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POST-ECB MEETING – KEY TAKEAWAYS AND PERSPECTIVES

POST-ECB MEETING KEY TAKEAWAYS

ECB Deposit Rate

Cut 10 bps to -0.50%.

Asset Purchase Program (APP)

Program resumption (€ 2.6T) by buying € 20bn/monthly from November 1st. Scalable in size and length.

Forward Guidance

ECB interest rates to remain at their present levels or will be lowered until inflation has “robustly converge” towards its target (2%). The QE will remain in force “as long as necessary” and will be only terminated shortly before the first rate increase.

Rates Tiering

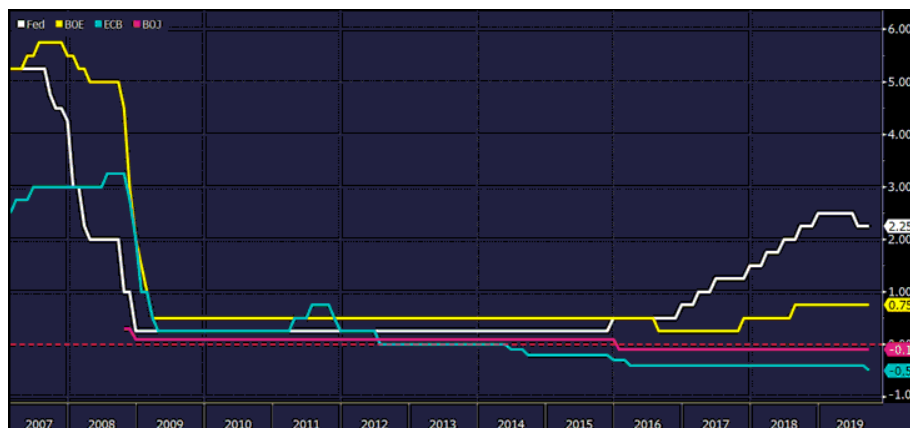
Introduction of a two-tier system in order to reduce negative interest charge on banks (cost approx. € 7.5bn in 2018). Banks able to deposit some multiple (initially 6x) of their minimum reserves at 0%.

The multiplier and the rate can be changed over time.

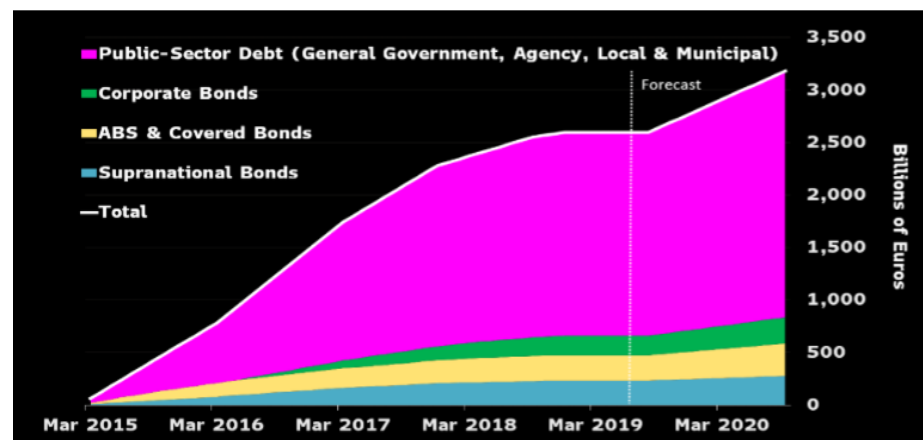
Targeted Longer-Term Refinancing Operations (TLTRO3)

3rd round of cheap loans to encourage banks to lend to businesses and households. Rate as low as the deposit rate and maturity extended from 2 yrs to 3 yrs.

Graph 1: main central banks rates



Graph 2: ecb – asset purchase program size



Source: Bloomberg

POST-ECB MEETING MAIN MARKETS REACTIONS

- Mr Draghi has delivered a bullish package for Credit and the periphery in particular.
- Credit spreads have tightened by 4bps on the iTraxx Europe and 10bps on the iTraxx Crossover.
- BTPs have outperformed Bunds and their 10yr spread (132 bps) are close to its 2018 lowest level (114 bps).
- Safe haven governments rates (US Treasuries, Bunds) have retraced part of their last month moves on a new round of stimulus and easing trade tensions between US and China.
- Risk assets through Credit and equities have outperformed led by banks and industrials.
- Despite uncertainty, market participants are considering that stimulus will keep coming and interest rates will remain low infinitely.

Graph 1: S&P, ice us treasury, us large cap corporate, euro stoxx 50, ice euro government , euro corporate



Source: Bloomberg, ICE Bond Indices

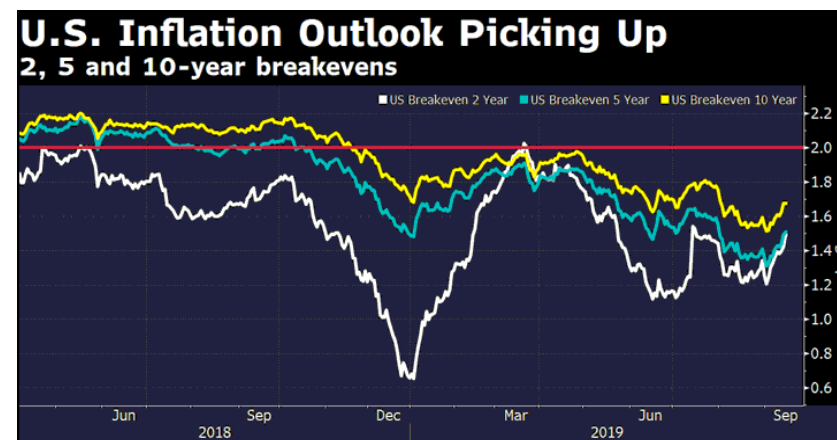
POST-ECB MEETING RATES & CREDIT PERSPECTIVES

- Current back up in government yields are set to stabilize and will offer appealing entry points opportunities.
- Euro Credit market expected to be supported by the scarcity of supply and indefinite duration of ECB QE resumption.
- Credit spreads of Non-financial corporates debts included in the ECB QE may potentially tighten to their lowest levels (January 2018).
- In the USD market, main Focus on US Treasuries and Investment Grade high quality corporates in the A-BBB buckets which are maintaining good credit metrics and/or are actively deleveraging.
- USD Inflation protection instruments (TIPS) should continue to benefit from positive real yields and the new phase of stimulus, including a potential fiscal easing boost.

Graph 1: ice us large cap & euro corporate GOV. spreads



Graph 2: us tips breakevens



Source: Bloomberg, ICE Bond Indices

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