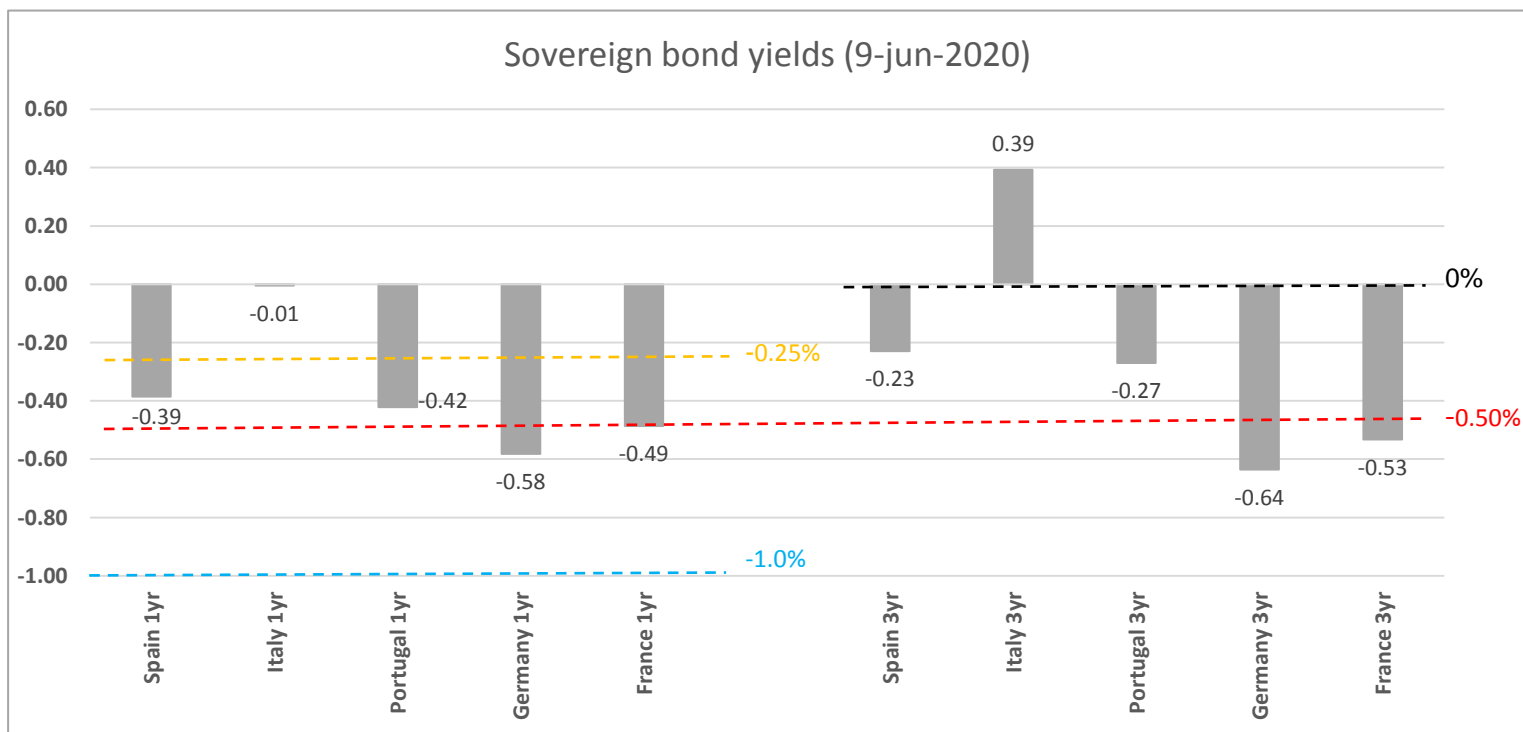
### ▶ Comparison TLTRO-III and PELTRO rates

- ▶ TLTRO-III always **cheaper**: -0.25% vs maximum of -0.40%
  - ▶ TLTRO-III: -0.50% for jun-20 to jun-21 and 0% for july-sept-21 without meeting benchmarks; even lower rate when meeting benchmarks
- ▶ PELTRO **more frequent**: monthly PELTRO vs quarterly TLTRO allotments

## Carry trades

### Carry trades for TLTRO-III

- ▶ Place at the ECB account
  - ▶ Jun-20 to jun-21: Borrow at -1.0% and **deposit at ECB** at -0.5%
- ▶ Invest in short **dated sovereign bonds**
  - ▶ yields exceed -0.5% only in a few countries, like Italy, Spain and Portugal
  - ▶ yields exceed 0%: only in Italy
  - ▶ Possible limited appetite by some banks to increase domestic sovereign exposure much further
    - ▶ High exposure to sovereign bonds
    - ▶ High concentration in domestic bonds



## Take-up

## ▶ TLTRO-III

- ▶ **1trn outstanding** (TLTRO-II, TLTRO-III and LTRO bridge), **total capacity of close to 3trn**

- ▶ **Philip Lane** (13-mar-2020): “...we have increased the volume of funds that banks can borrow from us in order to provide credit to firms and households by more than EUR 1 trillion. This raises the total possible borrowing volume under this programme to almost EUR 3 trillion”\*

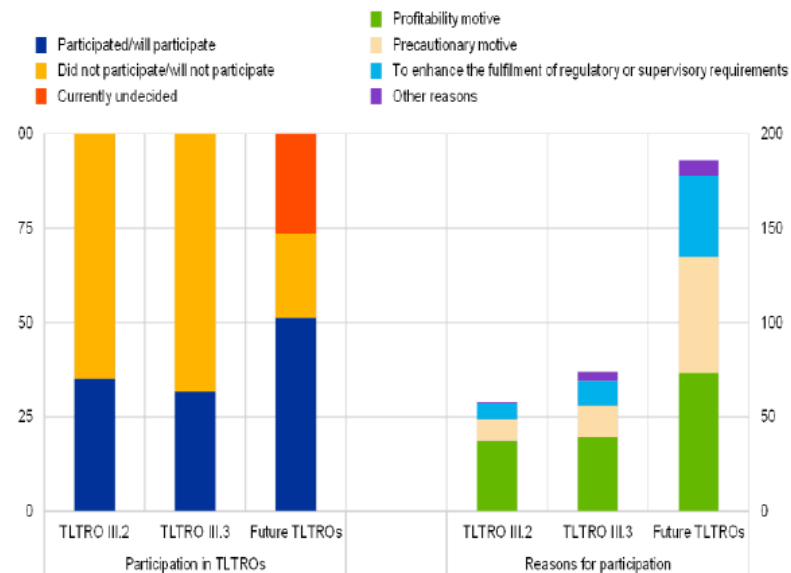
- ▶ **Rollover** of TLTRO II repayment and June maturity (371bn) and bridge LTRO (389bn) into TLTRO-III: **760bn**
- ▶ **Additional** demand, for example for carry trade: estimates range from **200 to 760bn**
- ▶ **Total TLTRO-III uptake of 960bn to 1500bn** (from current 216)

## ▶ PELTRO

- ▶ **Small take-up**, only as a backstop

\* <https://www.ecb.europa.eu/press/blog/date/2020/html/ecb.blog200313~9e783ea567.en.html>

Fig. 5: ECB survey on banks' participation in TLTRO III



Source: ECB

## Annex

## TLTRO and PELTRO: main characteristics

**Borrowing conditions**▪ **TLTRO-III**

- Borrowing allowance is equal to 50% of eligible loans as of 28 February 2019 minus amounts borrowed under TLTRO II
- Interest rates:
  - Avg DFR - 50bp **(-1.0%)** between 24-jun-20 and 23-jun-21, and avg DFR **(-0.5%)** afterwards, if participants meet new lending benchmark (2020/2021)
  - Avg DFR **(-0.50%)** for all three years, if meeting initial modified lending benchmark (2019/21)
  - For participants meeting neither the new lending benchmark nor the initial modified lending benchmark : Avg MRO -0,50bp **(-0.50%)** between jun-20 and jun-21 and Avg MRO **(0%)** the rest of the period.
- Quarterly allotments until March 2021. Quarterly repayment option, after 1 year and starting in sept-2021

▪ **PELTRO**

- Interest rate: 25bps below MRO **(-0.25%)**
- Full allotment
- Without condition: does not depend on evolution of loan book
- Seven monthly operations, from may to dec-2020, with maturity between sep-2021 and jul-2021