



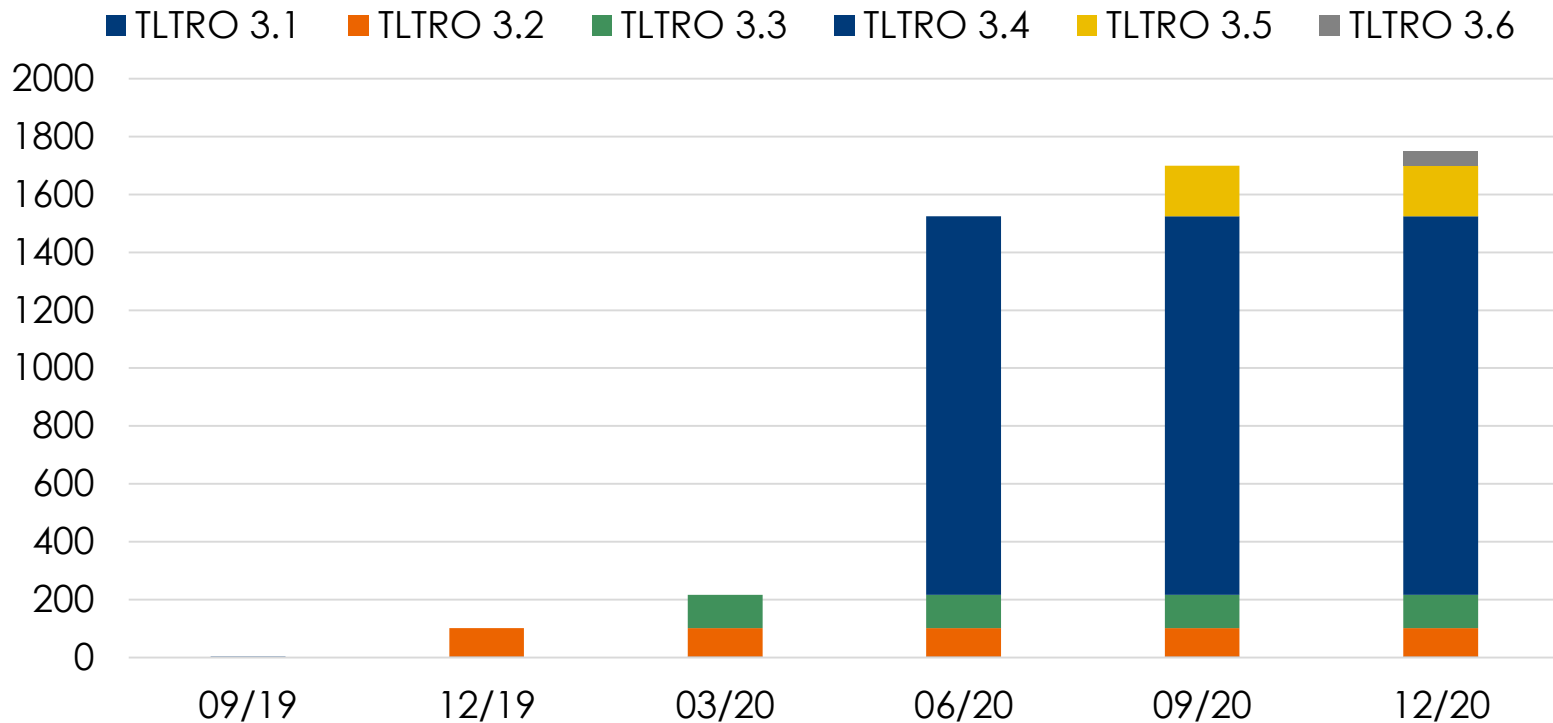
**Review of money markets developments:**

**TLTRO III participation**

M. Cristina Lege  
**ECB Money Market Contact Group**  
16th March 2021

# The only worthy tranche of TLTRO 3 was the fourth, which settled last June <sup>1</sup>

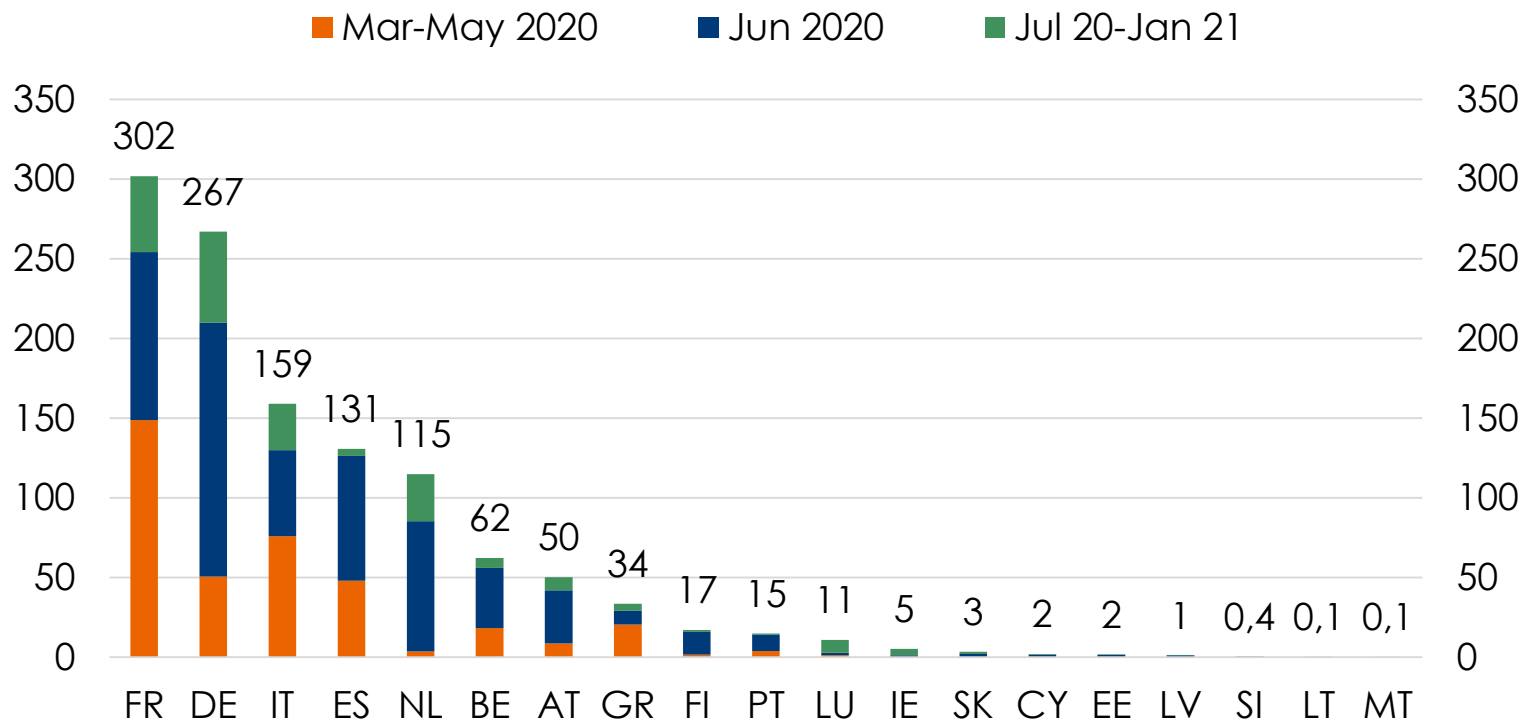
Allotted amount in TLTRO 3 (EUR Bn)



Source: ECB, Bloomberg, Intesa Sanpaolo

# TLTRO 3 funds have also been requested to a large extent by Eurozone core countries

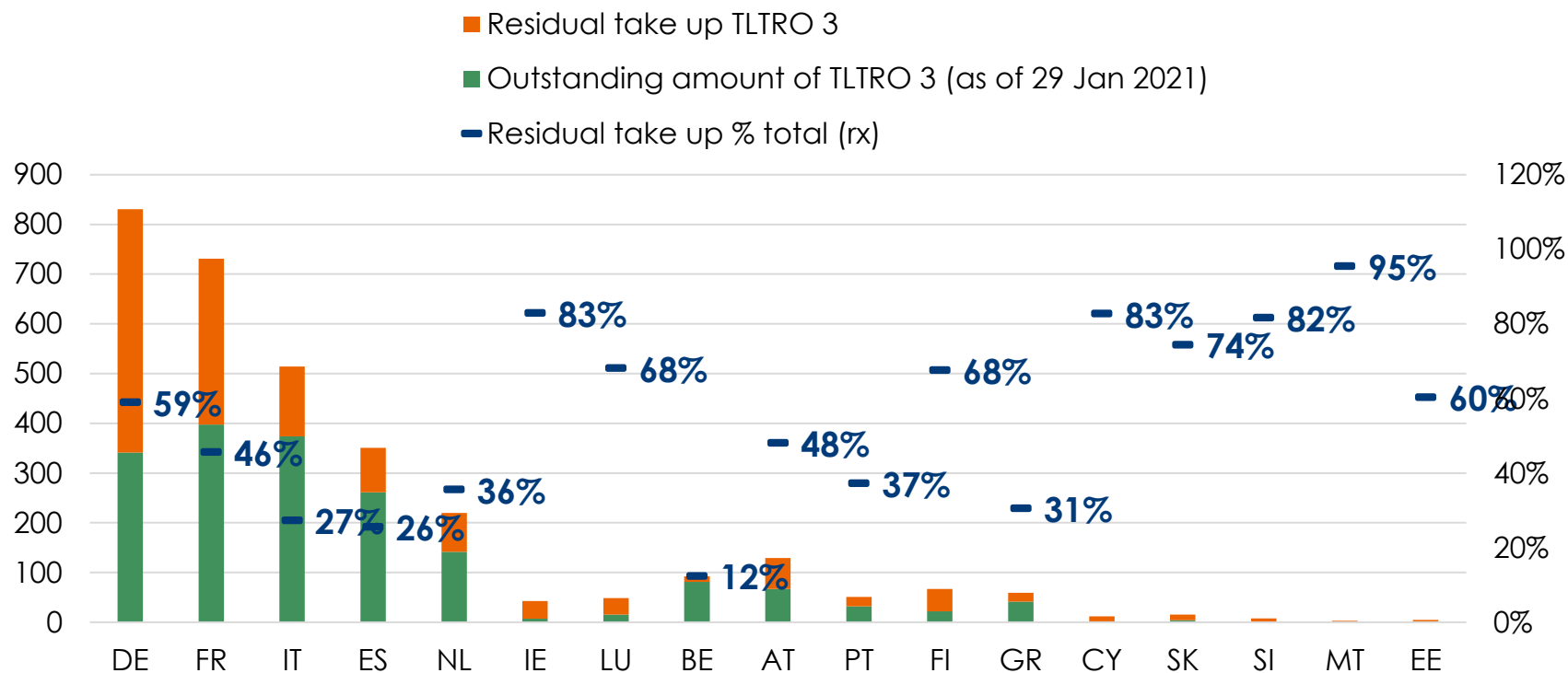
## Change in longer-term refinancing operations at the ECB (EUR Bn)



Source: ECB, Bloomberg, Intesa Sanpaolo

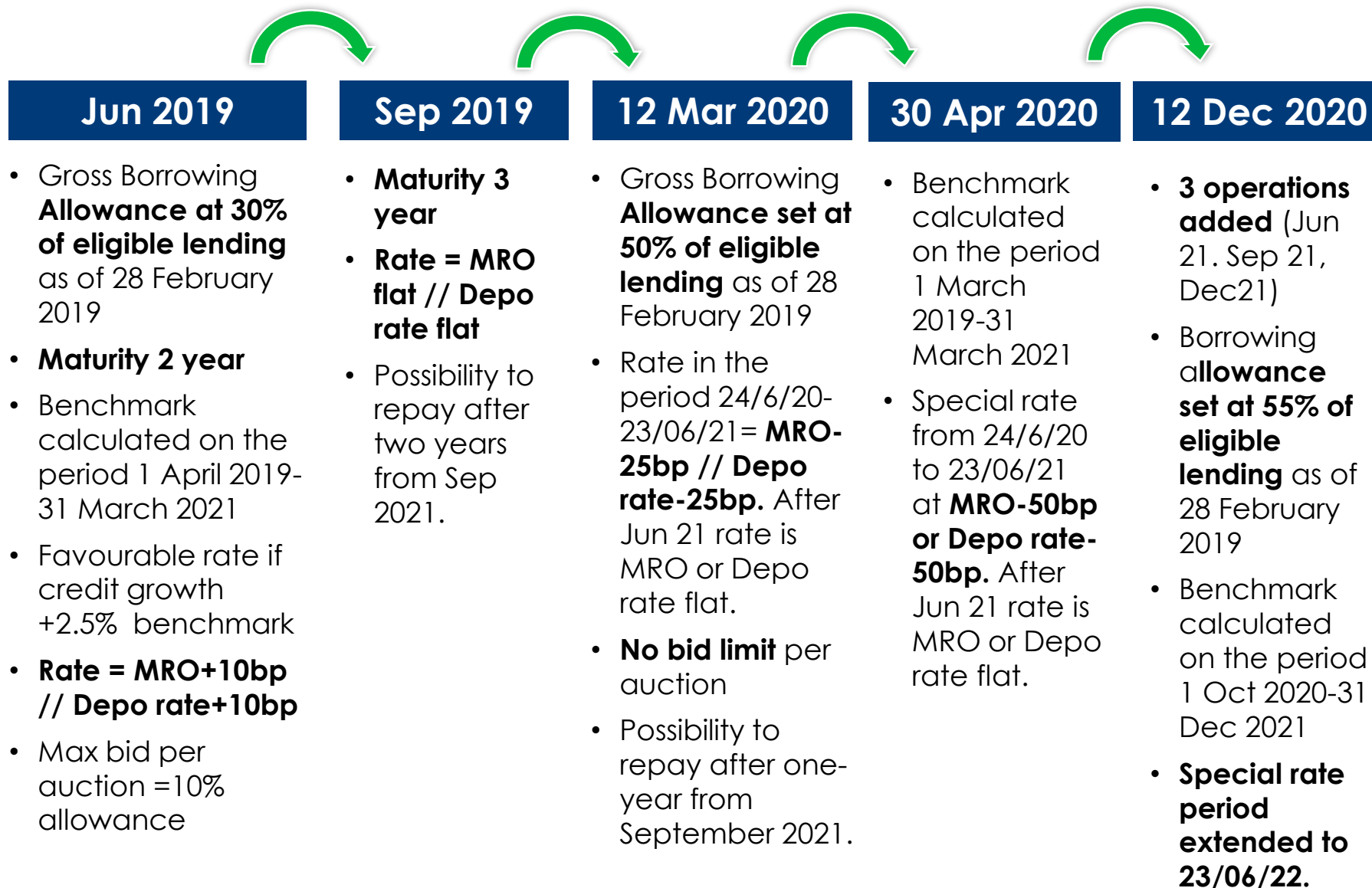
# At the Eurozone aggregate level, the funds still available under TLTRO 3 amount to 45% of the total eligible or 1.4 trillion euros

## Outstanding amount of the TLTRO3 and residual available funds by countries (EUR Bn)



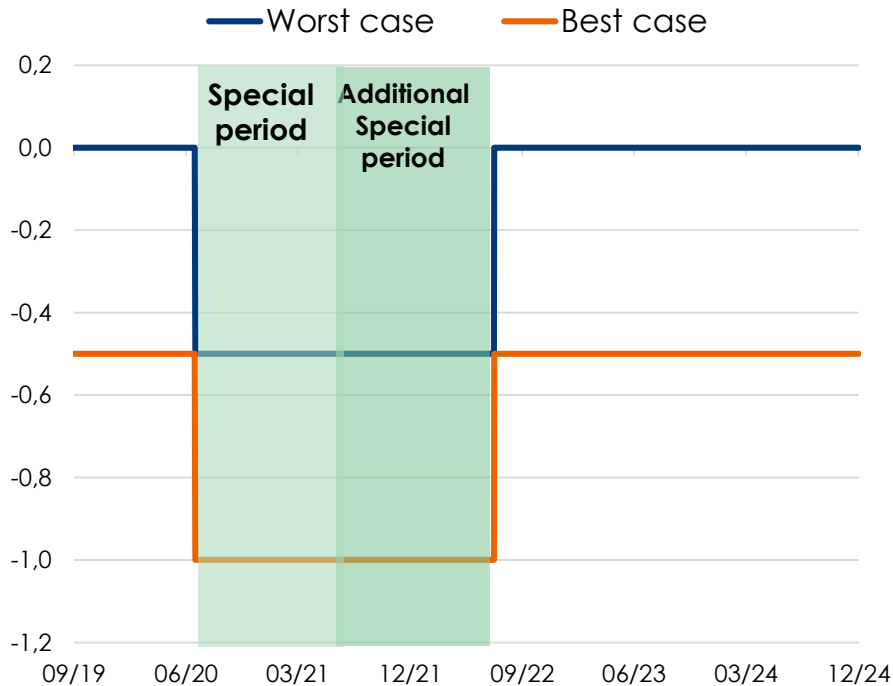
Source: ECB, Bloomberg, Intesa Sanpaolo

# TLTRO III structure getting sweeter and sweeter

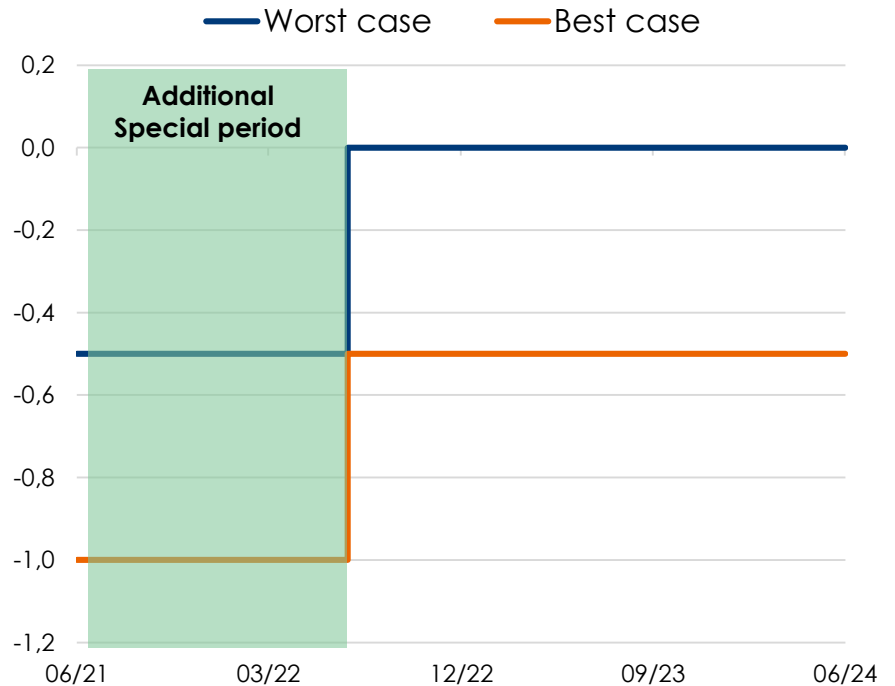


# Take-up at the Mar 21 operation is highly reliant on banks' capacity to reach the lending benchmark and to get -1% rate between Jun 21 and Jun 22

Rates on TLTRO 3.1-TLTRO 3.7 depending on the thresholds reached in terms of lending (%)



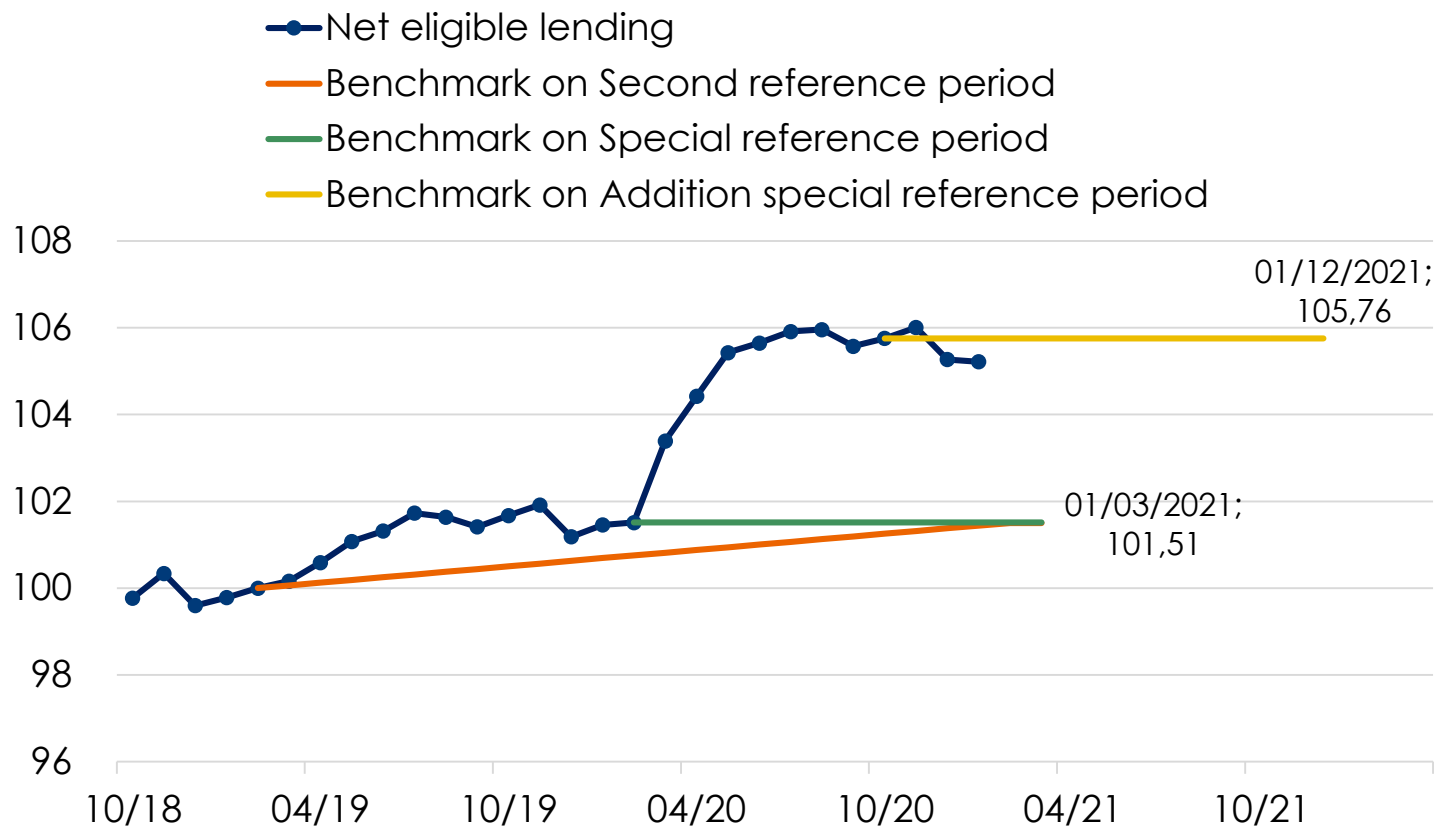
Rates on TLTRO 3.8-TLTRO 3.10 depending on the thresholds reached in terms of lending (%)



Source: ECB, [https://www.ecb.europa.eu/pub/pdf/other/ecb.ECB\\_2019\\_21\\_unofficial\\_consolidated~ad92b41daa.en.pdf?024299400e4d5cd0293ab83c8767364b](https://www.ecb.europa.eu/pub/pdf/other/ecb.ECB_2019_21_unofficial_consolidated~ad92b41daa.en.pdf?024299400e4d5cd0293ab83c8767364b)  
Bloomberg, Intesa Sanpaolo

# The new threshold introduced last December on the lending performance over the period Oct 20-Dec 21 is not easy to reach

## Benchmarks on net lending for the aggregate Eurozone (%)

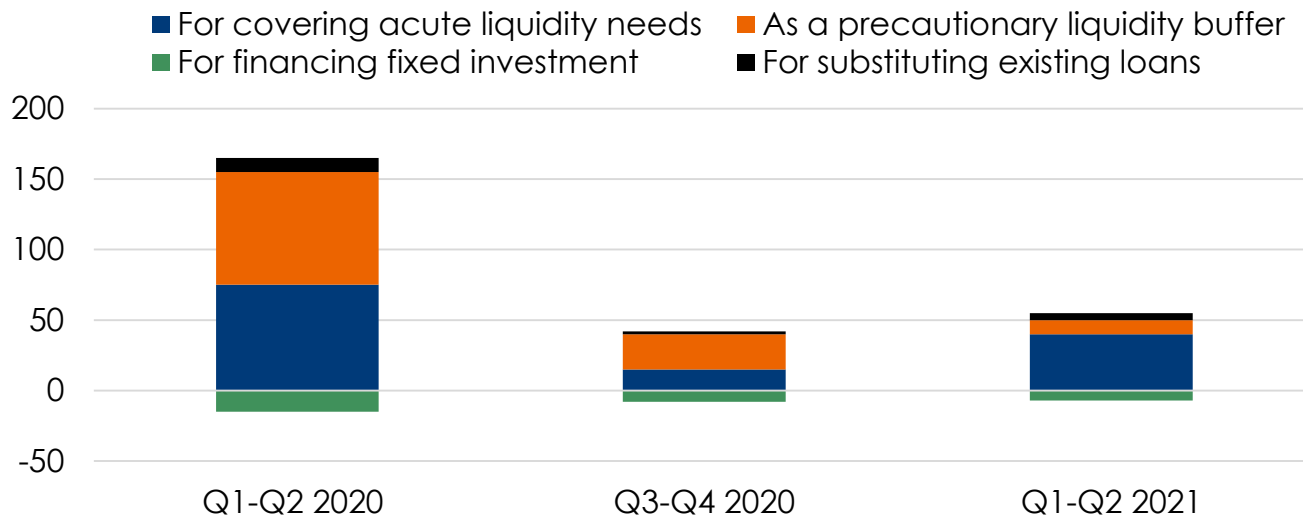


Source: ECB, Bloomberg, Intesa Sanpaolo

# Banks continued to indicate that the need to build precautionary liquidity buffers and to cover acute liquidity needs were the most relevant factors for firms' loan demand

**January 2021 euro area bank lending survey:** “Firms’ demand for loans or drawing of credit lines declined further in net terms in the fourth quarter of 2020. This might be explained by the precautionary liquidity buffers built up in previous quarters. Demand for loans for fixed investment declined for the fourth consecutive quarter.”

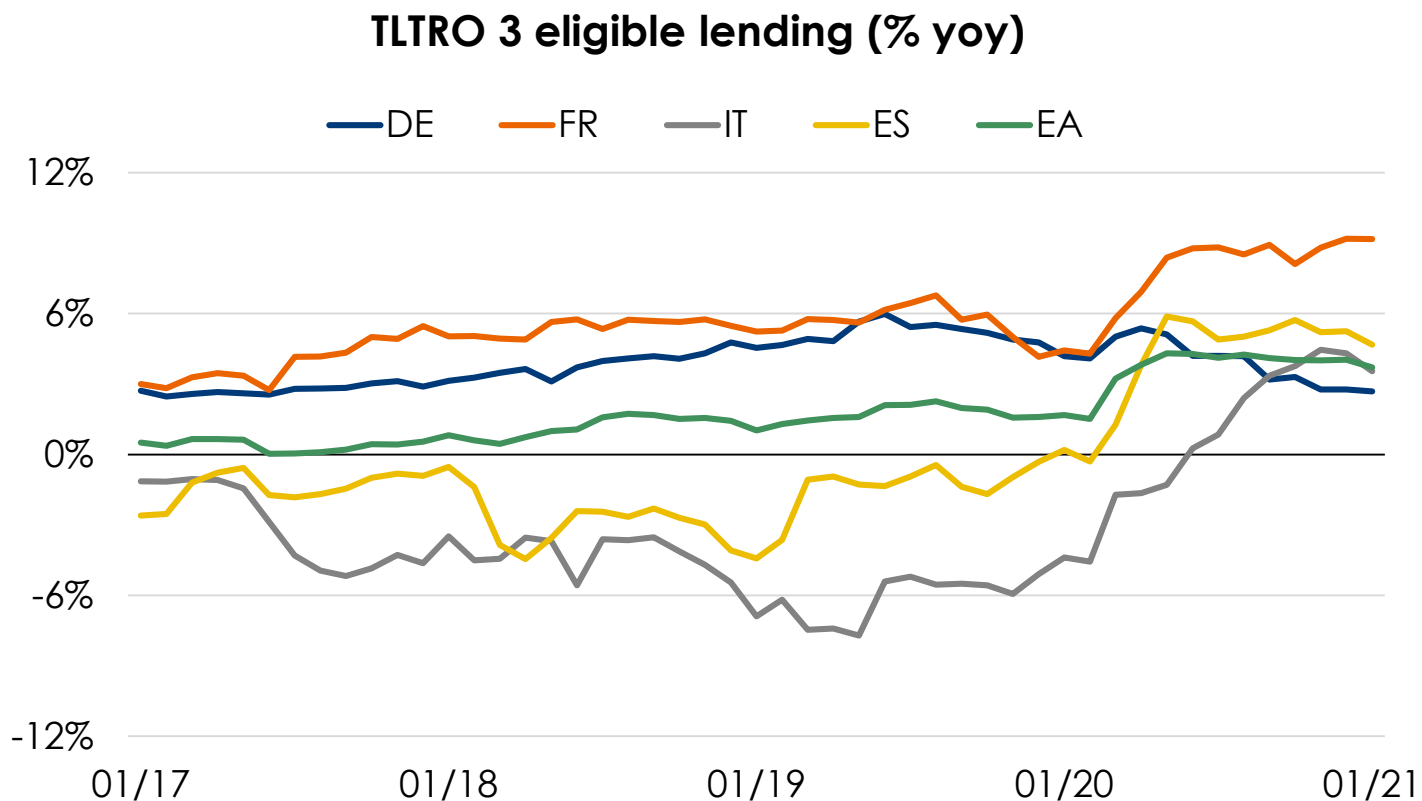
## Factors affecting the demand for loans or credit lines with COVID-19-related government guarantees



Source: ECB, [https://www.ecb.europa.eu/stats/ecb\\_surveys/bank\\_lending\\_survey/html/ecb.blssurvey2020q4-e89c77d212.en.html#toc25](https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2020q4-e89c77d212.en.html#toc25)  
Intesa Sanpaolo



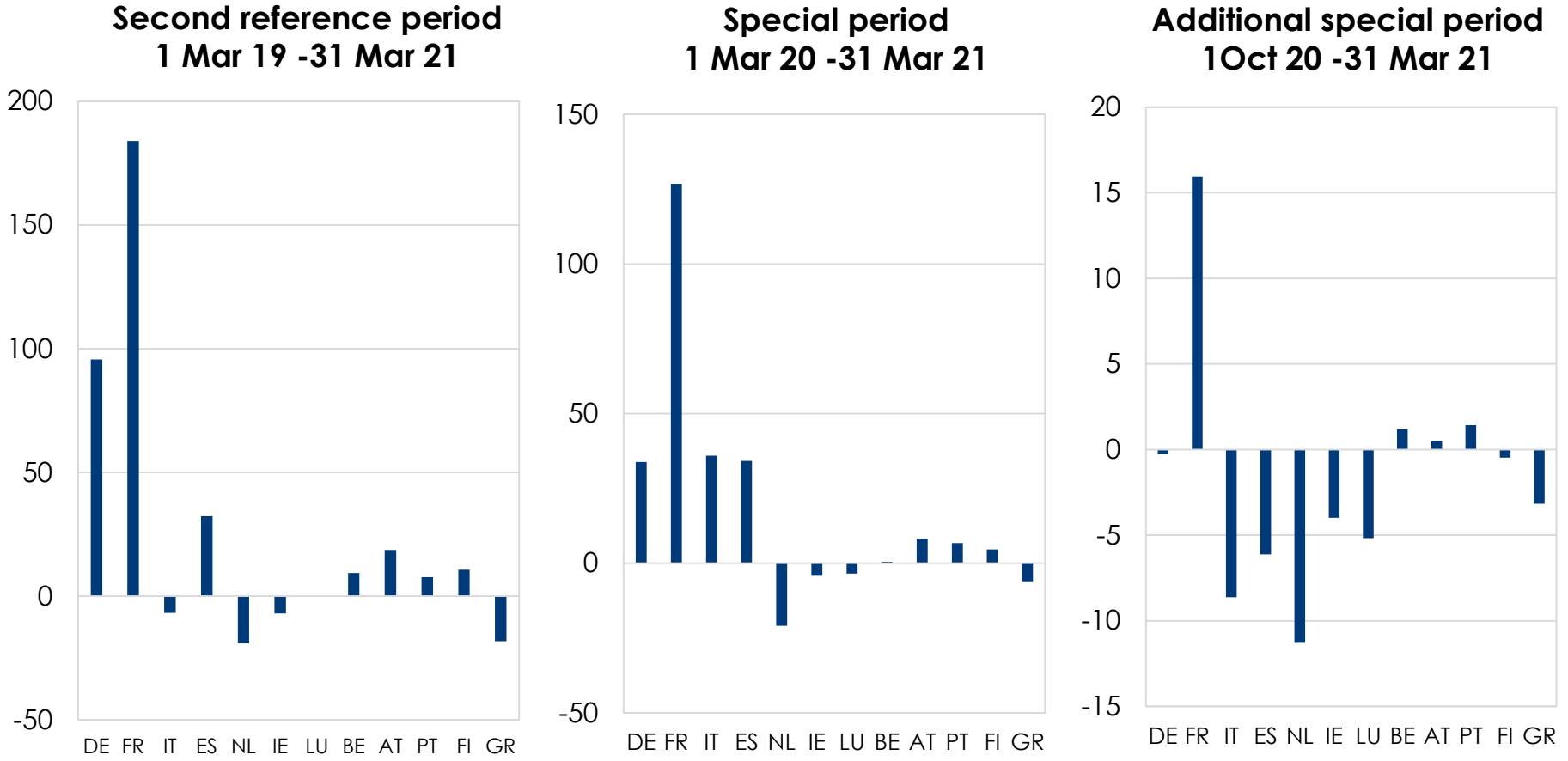
# Net eligible lending climbed after the outbreak of pandemic because corporates increased borrowing from bank's credit lines mainly for precautionary reasons



Source: ECB, Bloomberg, Intesa Sanpaolo

# At national aggregate level, the lending performance is uneven across countries and reference periods

## Eligible lending in TLTRO III reference periods: data ending in Jan 21 (Eur Bn change)



Source: ECB <https://www.ecb.europa.eu/pub/pdf/other/cep.ecb.2017.21.en.pdf?cb7c7419d44d5cd0293ab83c8767364b>, Bloomberg, Intesa Sanpaolo

# The market sources of funding can compete with the maximum rate of the next TLTRO in France and Germany

## TLTRO III.7 cost vs other sources of funding for the banking system of major EA countries (%)

	Germany	France	Italy	Spain
Estimated max gross allowance TLTRO 3.7 (EUR Bn)	490	334	143	93
TLTRO 3.7 min rate %	-0.71	-0.71	-0.71	-0.71
TLTRO 3.7 max rate %	-0.21	-0.21	-0.21	-0.21
<b>Avg TLTRO 3.7 rate % (*)</b>	<b>-0.46</b>	<b>-0.46</b>	<b>-0.46</b>	<b>-0.46</b>
<b>Market funding sources</b>				
3Y Bonds	-0.05	-0.16	0.17	0.11
5Y Covered Bonds	-0.48	-0.47	-0.35	-0.37
12M Repo GC	-0.62	-0.62	-0.53	-0.60
Deposit rate non fin corp	-0.23	0.12	0.39	-0.29
ECB PELTRO	-0.25	-0.25	-0.25	-0.25
<b>Avg rate of market funding (**)</b>	<b>-0.33</b>	<b>-0.28</b>	<b>-0.12</b>	<b>-0.26</b>
<i>Difference vs TLTRO 3 min rate in bp</i>	<b>38</b>	<b>43</b>	<b>59</b>	<b>45</b>
<i>Difference vs TLTRO 3 max rate in bp</i>	<b>-12</b>	<b>-7</b>	<b>9</b>	<b>-5</b>
Cost difference of avg market funding vs TLTRO 3.7 avg rate				
EUR Mln	646	608	490	185
% of 2019 NII	0.95%	0.88%	1.50%	0.27%

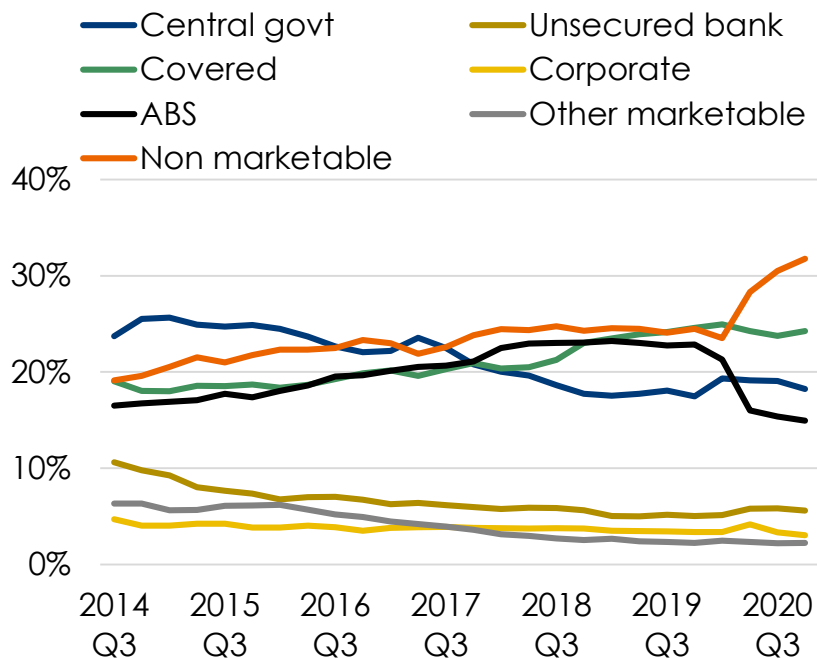
Note: (\*) the rate is a simple average of min and max rates. Min and max rate are an average over the 3 year maturity. (\*\*) Simple average of different market funding rates.

Source: ECB, Bloomberg, Intesa Sanpaolo

# Pledged collateral evolution

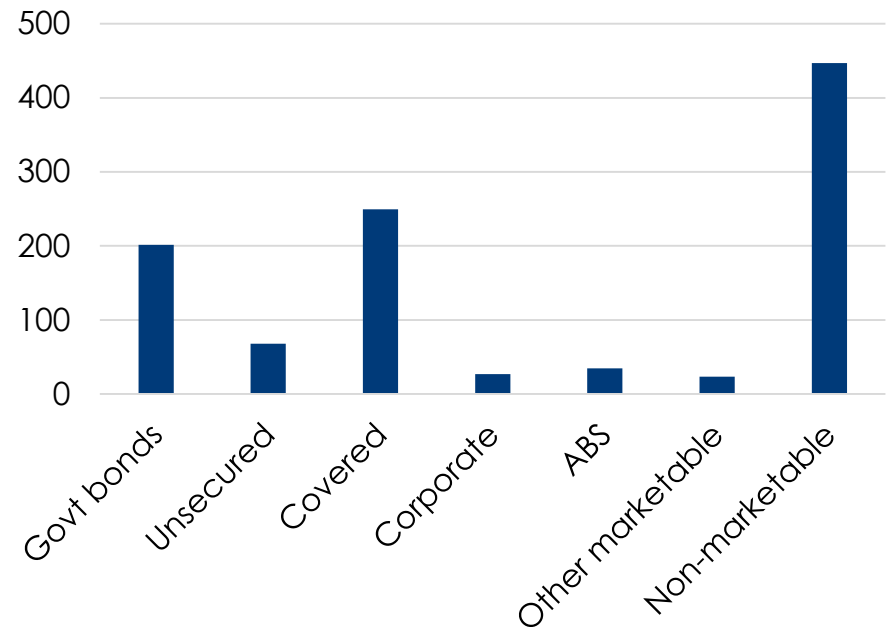
- Eligible marketable assets amounted to 15.6 trillion euro in 4Q20.
- **At the end of Q4 2020, 825 billion euros of non-marketable assets (or credit claims) were posted as collateral for Eurosystem operations, a 447 billion increase from Q4 2019.**

**Pledged collateral at the ECB by asset class  
(% total eligible assets , as of 4Q 2020)**



Source: ECB, Bloomberg, Intesa Sanpaolo

**Pledged collateral by asset class (Net change between Q4'19 and Q4'20, EUR Bn)**



# Our expectations for bank's borrowing at the next four TLTROs

ISP scenario: expected borrowing by country at the TLTRO III series (EUR Bn)

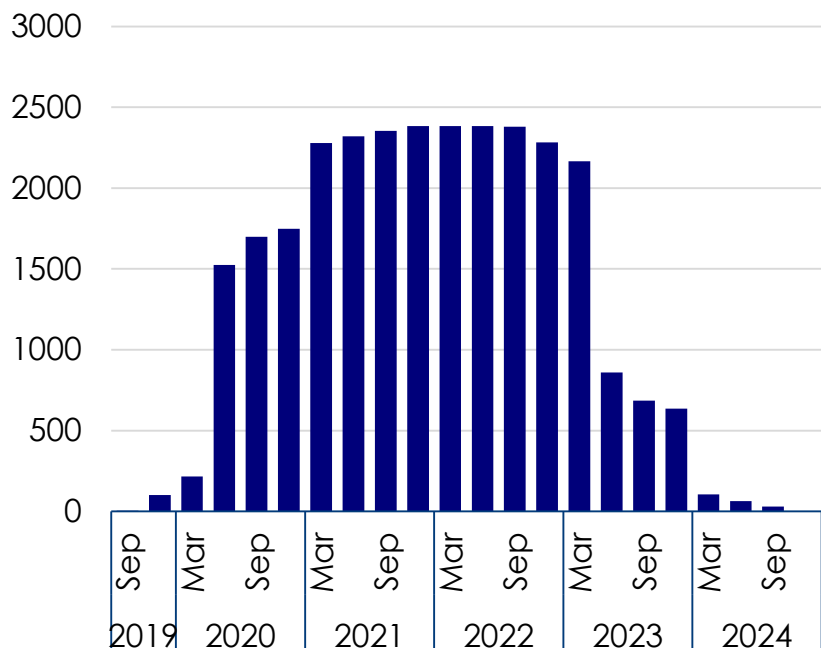
	IT	ES	FR	DE	NE	BE	IE	PT	Other	TOTAL EA
Eligible loans 28/02/2019	935	638	1,329	1,511	399	168	78	235	490	5,784
<b>Max take-up = 55% of elig. Loans</b>	514	351	731	831	220	92	43	129	270	3,181
Long-term refin.operations as of 1/1/21 of which:	373	261	398	341	139	78	7	32	140	1,773
- TLTRO II funds outstanding	2	3	1	-	-	1	1	1	12	21
- TLTRO III funds outstanding	371	258	397	341	139	77	6	31	128	1,748
PELTROs	15	1	-	-	-	-	-	-	-	16
<b>Expected take-up at TLTRO III.7</b>	<b>110</b>	<b>60</b>	<b>120</b>	<b>110</b>	<b>55</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>45</b>	<b>530</b>
<b>Expected take-up at TLTRO III. 8,9,10</b>	<b>15</b>	<b>15</b>	<b>18</b>	<b>13</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>26</b>	<b>105</b>

Source: ECB, Bloomberg, Intesa Sanpaolo

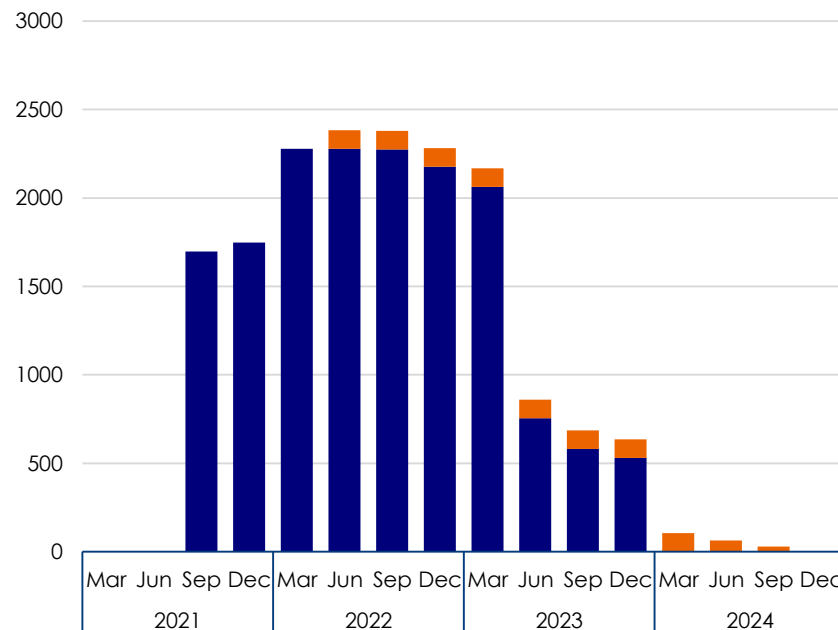
# Early repayments, in particular of TLTRO 3.4 are a source of uncertainty going forward

- Funds borrowed between September 2019 and March 2021 through TLTRO III.1 to TLTRO III.7 can be repaid quarterly after one year from settlement starting in September 2021.
- For the new three tranches of TLTRO III of June 21, September 21 and December 21, the early repayments option is possible quarterly starting from June 2022.

**Scenario without early reimbursements**  
**Outstanding amount of TLTRO 3 (EUR Bn)**



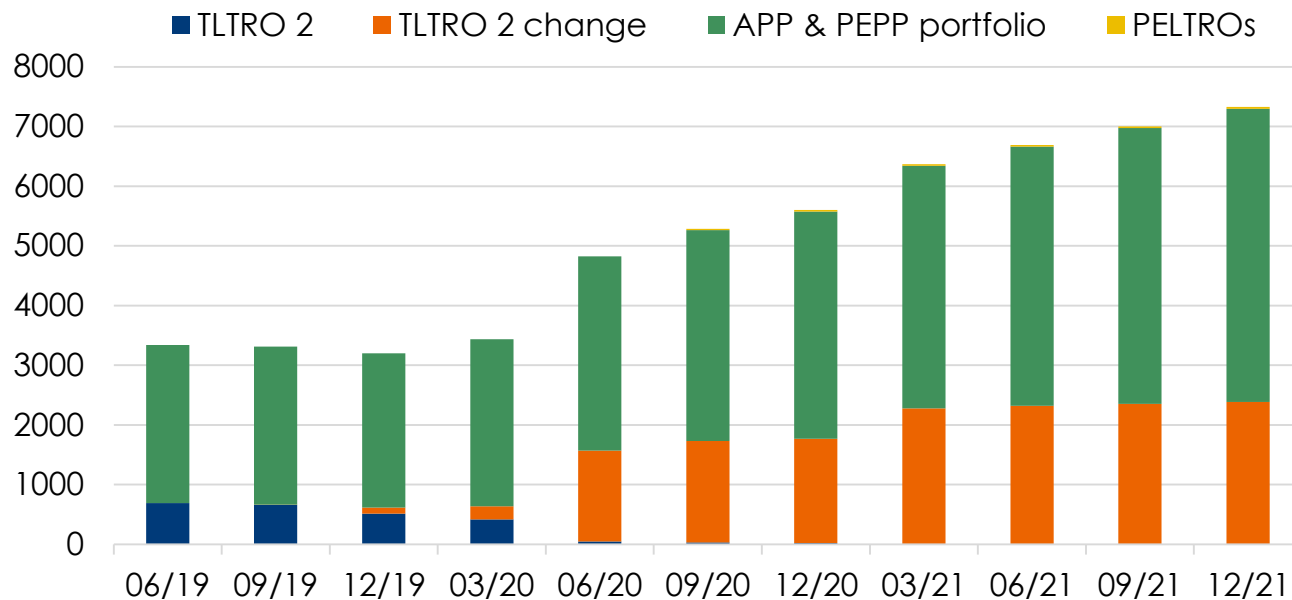
**Cumulative potential funds of early reimbursements of TLTRO3 (EUR Bn)**



# Eurosystem assets are expected to increase above 7 trillion euros by the end of 2021

- Eurosystem's long-term refinancing operations are expected to grow to 2.4 trillion euros in 4Q21.
- The ECB securities portfolios is expected to reach 4.9 trillion euros in 4Q21.

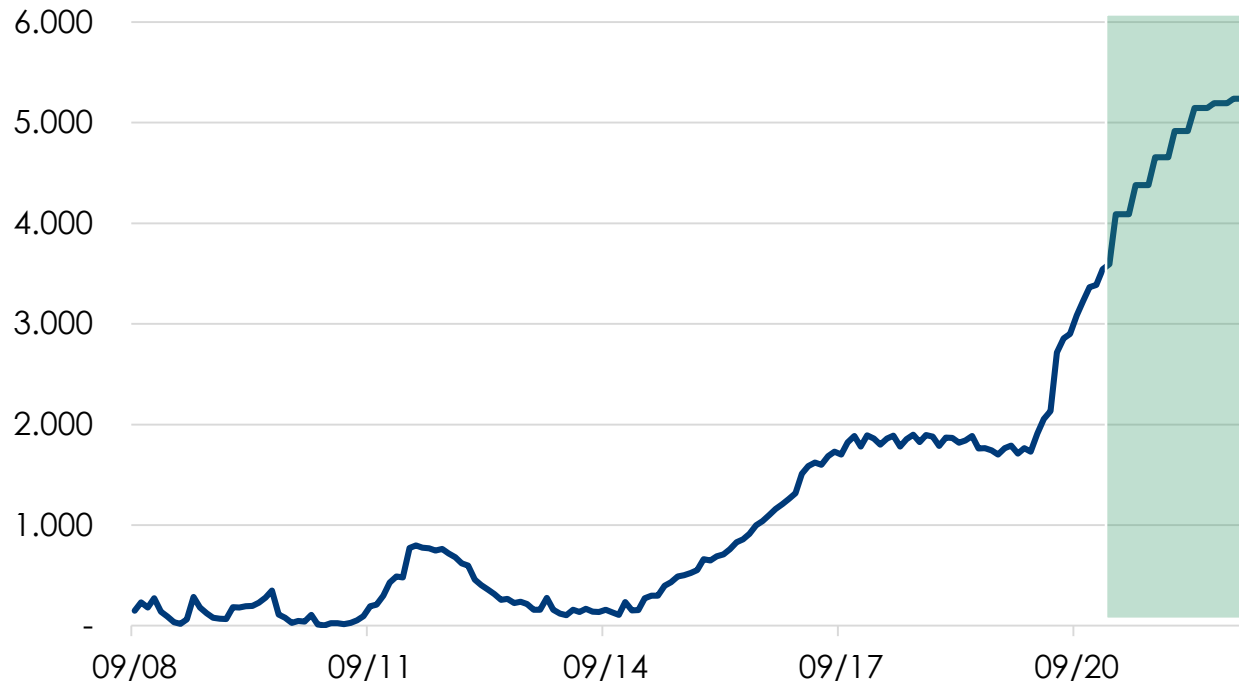
### Eurosystem assets (ISP forecast from Jan 21, EUR Bn)



Source: ECB, Bloomberg, Intesa Sanpaolo

# Excess liquidity will rise steeply above 5 trillion euros

Expected excess liquidity of the Eurosystem (ISP forecast in blue, EUR Bn)



Source: ECB, Bloomberg, Intesa Sanpaolo



## Important Information

### Analyst Certification

The financial analysts who prepared this report, and whose names and roles appear on the first page, certify that:

- (1) The views expressed on companies mentioned herein accurately reflect independent, fair and balanced personal views;
- (2) No direct or indirect compensation has been or will be received in exchange for any views expressed.

### Specific disclosures

The analysts who prepared this report do not receive bonuses, salaries, or any other form of compensation that is based upon specific investment banking transactions.

### Important Disclosures

This research has been prepared by Intesa Sanpaolo S.p.A. and distributed by Intesa Sanpaolo SpA-London Branch (a member of the London Stock Exchange) and Intesa Sanpaolo IMI Securities Corp (a member of the NYSE and FINRA). Intesa Sanpaolo S.p.A. accepts full responsibility for the contents of this report. Please also note that Intesa Sanpaolo S.p.A. reserves the right to issue this document to its own clients. Intesa Sanpaolo S.p.A. is authorised by the Banca d'Italia and is regulated by the FCA in the conduct of designated investment business in the UK and by the SEC for the conduct of US business.

Opinions and estimates in this research are as at the date of this material and are subject to change without notice to the recipient. Information and opinions have been obtained from sources believed to be reliable, but no representation or warranty is made as to their accuracy or correctness.

Past performance is not a guarantee of future results.

The investments and strategies discussed in this research may not be suitable for all investors. If you are in any doubt you should consult your investment advisor.

This report has been prepared solely for information purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any financial products. It should not be regarded as a substitute for the exercise of the recipient's own judgement.

No Intesa Sanpaolo S.p.A. entity accepts any liability whatsoever for any direct, consequential or indirect loss arising from any use of material contained in this report.

This document may only be reproduced or published with the name of Intesa Sanpaolo S.p.A..

This document has been prepared and issued for, and thereof is intended for use by, MiFID II eligible counterparties/professional clients (other than elective professional clients) or otherwise by market professionals or institutional investors only, who are financially sophisticated and capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies.

Therefore, such materials may not be suitable for all investors and recipients are urged to seek the advice of their independent financial advisor for any necessary explanation of the contents thereof.

Person and residents in the UK: This document is not for distribution in the United Kingdom to persons who would be defined as private customers under rules of the FCA.

US persons: This document is intended for distribution in the United States only to Major US Institutional Investors as defined in SEC Rule 15a-6. US Customers wishing to effect a transaction should do so only by contacting a representative at Intesa Sanpaolo IMI Securities Corp. in the US (see contact details below).

Intesa Sanpaolo S.p.A. issues and circulates research to Major Institutional Investors in the USA only through Intesa Sanpaolo IMI Securities Corp., 1 William Street, New York, NY 10004, USA, Tel: (1) 212 326 1199.

### .Inducements in relation to research

Pursuant to the provisions of Delegated Directive (EU) 2017/593, this document can be qualified as an acceptable minor non-monetary benefit as it is:

- macro-economic analysis or Fixed Income, Currencies and Commodities material made openly available to the general public on the Bank's website - Q&A on Investor Protection topics - ESMA 35-43-349, Question 8 & 9.

### Method of distribution

This document is for the exclusive use of the recipient with whom it is shared by Intesa Sanpaolo and may not be reproduced, redistributed, directly or indirectly, to third parties or published, in whole or in part, for any reason, without prior consent expressed by Intesa Sanpaolo.

The copyright and all other intellectual property rights on the data, information, opinions and assessments referred to in this information document are the exclusive domain of the Intesa Sanpaolo banking group, unless otherwise indicated. Such data, information, opinions and assessments cannot be the subject of further distribution or reproduction in any form and using any technique, even partially, except with express written consent by Intesa Sanpaolo.

Persons who receive this document are obliged to comply with the above indications.

### Valuation Methodology

Trading Ideas are based on the market's expectations, investors' positioning and technical, quantitative or qualitative aspects. They take into account the key macro and market events and to what extent they have already been discounted in yields and/or market spreads. They are also based on events which are expected to affect the market trend in terms of yields and/or spreads in the short-medium term. The Trading Ideas may refer to both cash and derivative instruments and indicate a precise target or yield range or a yield spread between different market curves or different maturities on the same curve. The relative valuations may be in terms of yield, asset swap spreads or benchmark spreads.

### Coverage Policy And Frequency Of Research Reports

Intesa Sanpaolo S.p.A. trading ideas are made in both a very short time horizon (the current day or subsequent days) or in a horizon ranging from one week to three months, in conjunction with any exceptional event that affects the issuer's operations.

### Disclosure of potential conflicts of interest

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, management and control model" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage <https://group.intesasnpaolo.com/en/governance/leg-decree-231-2001>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A., webpage <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures>. This documentation is available to the recipient of this research upon making a written request to the Compliance Department, Intesa Sanpaolo S.p.A., Via Hoepli, 10 – 20121 Milan – Italy.

Furthermore, in accordance with the aforesaid regulations, the disclosures of the Intesa Sanpaolo Banking Group's interests and conflicts of interest are available through webpage <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest>. The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report.

We highlight that disclosures are also available to the recipient of this report upon making a written request to Intesa Sanpaolo S.p.A. – Macroeconomic and Fixed Income Research, Via Romagnosi, 5 - 20121 Milan - Italy.

Intesa Sanpaolo Spa acts as market maker in the wholesale markets for the government securities of the main European countries and also acts as Government Bond Specialist, or in comparable roles, for the government securities issued by the Republic of Italy, by the Federal Republic of Germany, by the Hellenic Republic, by the European Stability Mechanism and by the European Financial Stability Facility.