

Main developments in money markets and ECB policy outlook

5 December 2023

CaixaBank





ECB Policy outlook

> **October Governing Council meeting**

> No changes, no surprises:

- > Rates kept on hold
- > No changes to QT: no discussion/decision on PEPP reinvestments
- > No change to remuneration on government deposits
- > No change to reserve requirements (some analysts/observers expected an increase to 2%)

> **Expectations for the December Governing Council meeting and interest rate expectations going forward**

- > Interest rates on hold, no guidance for rate cuts, but market expects three cuts in 2024 and three cuts in 2025
- > Reserve requirements could be increased, the door is open
- > Possibly announce plans for change in PEPP reinvestments (e.g. from 2H24 onwards keep reinvesting 50% of bond redemptions)
- > Possibly lower remuneration on government deposits
- > Possible revisions to inflation and growth forecasts (e.g. inflation forecasts could be lowered, if low oil prices persist)

ECB Policy Outlook – Rates

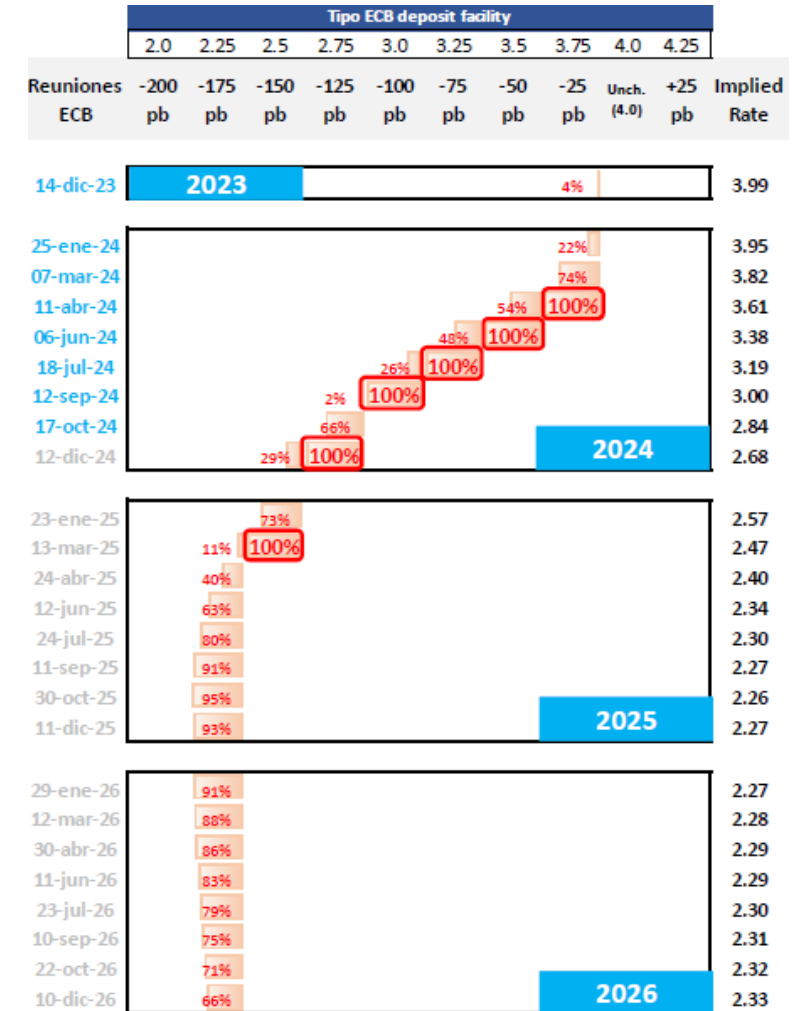
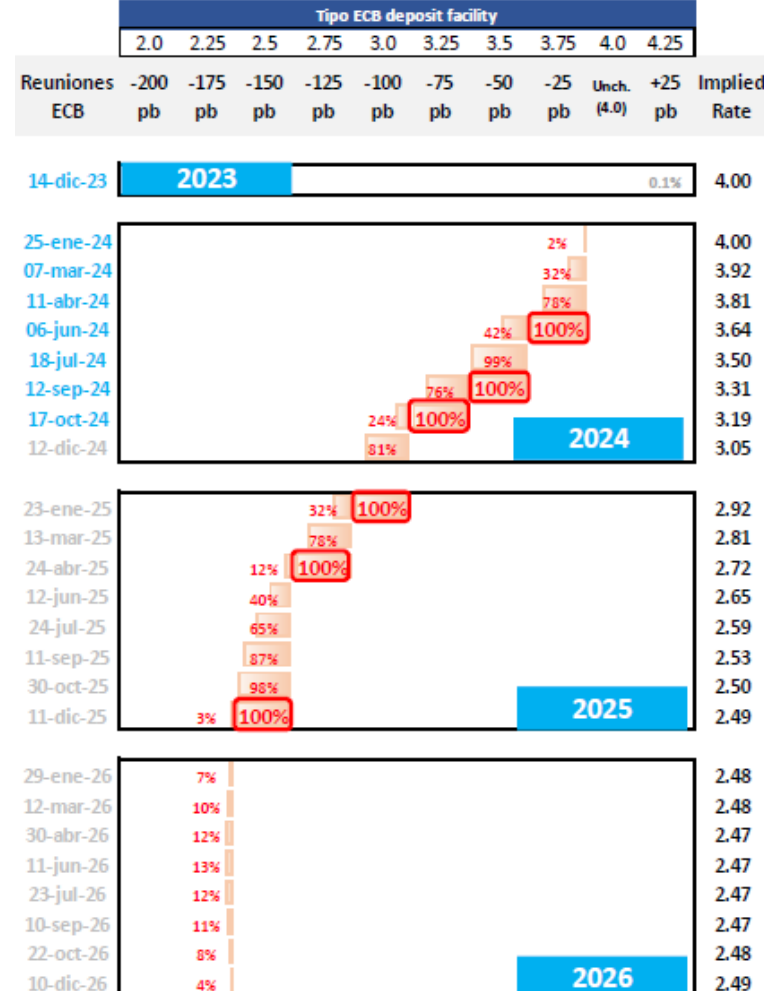
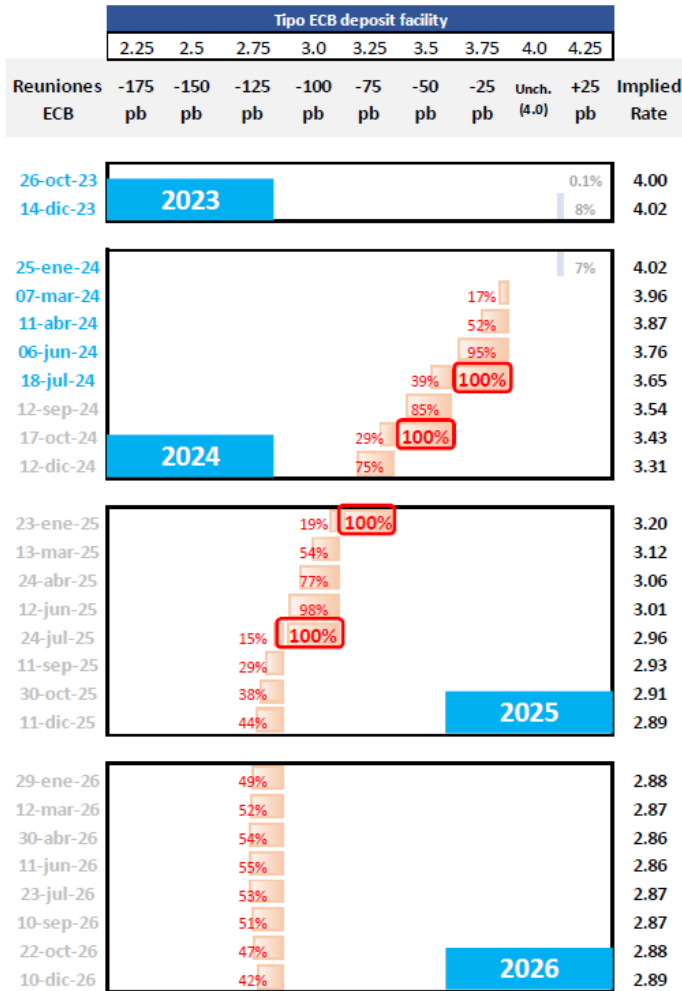


> Market expectations for ECB depo rate (as of 25-oct-2023 and 28-nov-2023)

25-oct-2023

28-nov-2023

01-December-2023

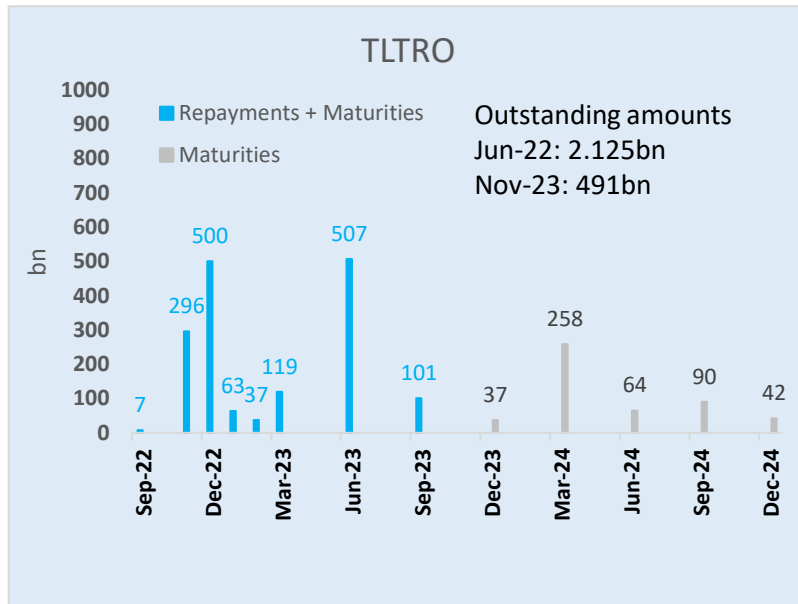




ECB Policy Outlook - usage of standard refinancing operations

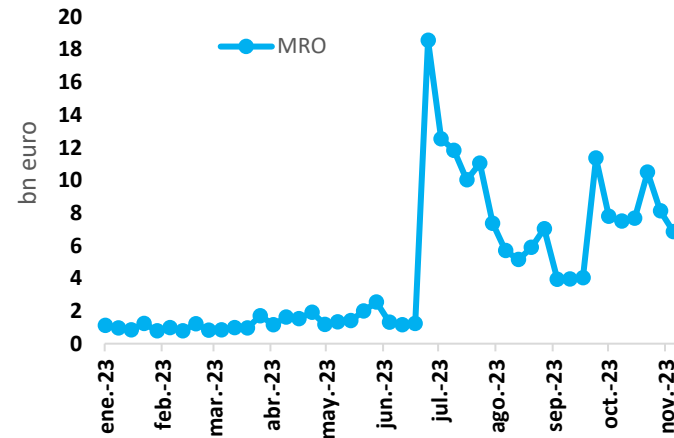
> TLTRO

- > In dic-23 repayments could be higher than in previous quarters



> MRO and LTRO

- > after spike in June, MROs averaging around 8bn in the past weeks, LTROs below 1bn in oct-23 (>5bn outstanding)



bn euro	LTRO
oct.-23	0,54
sep.-23	1,90
ago.-23	2,21
jul.-23	3,17
jun.-23	4,33
may.-23	0,79
abr.-23	0,72
mar.-23	0,74
feb.-23	0,58
ene.-23	0,78

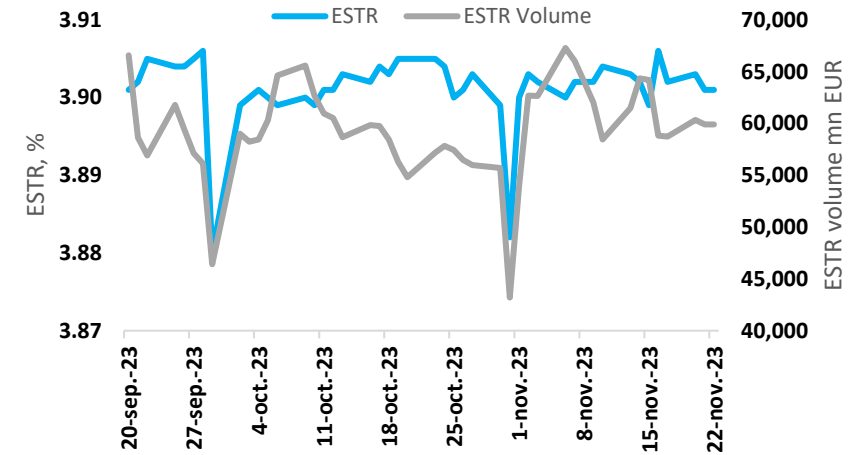
(bn, euro)	TLTRO III + LTRO		var.
	Outstanding amt.		
	jun-22	sep-24	
Italy	432	155	-64%
France	460	123	-73%
Germany	404	89	-78%
Spain	290	33	-89%
Netherlands	172	25	-85%
Austria	87	20	-77%
Grece	51	16	-69%
Portugal	41	4	-90%
Euro area	2125	499	-77%



ECB Policy Outlook – other decisions

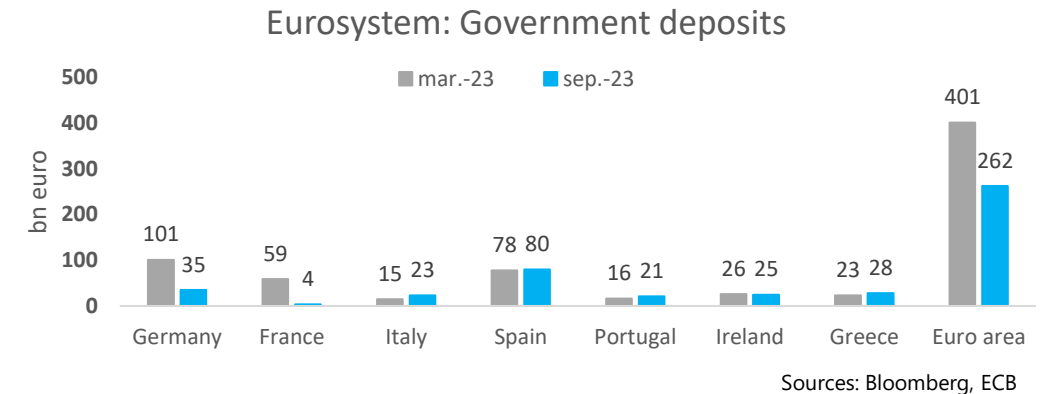
> Raising Minimum Reserve Requirements

- > Raising 1% additional: reducing excess liquidity one-for-one (165bn euro as of sept.-2023)
- > Impacts on LCR
 - > An increase of the minimum reserve requirement from 1% to 2% could reduce LCRs up to mid/high-single digits, depending on the bank
- > Amplify month-end effects and impact on ESTR fixing



> Possibly lower remuneration of government deposits

- > Still some ground to cover:
 - > Still large liquidity parked by governments in central banks
 - > ECB could reduce government remuneration towards 0%



> No decisions on reverse tiering system is expected

- > Market impact in a similar way as a rate cut



ECB Policy Outlook – other decisions

> **QT: APP, PEPP**

- > This topic was not addressed at the last ECB meeting in October but could be back on the table and could be discussed at the December ECB meeting
 - > Monetary tightening is not only about whether rates will be hiked further but could also come through larger QT.
- > No change for APP is expected. Outstanding amount will continue to decrease with redemptions of approx 28bn/month
- > Possibly announce plans for a change in PEPP reinvestments as a likely acceleration of the balance sheet reduction
 - > For instance, from 2H24 onwards keep reinvesting 50% of bond redemptions. With redemptions of approximately euro 15-20bn/month, the reduction in excess liquidity in 2024 would be around 45-60bn.
- > The key question now is about the timing and the magnitude of that run-off, which should negatively reflect on credit spreads (ie, upward risk), with impact depending on the pace of the process.
- > Overall ECB balance sheet reduction in 2024 around 800bn.

> **ECB forecast revisions:** including 2026

- > possibly lower growth and lower inflation in 2024

Bloomberg Consensus	2024	2025
Real GDP	0,7	1,5
CPI	2,7	2,1