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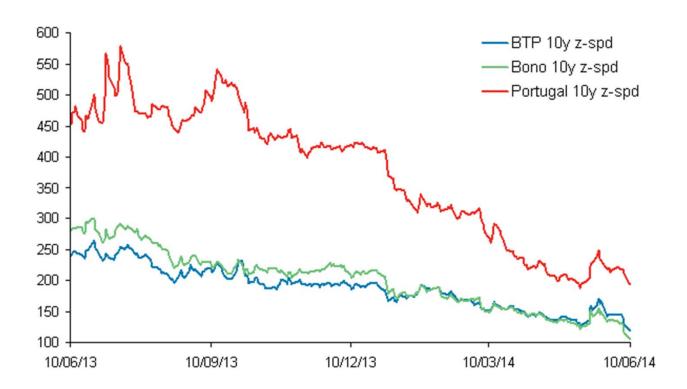
# **ECB MMCG: Market review**



# Italy +Spain + Portugal 10 y ASW spread: 1y history

- Continuous tightening of peripheral spreads
  - Elections proved to be an accident as Italian results notably were very positive
  - Post ECB decision, we saw an acceleration and new lows

#### Italy +Spain + Portugal 10 y ASW spread 1y history

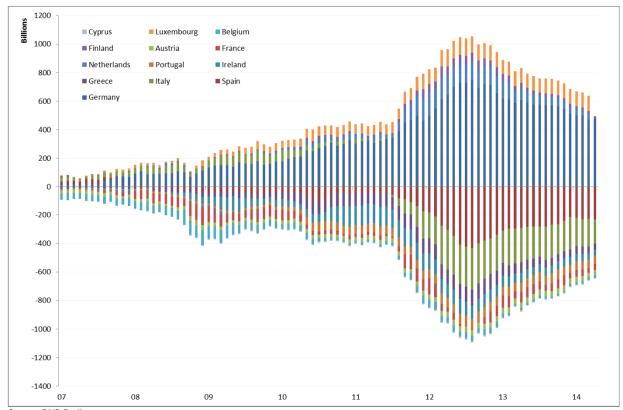




# **Target 2 imbalances**

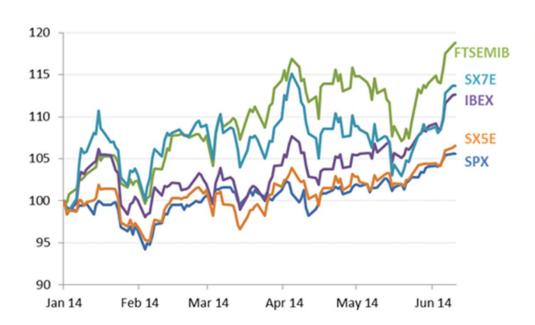
■ Imbalances kept on reducing but maybe at a slower pace

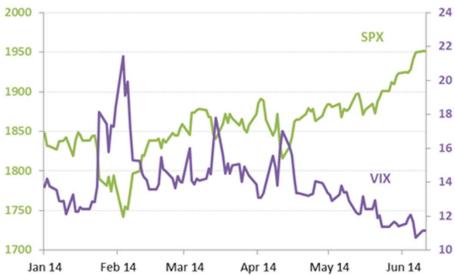
#### **Target 2 imbalances**



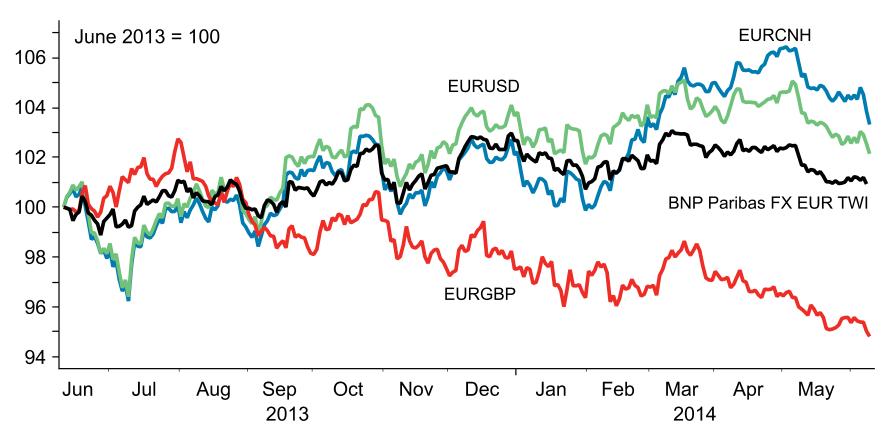
# **Equity markets**

- Outperformance of peripheral and bank equities
  - After some consolidation since beginning of April and going into the European elections, Italian and Spanish markets are making new highs. Spain is outperforming
  - Banking index benefited strongly from ECB decision
  - VIX is making new lows



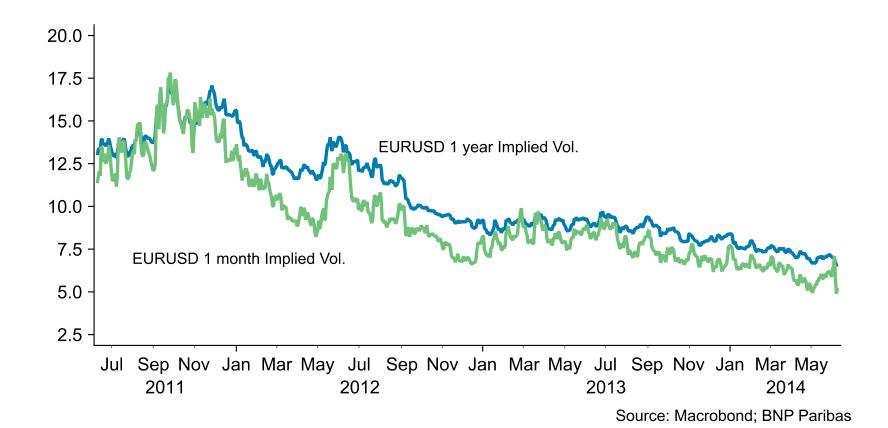


- ECB rhetoric over the past few months has strongly influenced the level of the EURO
  - Recent measures clearly had an impact
  - CNH move was very significant and led by a big increase in reserves



Source: Macrobond; BNP Paribas

- Volatility is reaching a multi-year low
  - The very low level of volatility is not affected by ECB policy, but rather re-enforced so far

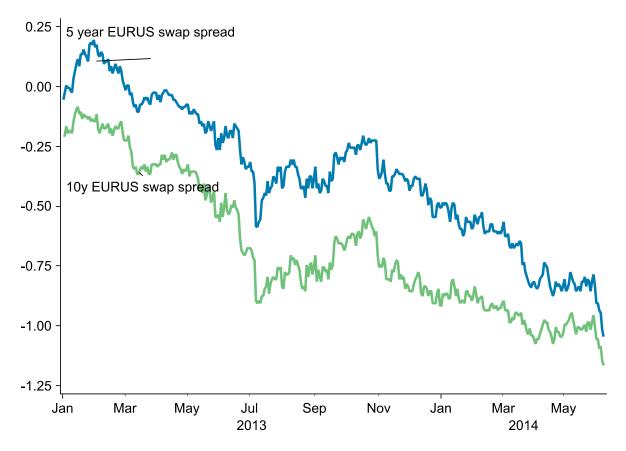


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# Increasing rate differential between US and Europe led by the ECB

- Continuous widening of USD vs EUR rates
  - Recent ECB interventions clearly led the move, initiated by forward guidance last year
  - June ECB decisions created a move to new highs, breaking a 2 month range

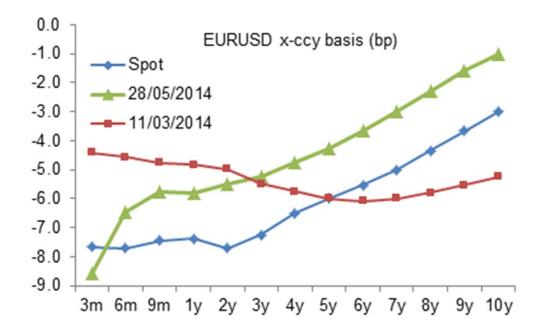
#### 5y and 10y EUR vs USD swap spread



#### **EUR/USD XCCY curve to 10 y**

- XCCY market pricing easier liquidity conditions in EURO
  - Market normalisation has been very strong since the beginning of the year led by very strong swapped USD issuance
  - We saw positive territory for some time and then market started to price easier liquidity conditions in EUR, anticipating ECB, while USD issuance also slowed down

#### **EUR USD XCCY curve evolution since 3 mth**



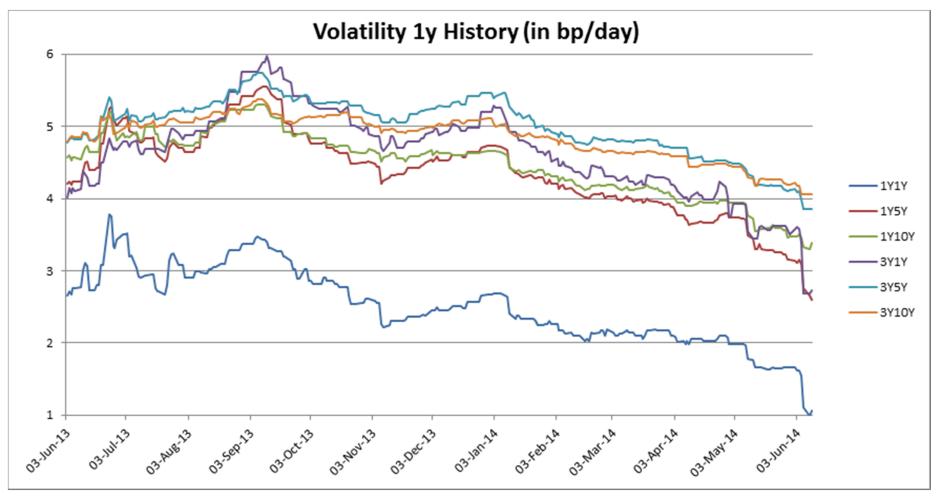
Source: BNP Paribas



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# Rate options implied volatility in b.p. per day

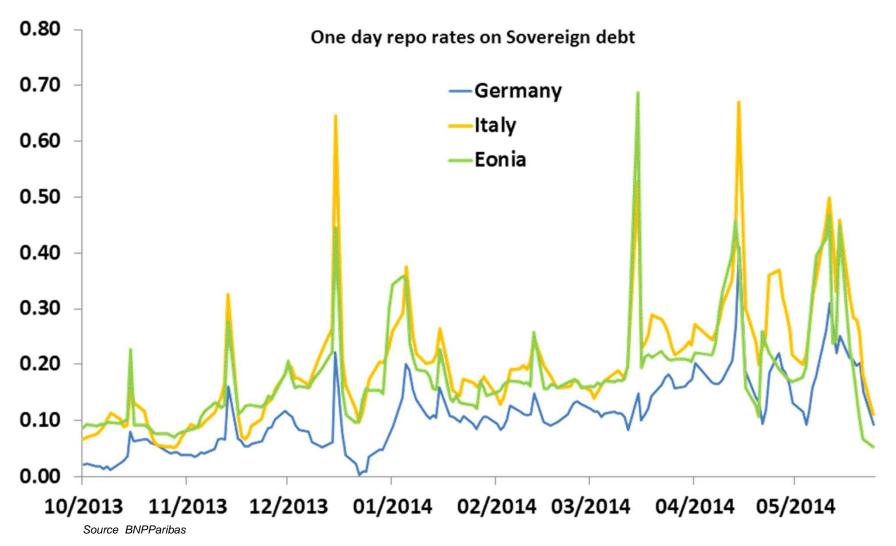
- Rates volatility trend since the beginning of the year is clear
  - 1 year expiries are leading the way, up to the 5 year underlying
  - June ECB measures clearly created a new shock, impacting very strongly the 3y1y(1y in 3 y)



Source: Bloomberg

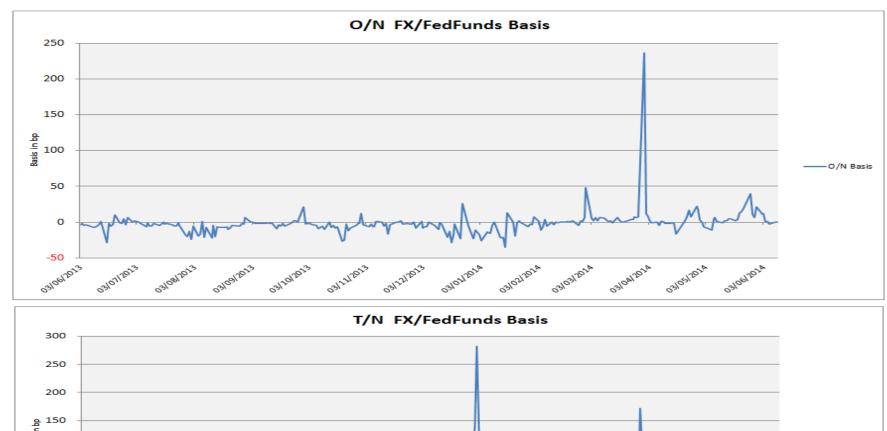
#### GC T/N, Germany and Italy

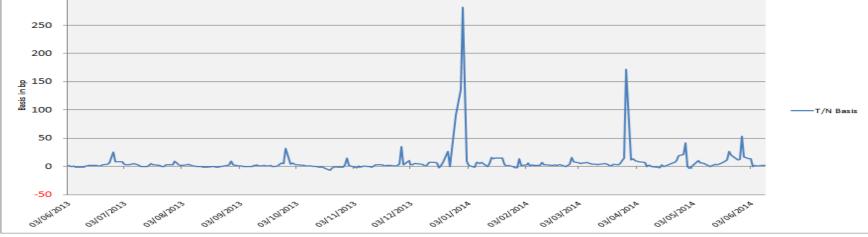
- Very short term rates were the only area where volatility was up as:
  - Liquidity excess being reduced, MRO, SMP, month ends, became important events
  - Lower usage of unsecured seems to create more noise in the repo market as friction costs are revealed



#### **EURO O/N and T/N FX/OIS Basis**

■ O/N and T/N FX swap implied Euro rate have become much more volatile over month ends notably

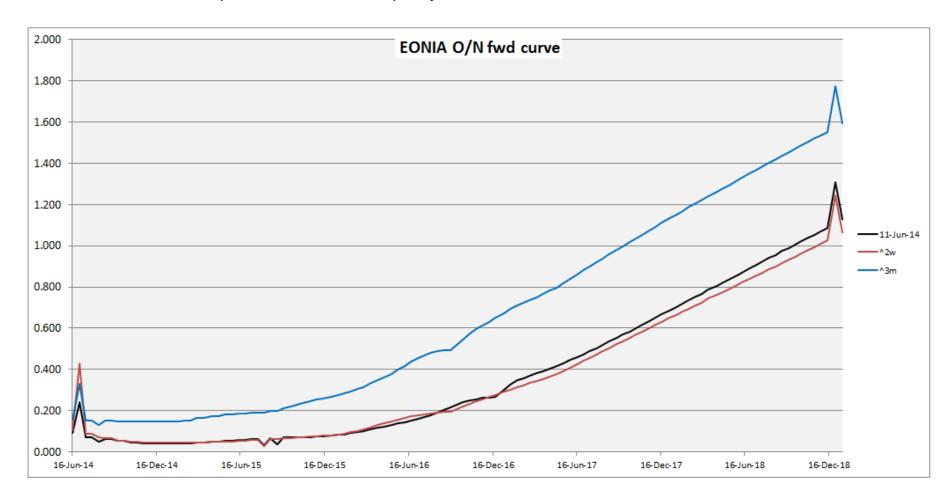






#### **EONIA** curve moves over last 3 months, and over ECB

- ECB comments and speeches very well prepared the market and its decisions were credible
  - Biggest move was in the 2y2y part of the curve
  - On the very short term, June ECB moved most (lower) while October stayed unchanged at 0.04%
  - Market seems to expect an increase in liquidity from the start of the TLTROs





#### **Euro inflation break-even rates**

- Inflation expectations have been trending lower but there is a small rebound
  - Biggest move was in the 3y2y part of the curve
  - For about a month and since the intensification of the ECB officials' comments, breakeven rates are grinding higher





#### **How attractive are TLTROs?**

- Banks will be able to borrow at 0.25% for 4 years against collateral
  - Is it interesting when compared to where banks borrow secured cash ie covered bonds levels?
    - It is not that interesting for best rated banks core banks, but some should be interested to use their "illiquid" collateral

RNDDCR 3 375 12/01/2017

It is for peripheral banks and low rated banks

**ECB TLTRO 0.25%** 

BNPPCB 3.375 12/01/2017	0.288
BNPPCB 1 25/02/2019	0.649
SOCSFH 1 19/12/2017	0.452
SOCSFH 2.875 14/03/2019	0.663
DB 3.375 06/04/2018	0.339
HESLAN 1 26/06/2018	0.476
ABNANV 3.5 12/01/2018	0.471
INTNED 3.375 11/01/2018	0.480
INTNED 5.25 05/06/2018	0.544
UCGIM 4 31/01/2018	0.890
MONTE 5 09/02/2018	1.544
UCGIM 4.25 31/07/2018	0.986
ISPIM 2.25 24/09/2018	1.007
BPEIM 3.375 22/10/2018	1.532
BANCAR 3.875 24/10/2018	2.141
SANTAN 2.875 30/01/2018	0.870
CABKSM 3 22/03/2018	0.955
POPSM 4.125 09/04/2018	1.343
BKIASM 4.25 25/05/2018	1.234
BKIR 2.75 22/03/2018	0.905
AIB 3.125 10/09/2018	1.064
KBC 1.125 11/12/2017	0.492
INGB 1.125 10/12/2018	0.677
CCBGBB 1.25 28/01/2019	0.673

Source BNPParibas: Covered bond mid-yield levels June11<sup>th</sup>



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