

ECB Money Market Contact Group

ECB Purchasing Programmes

01 December 2020



**Bank of
Ireland**

ECB Guidance



Christine Lagarde
11th November

“Thanks to PEPP’s flexibility, the ECB is also able to provide overall monetary stimulus beyond addressing the fragmentation risks”



Phillip Lane
22nd November

“While all options are on the table, the pandemic emergency purchase program (PEPP) and targeted longer-term refinancing operations (TLTRO) have proven their effectiveness”



Olli Rehn
24th November

“So far, we’ve been indicating that the pandemic emergency purchase programme (PEPP) and the targeting longer-term financing operations (TLTRO) have been very effective”



Pablo Hernandez
de Cos
19th November

“The recalibration of monetary policy instruments in response to this second wave should at least focus or include further recourse toward our PEPP and also further recourse toward our TLTROs”



Madis Muller
11th November

“Perhaps PEPP by itself is not the best tool to provide further support, and we should at least think about a combination of different measures...speaking of TLTROs it would be a possible tool that should be on the table”

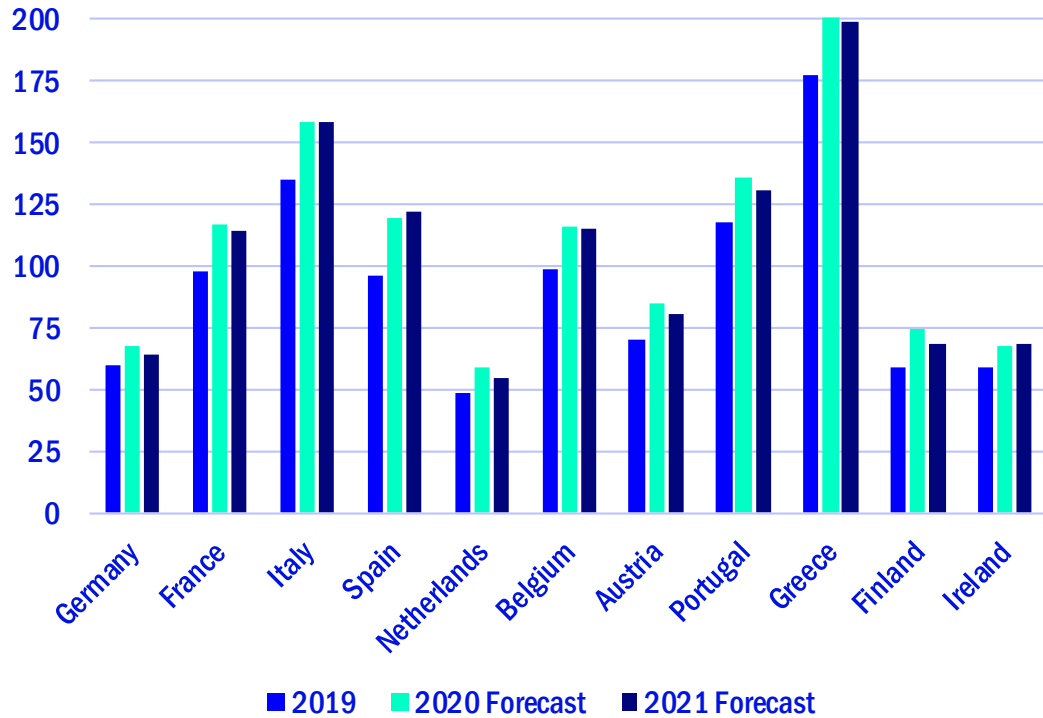


Isabel Schnabel
24th November

“By focusing more on the duration of policy support, central banks may effectively mitigate potential risks to financial stability arising from a more intense usage of their policy instruments in the pursuit of their mandate“

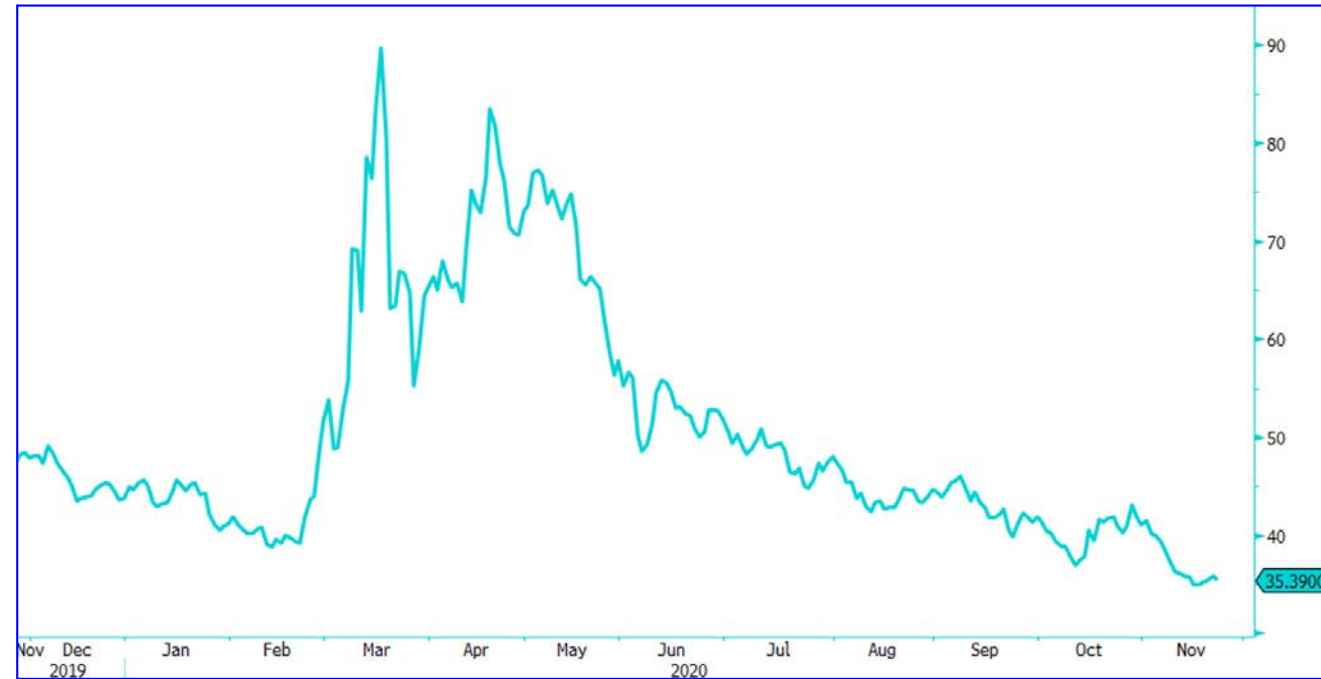
Why additional asset purchases?

Debt/GDP



Source: Eurostat, Bloomberg, J.P. Morgan

GDP Weighted EGB Spread



Source: Bloomberg

PEPP & APP

PEPP

Characteristics

- Right-sized to serve as credible backstop
- Extremely flexible
- 'Emergency' measure

APP

Characteristics

- More 'traditional' instrument
- Issuer and ISIN limits a constraint
- Fixed target monthly purchase amount

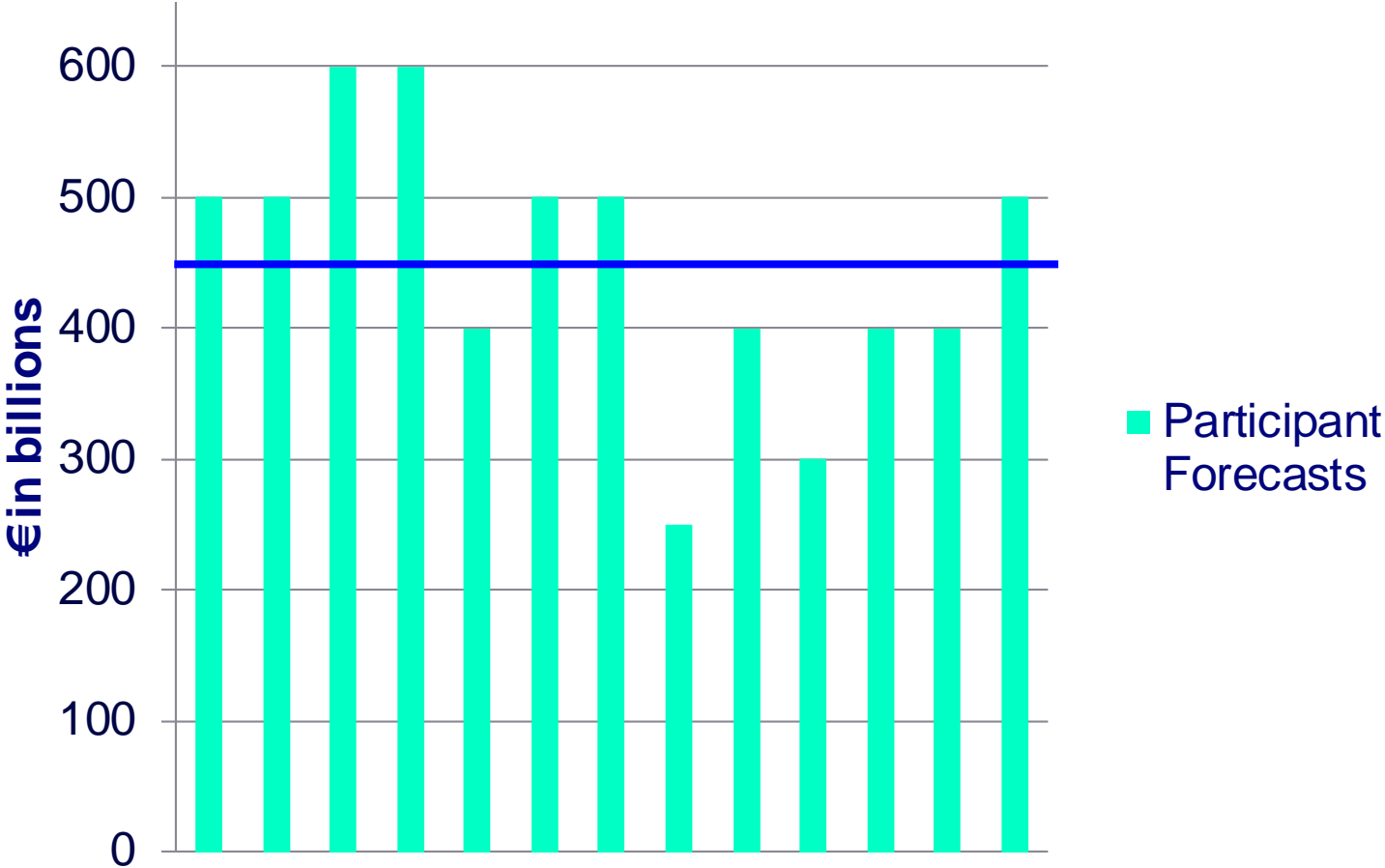
Debates to Re-emerge

- Diminishing returns?
- Market function impinged by dominant Central Bank flows?
- Private investors subordinated to Central Bank resurface?

Expectations

- PEPP increase of €400-500bn
- Extension of PEPP expiry to December 2021
- Not the time for a change to APP

Expectations for boost to PEPP envelope at Dec ECB



Source: Multiple

What's the Market Thinking?



Source: Bloomberg

- Euro Investment Grade Spread
- GDP weighted EGB Spread
- Euro High Yield Spread

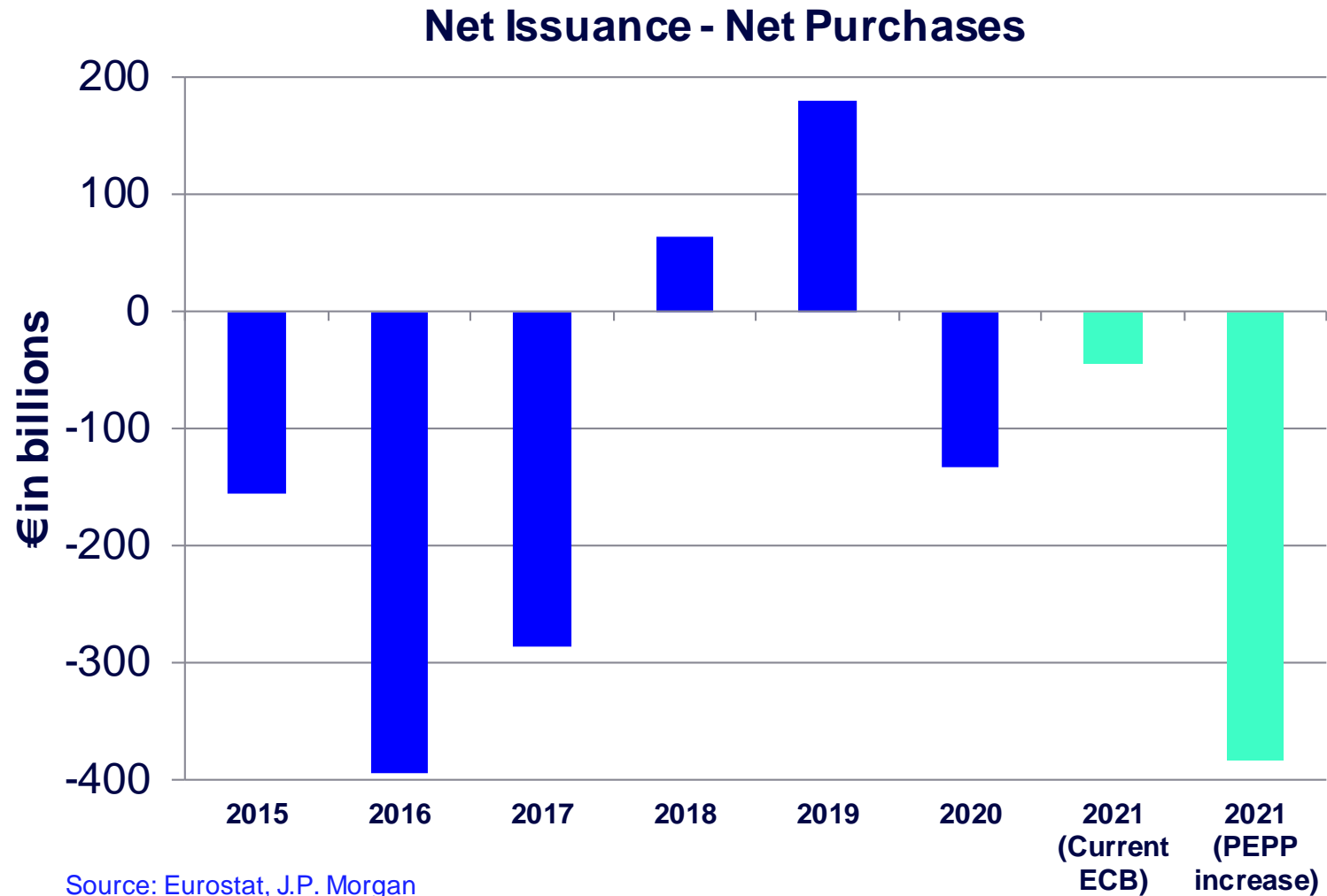
Negative Net Supply

Current ECB 2021

- €20bn APP per month
- €1,350bn PEPP terminating June'21

ECB+ 2021

- €20bn APP per month
- Additional €500bn PEPP with extension to December'21



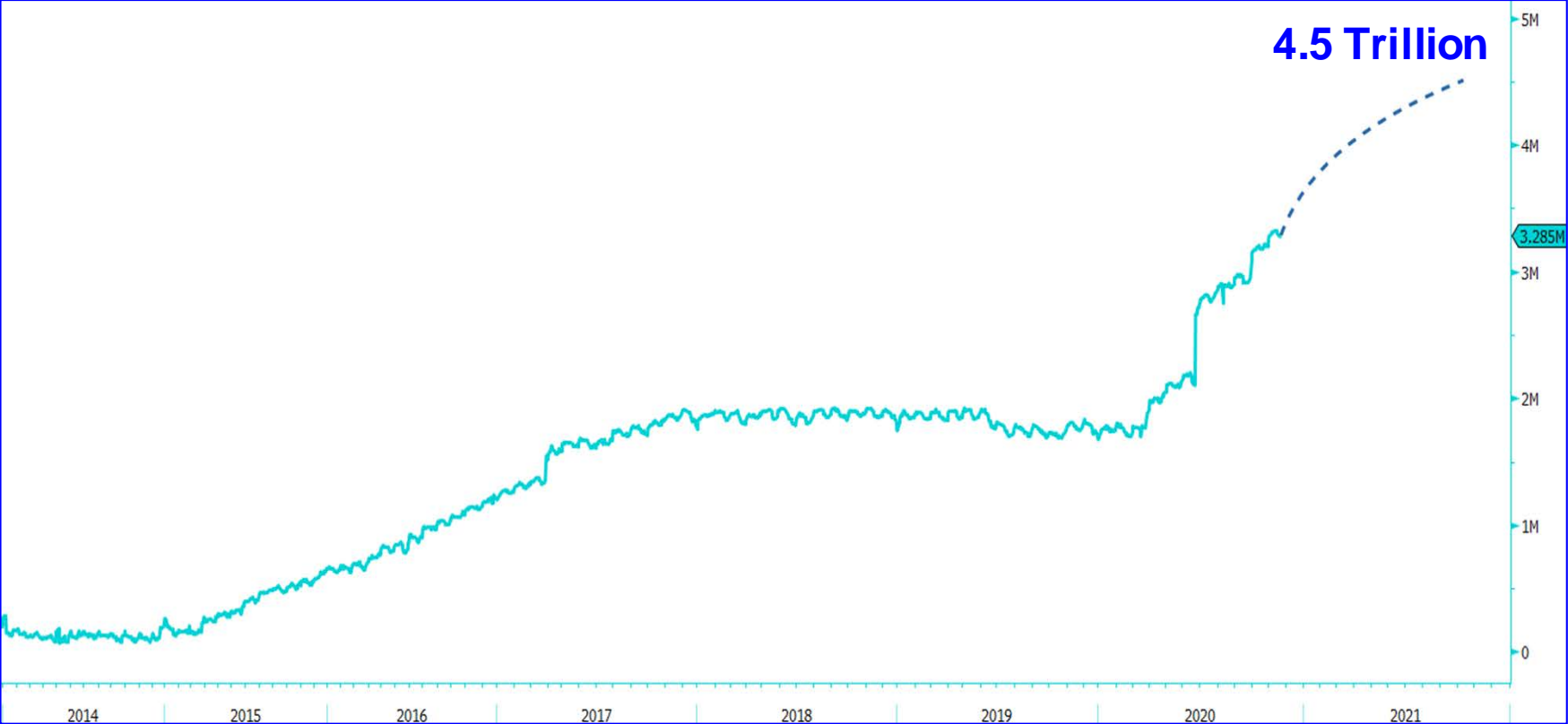
Excess Liquidity Outlook

Excess Liquidity

Current	3,285bn
APP	20bn p/m
PEPP	1,850bn
TLTRO	c.75bn

End 2021 Projection 4,500bn

*assumption remaining APP envelope fully utilised 2020



Source: Bloomberg