



EUROPEAN CENTRAL BANK

EUROSYSTEM

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The Eurosystem's asset purchase programme

ECB Central Banking Seminar
Frankfurt, 13 July 2018

Overview

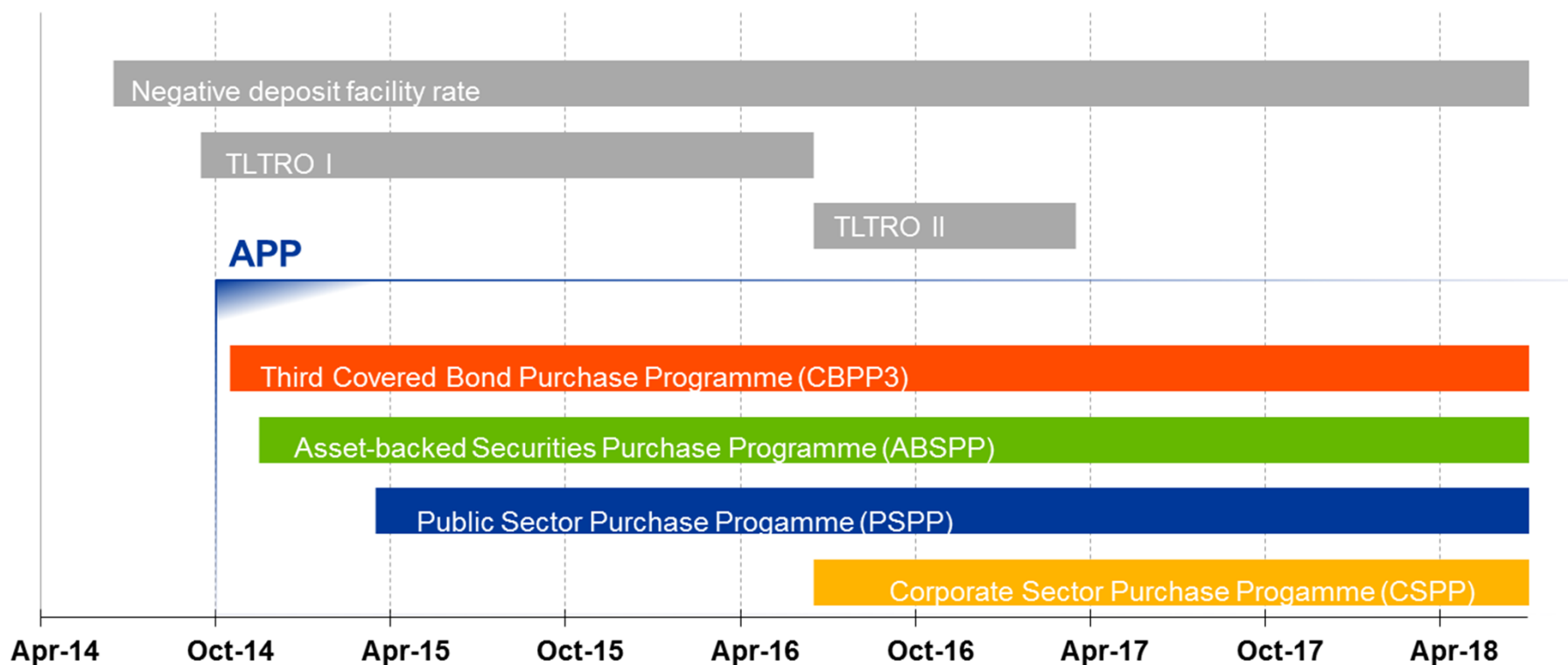
- 1 Introduction
- 2 Public sector purchase programme (PSPP)
- 3 Private sector purchase programmes (CBPP3, CSPP, ABSPP)
- 4 Securities lending
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The expanded asset purchase programme (APP): 4 programmes introduced in 2014 - 2016

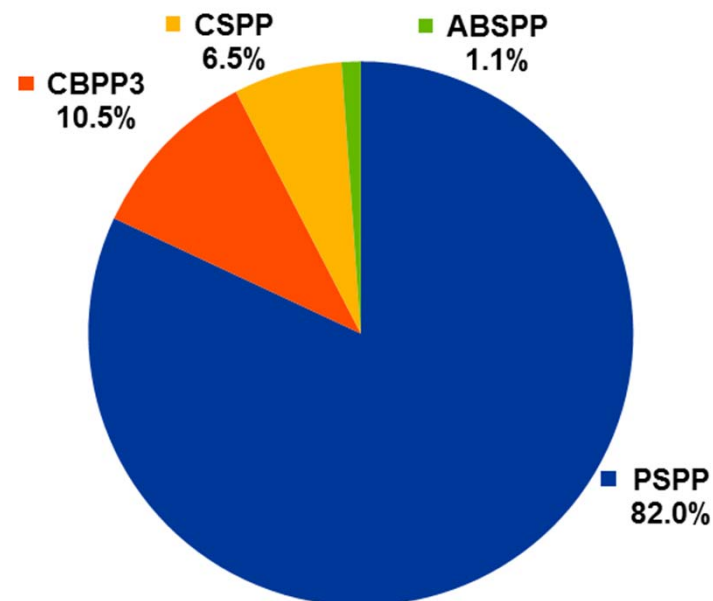
Timeline of non-standard measures



Source: ECB.

PSPP represents more than 80% of total APP holdings

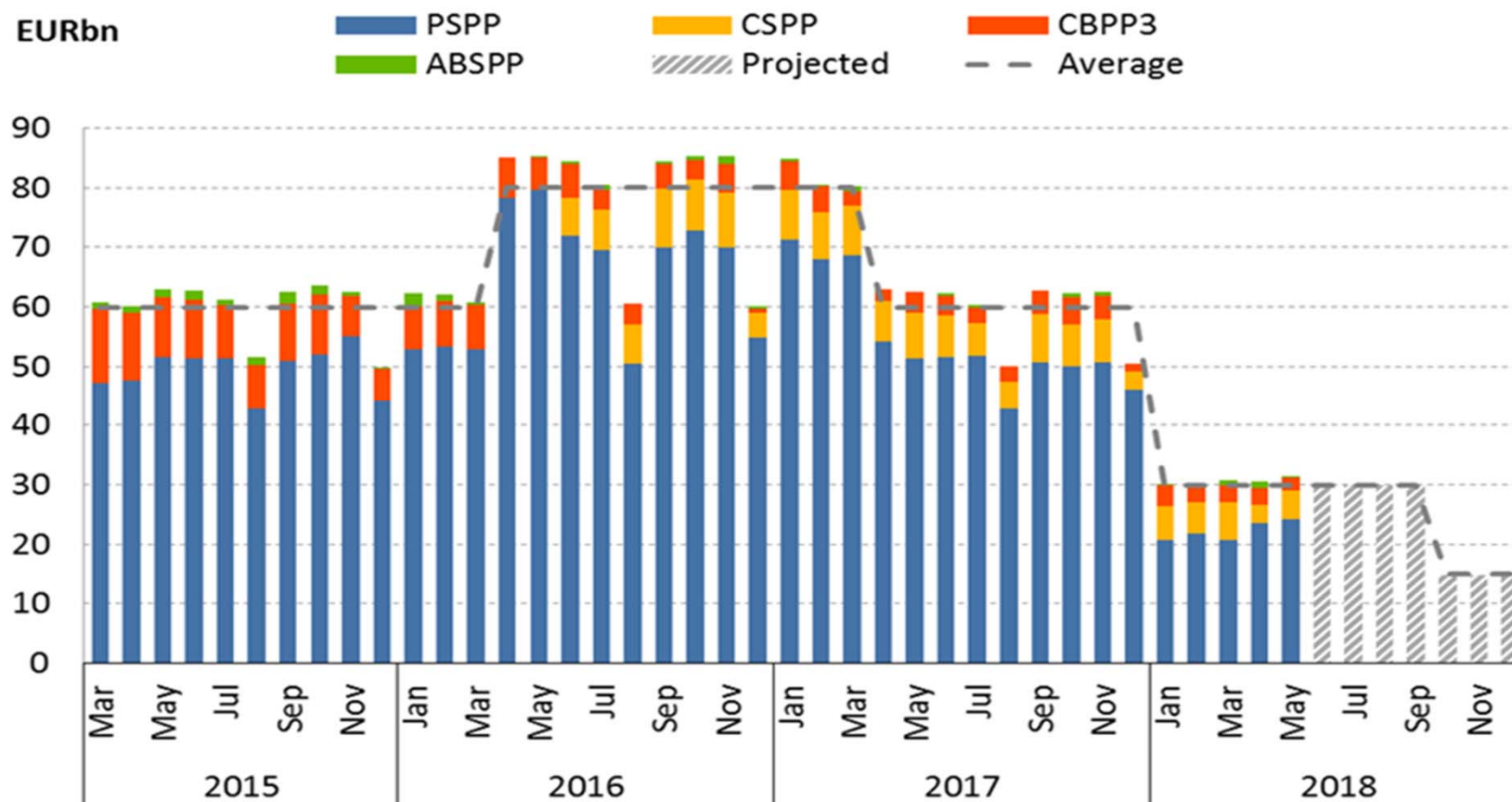
At amortized costs, in euro billion (31 May 2018)	
PSPP	1,992.9
CBPP3	254.3
CSPP	156.8
ABSPP	27.4
Total APP	2,431.4



Source: ECB.
Last observation: 31 May 2018

Net APP purchases have been calibrated over time...

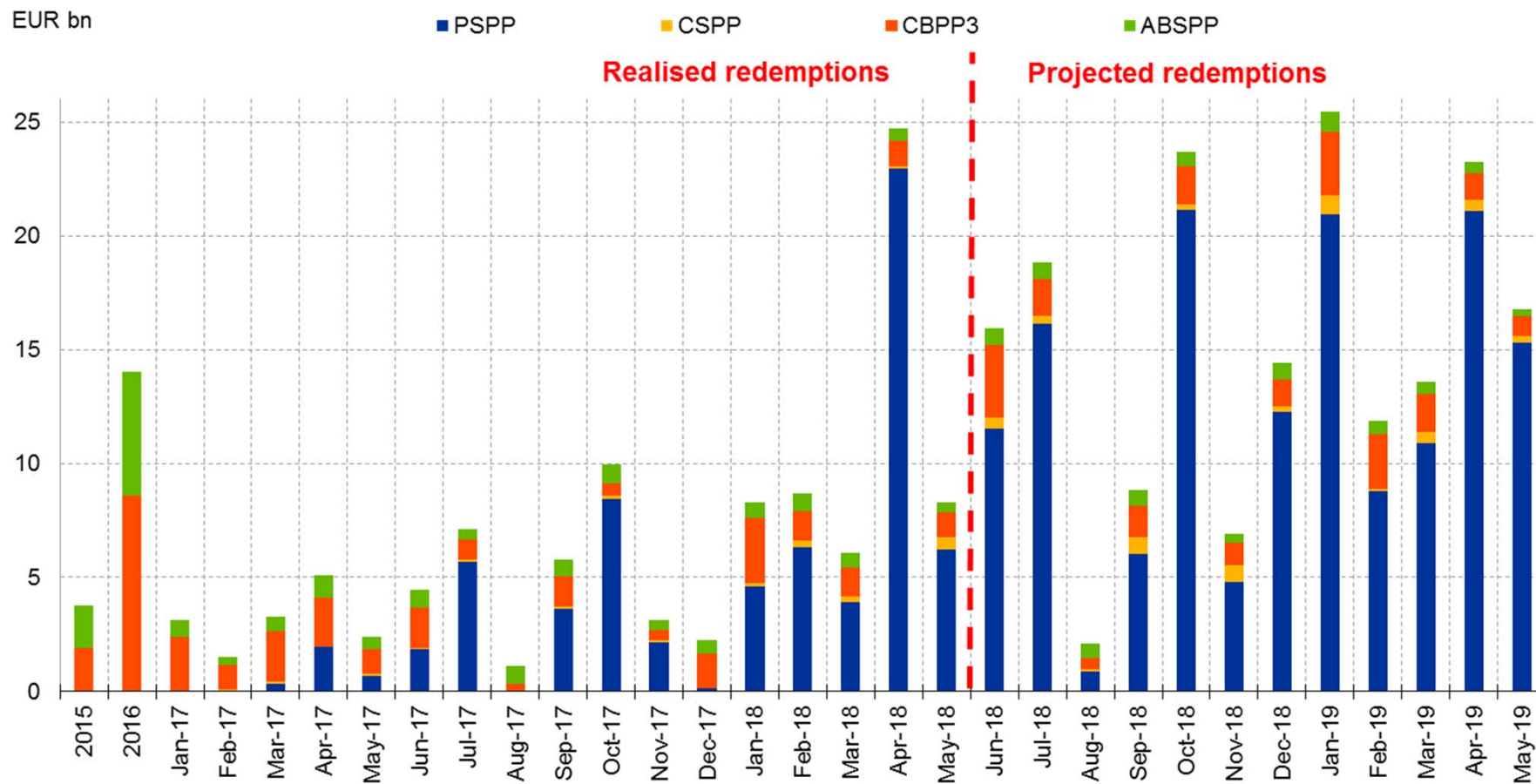
Monthly change in holdings (at amortised cost)



Source: ECB. Latest observation: 31 May 2018

... and the reinvestments of redemptions also play a relevant role

Realised and expected APP redemptions (rolling 12 month period)

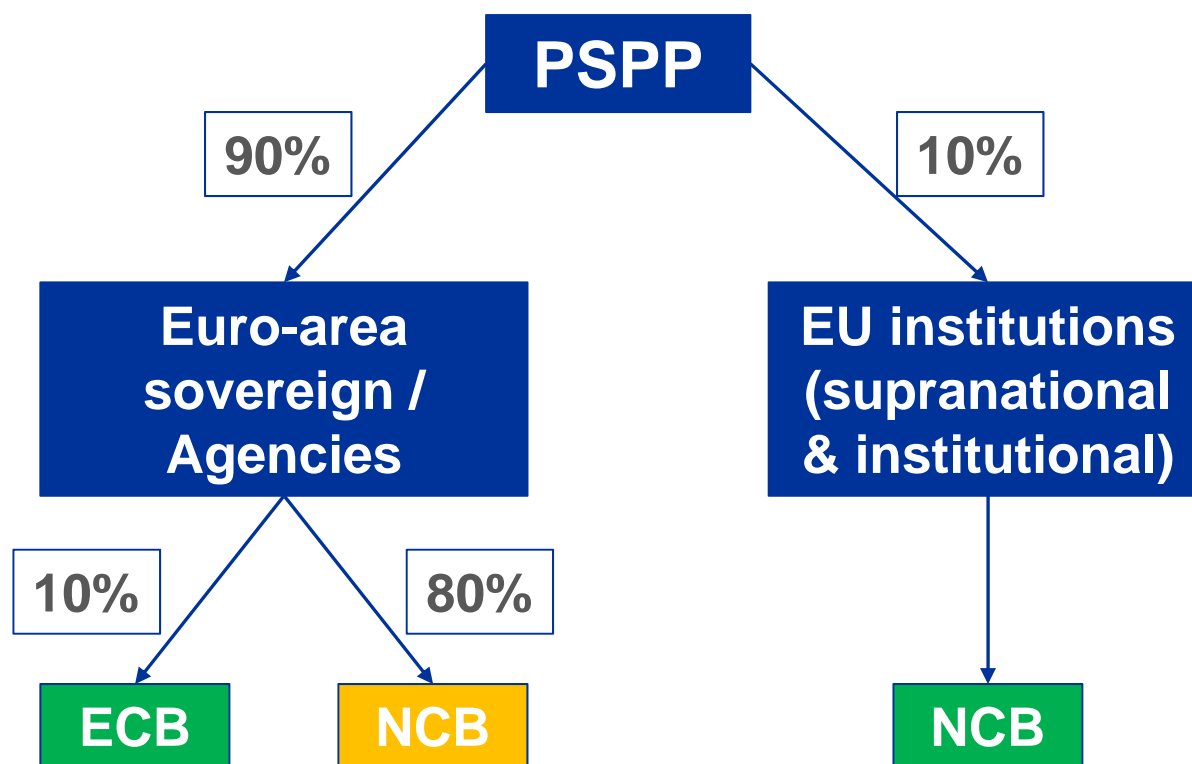


Source: ECB. Latest observation: 31 May 2018.

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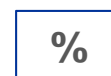
PSPP covers a broad range of government linked entities



Loss-sharing



Non loss-sharing



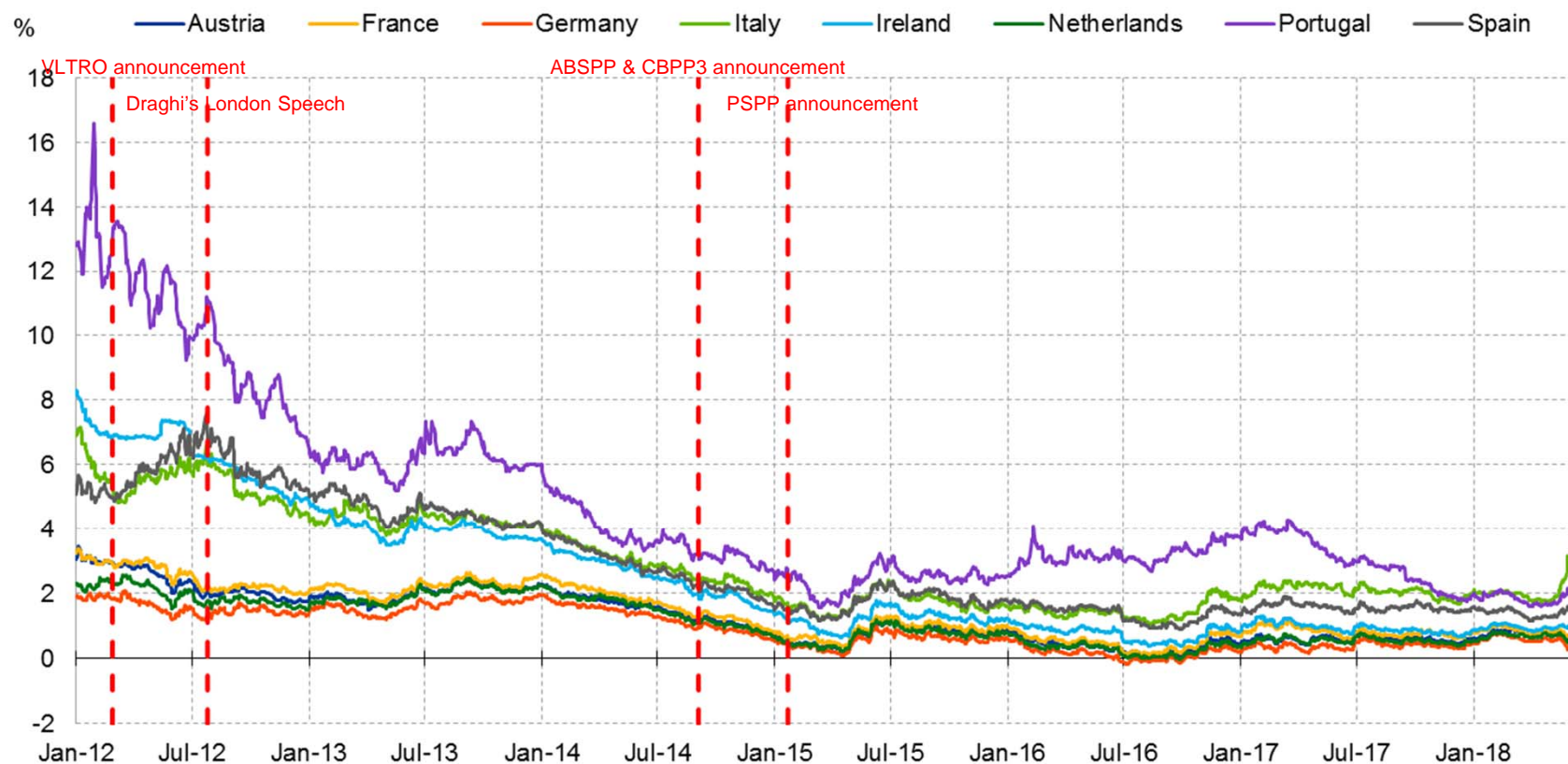
% Proportion of purchases

- NCB purchases are determined by the **ECB capital key**, with some flexibility
- **Substitute purchases** for NCBs are possible to reach capital key
- Purchases also at negative yields, below the **deposit facility rate only to the extent necessary**
- The implementation of the PSPP aims **ex ante at market neutrality** in the sense of avoiding dislocations in euro area government bond curves within the minimum maturity of 1 year and a maximum maturity of less than 31 years.
- **Blackout period** to avoid direct influence on primary market price formation and also important with respect to monetary financing prohibition
- **Issue/issuer limits** to avoid blocking minority for CACs and to avoid becoming overly dominant player in sovereign bond market

Insights into the implementation

- Purchases are coordinated within the Eurosystem on a daily basis via chat and teleconference at Portfolio Manager level
- Selection of bonds is based on
 - Pricing / spread analysis
 - Limit restrictions
 - Feasibility considerations
 - Scarcity in the market
 - Counterparties inventories and positions
- Trades are conducted with a wide set of counterparties
- Purchases are done bilaterally or via reverse auctions
- Most purchases in government bonds are done electronically

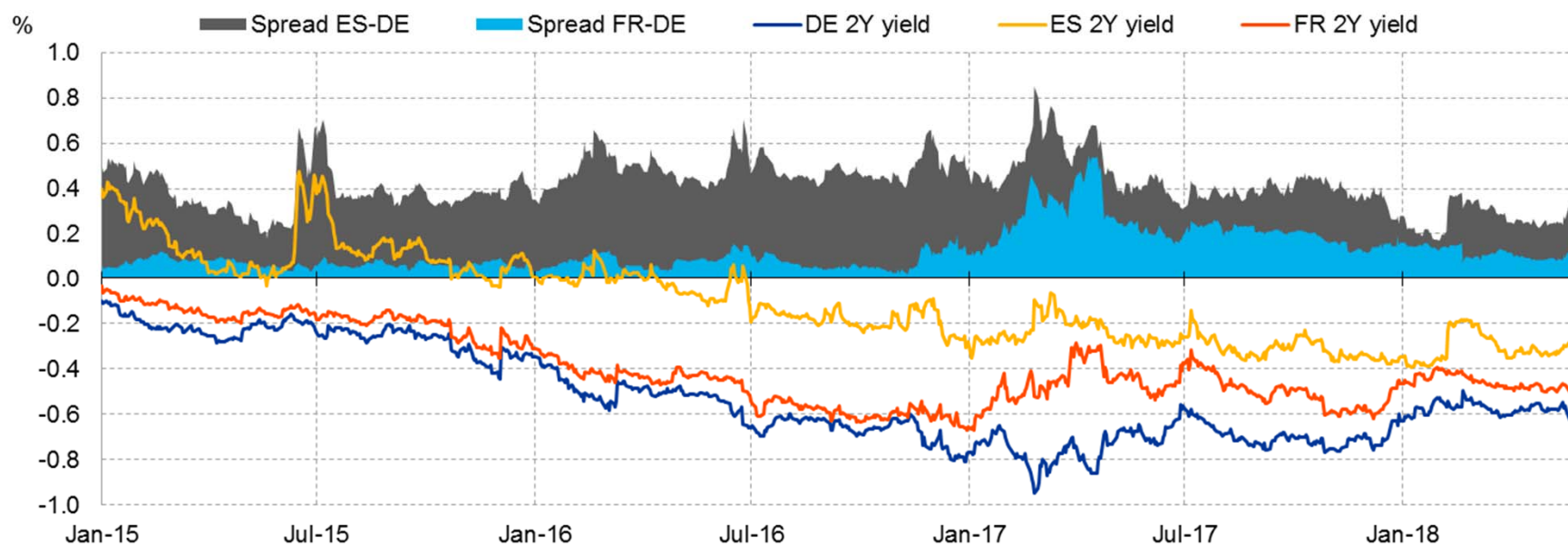
10-year euro area government bond yields at record low levels



Source: Bloomberg, ECB Staff calculations. Last observation: 31 May 2018.

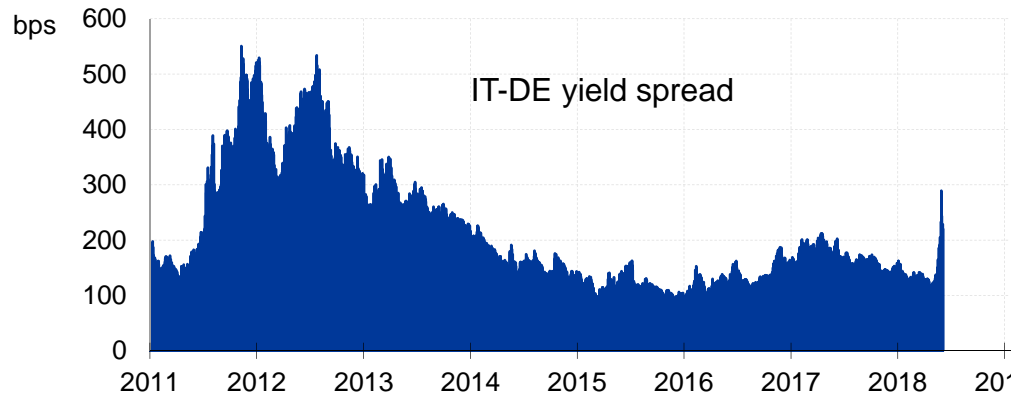
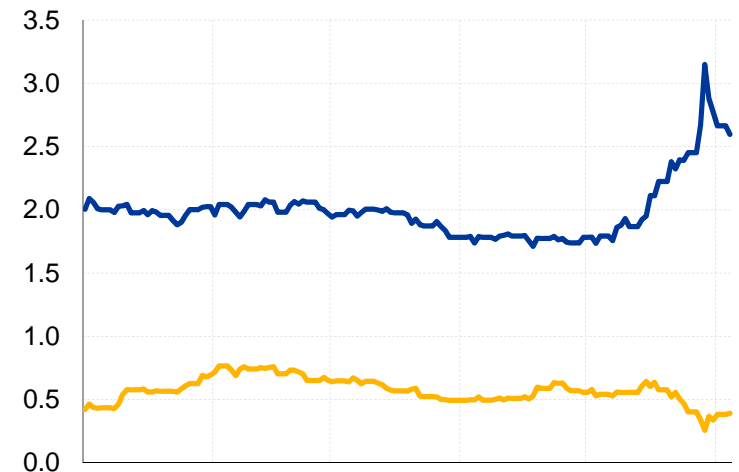
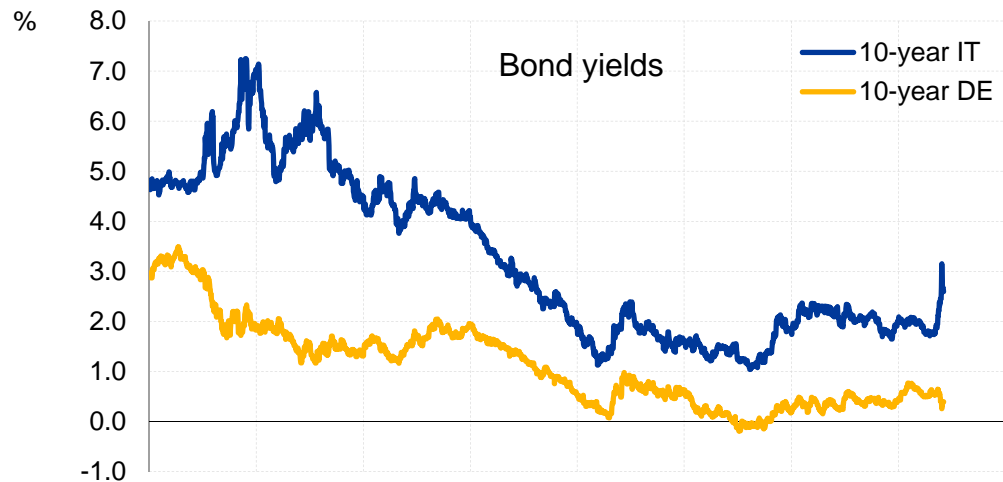
Political risks in Europe with (temporary) market impact

- 2-year French-German sovereign yield spreads increased around French presidential elections in Apr-May 2017, but stabilised and returned quickly to previous levels
- 2-year Spanish-German sovereign yield spread broadly stable, despite political developments in Catalonia in Oct 2017



Source: Bloomberg, ECB Staff calculations. Last observation: 31 May 2018.

Italian political developments with significant impact on Italian sovereign debt market



Source: Bloomberg.
Last observation: 04 June 2018.

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	ABSPP	CBPP3	CSPP
Objectives / motivation	<ul style="list-style-type: none"> • provide credit to the real economy; • help lenders diversify funding sources • Contribute to the revitalisation of a more sustainable securitisation in the euro area 	<ul style="list-style-type: none"> • facilitate credit provision by banks to the real economy • support financing conditions in the euro area 	<ul style="list-style-type: none"> • strengthen the pass-through of the Eurosystem's APP to financing conditions of the real economy; • provide further monetary policy accommodation
Eligible Universe	Mon. pol. eligible ABS (subject to Due Diligence assessment)	Mon. pol. eligible CBs for own use & multi-cédulas	Non-financial and financial corporate securities (excluding unsecured bank bonds)
Minimum rating	CQS3	CQS3	CQS3
Maturity	All	All	6 months – 30 years
Issue Limit	70%*	70%*/**	33%/70%*/**
Issuer limit	No	Yes**	Yes*
Purchases	1 ^{ary} & 2 ^{ary} market	1 ^{ary} & 2 ^{ary} market	1 ^{ary} & 2 ^{ary} market (no 1 ^{ary} for public sector)
Implementation	6 NCBs	NCBs and ECB	6 NCBs
Income/Loss Sharing	Yes	Yes	Yes

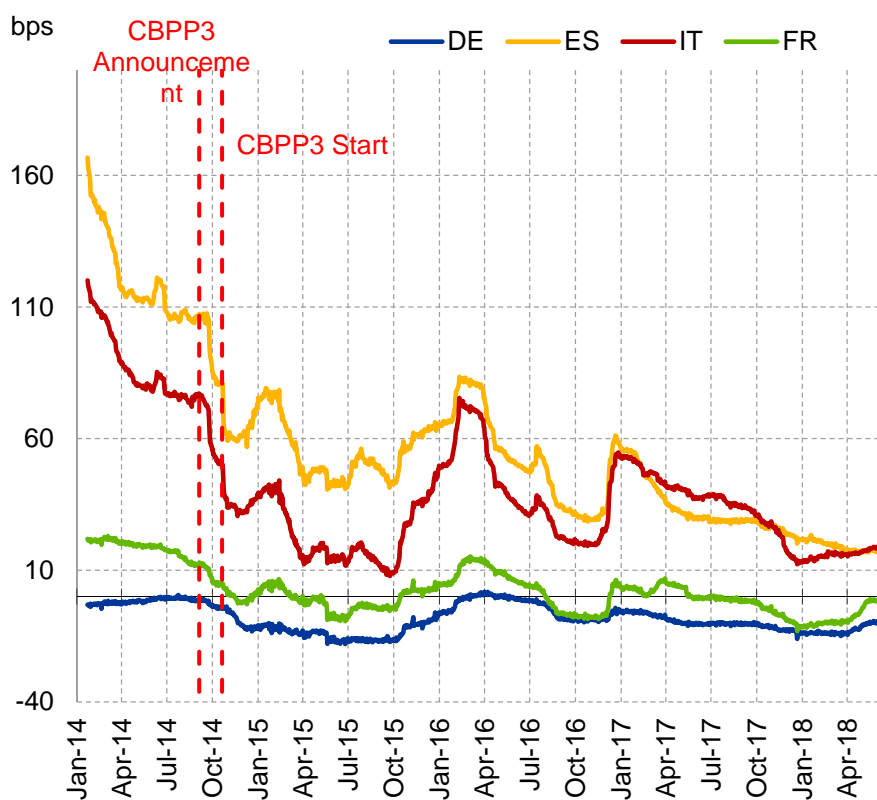
* Specific conditions for programme countries apply

16 ** Combined Eurosystem holdings from monetary policy and investment portfolios

Since the start of the programmes, several positive developments are to highlight:

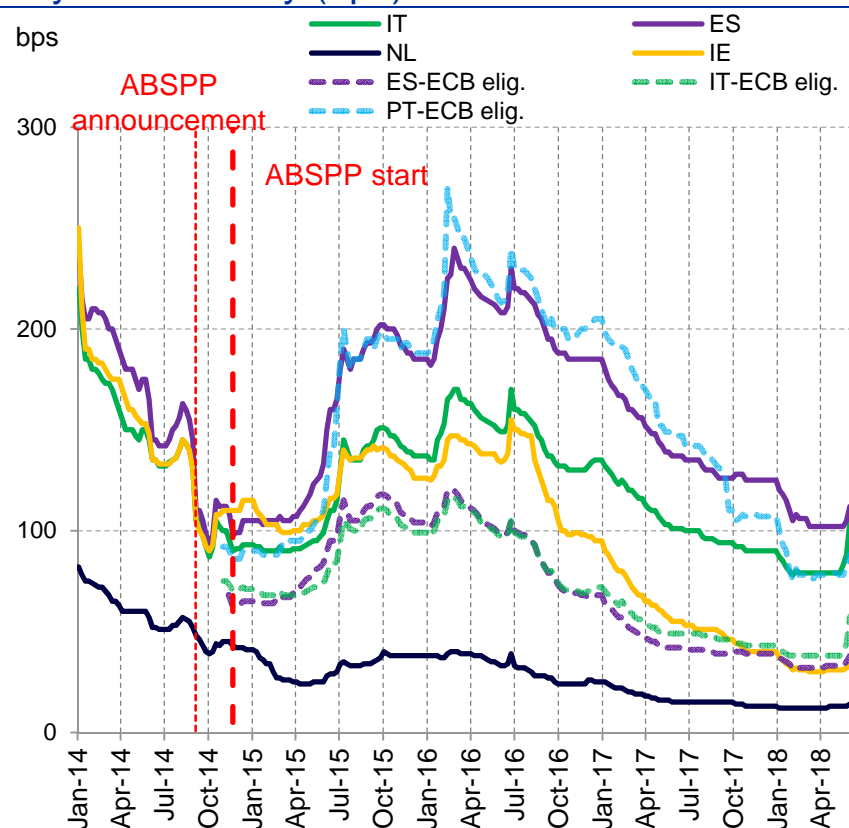
1. Broad based spread tightening....

Covered bond asset swap spreads, per selected jurisdiction



Sources and notes: iBoxx indices. Last observation: 31 May 2018.

Spreads of AAA-rated* floating rate RMBS with 5-7 years maturity (bps)

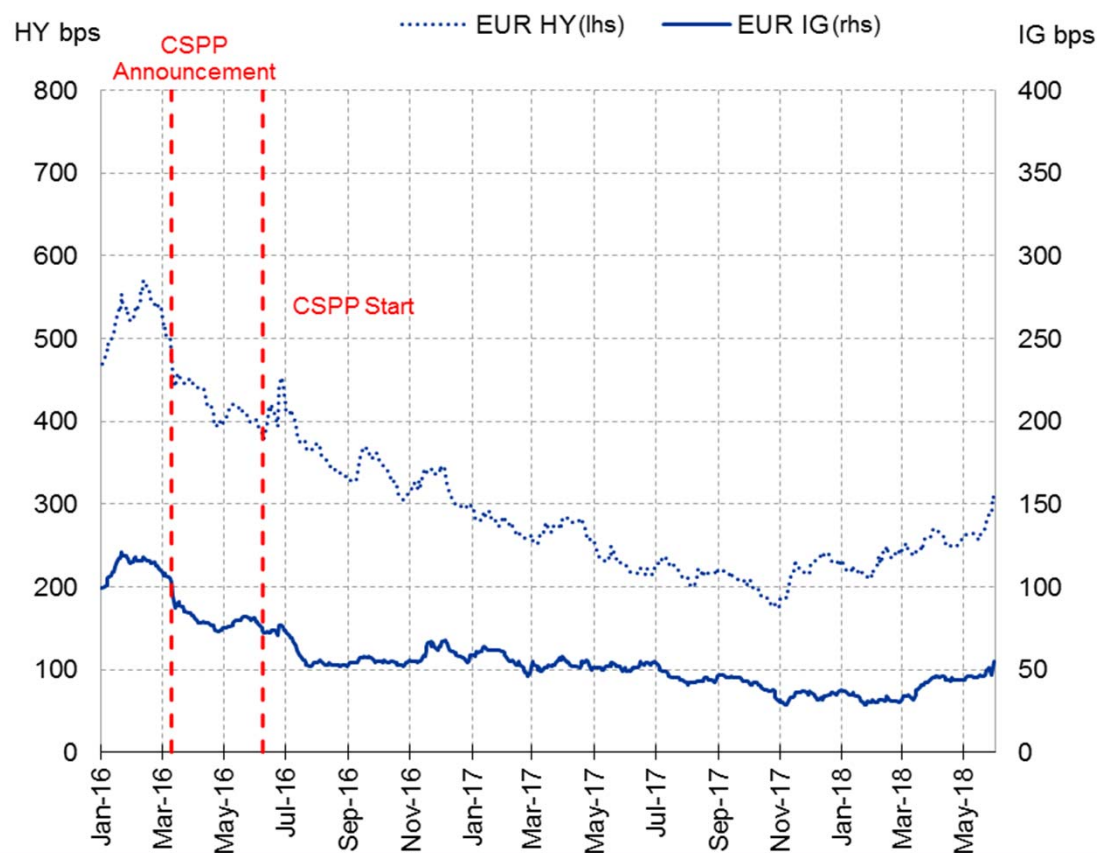


Source: J.P. Morgan. Notes: (*) rating at issuance. Most spreads are over 3-month Euribor. Last observation 31 May 2018.

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... with positive spill overs to non-eligible fixed income securities

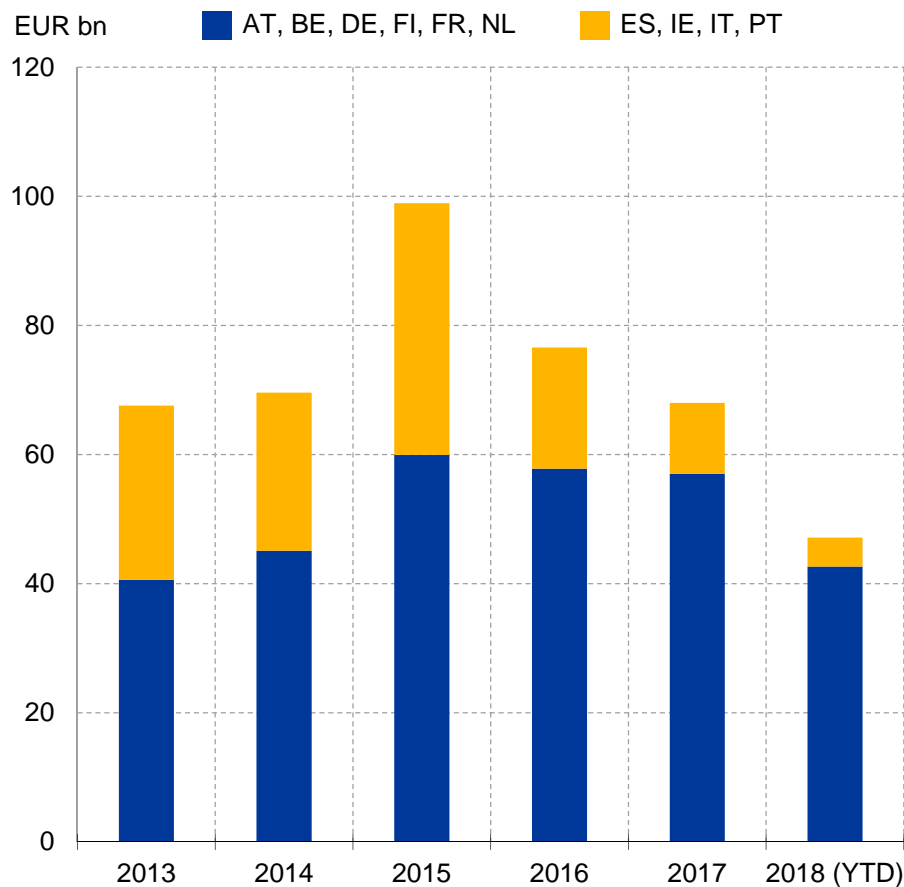
Corporate bond spreads in EUR denominated investment grade vs high yield sector



Sources and notes: ICE BAML EUR corporate bond index, ECB calculations. Last observation: 31 May 2018.

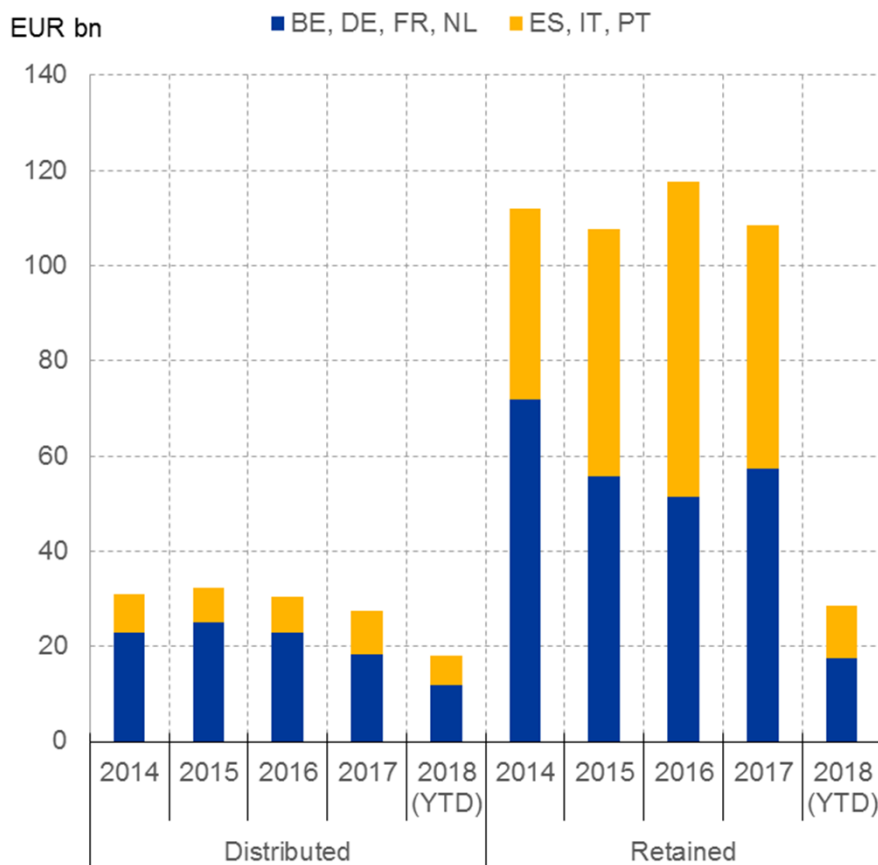
2. Issuance remained healthy or even picked up...

Covered bond issuance volumes



Source: Dealogic, ECB calculations. EUR-denominated benchmark size primary market issuances. Last observation: 31 May 2018.

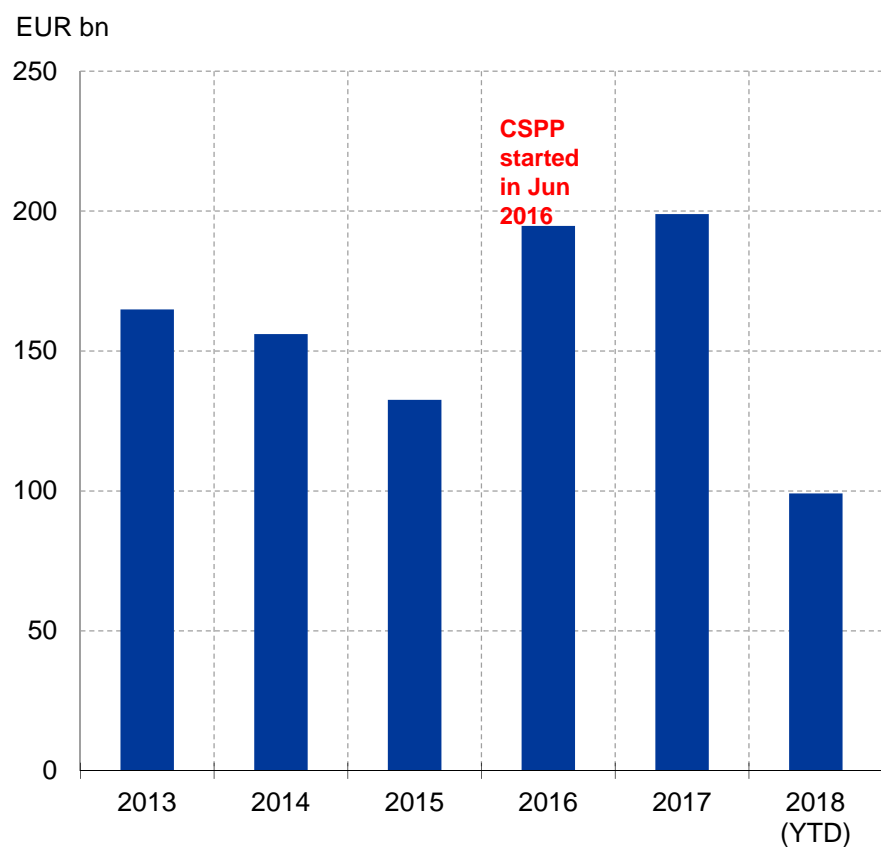
Asset-backed securities issuance volumes



Source: JP Morgan and ECB calculation. Last observation: 31 May 2018.

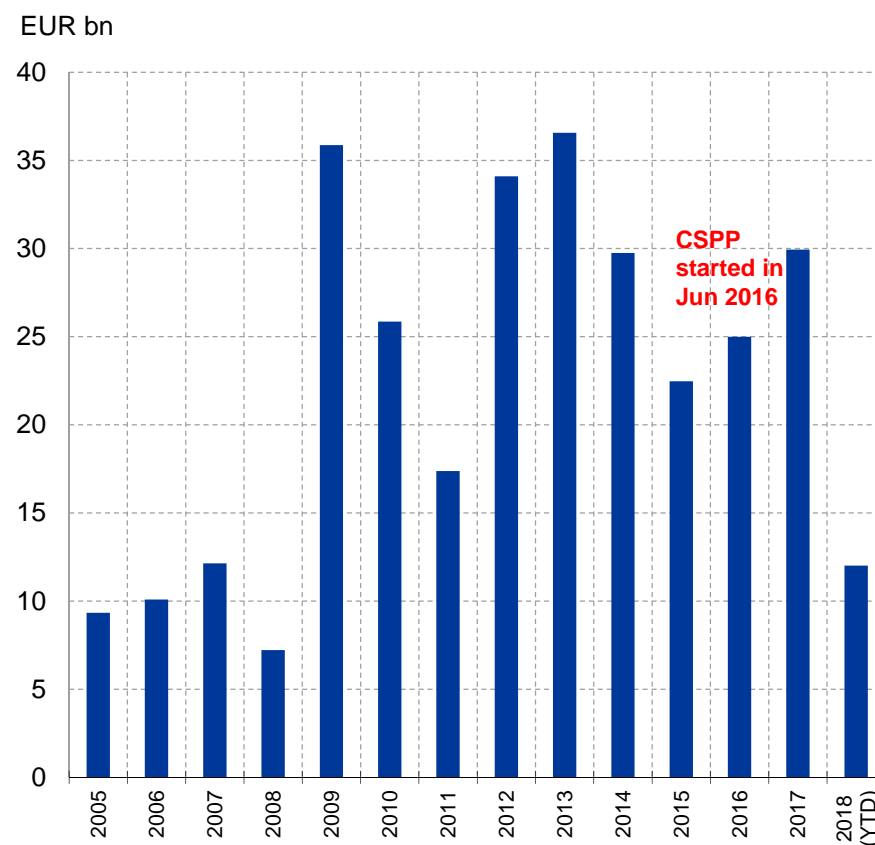
... however it is not yet evident that new or infrequent issuers have become more active

Corporate bond issuance volumes



Source: Dealogic, ECB calculations. EUR-denominated benchmark size primary market issuances. Last observation: 31 May 2018.

Bond issuance by infrequent euro area non-financial corporate bond issuers

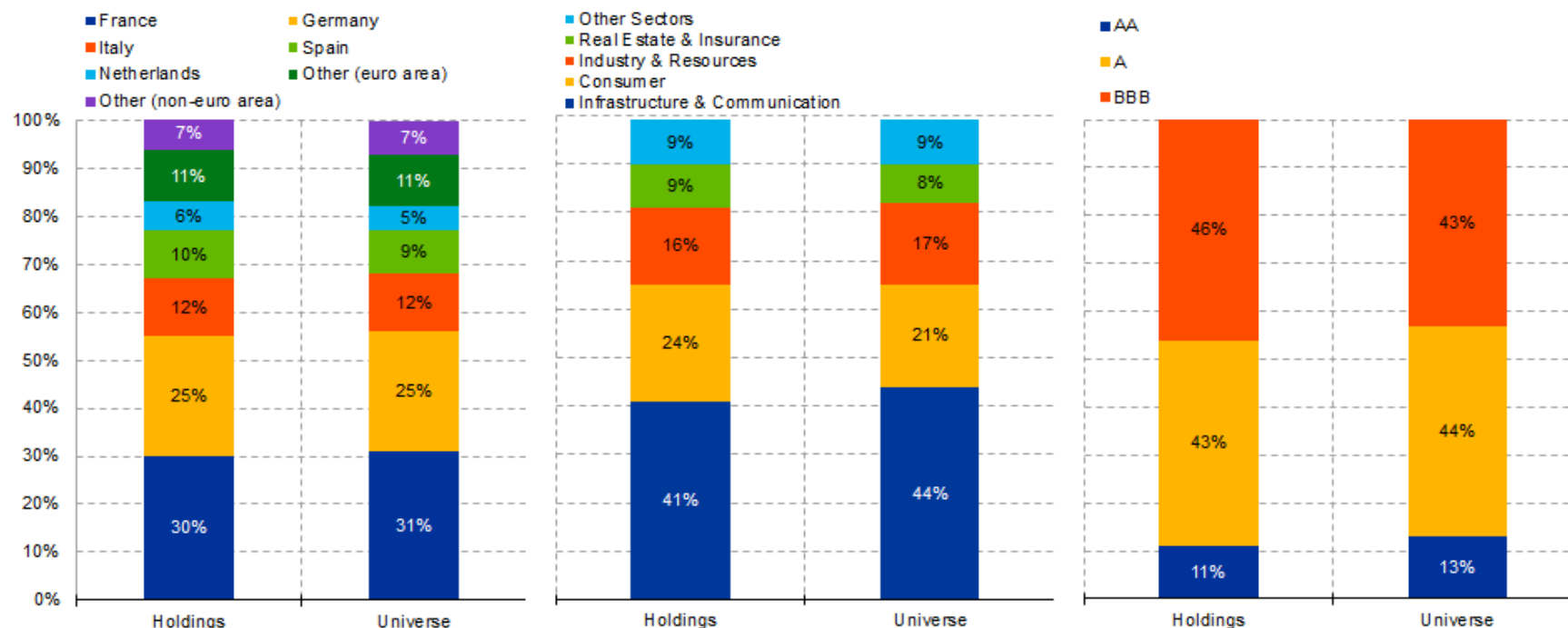


Sources: Dealogic, ECB calculations. EUR-denominated primary market issuances. Issuer is considered infrequent if they have no issuance over the previous 5 years. Last observation: 31 May 2018.

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CSPP at work: Eurosystem has bought >1,000 bonds, from all sectors and a variety of countries...

Split per country, sector and rating is generally in line with market capitalisation



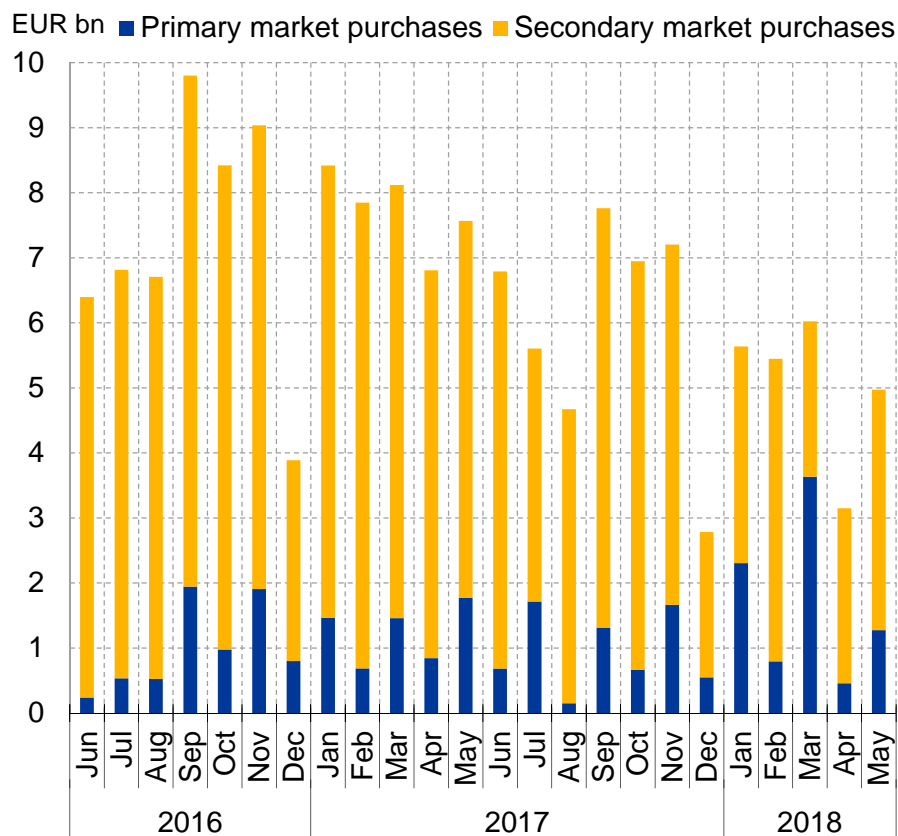
Sources: ECB, Bloomberg. Note: CSPP holdings as of end of Q1 2018. CSPP holdings with a remaining maturity below 6 months are excluded. The numbers may not sum to 100% due to rounding. The eligible CSPP bond universe contains all bonds that are currently eligible for the CSPP.

- ECB coordinates purchases, executed by 6 NCBs, specialists in their jurisdictions
- To guarantee smooth implementation, there is continuous communication on market conditions, participation in primary market and of secondary market purchases

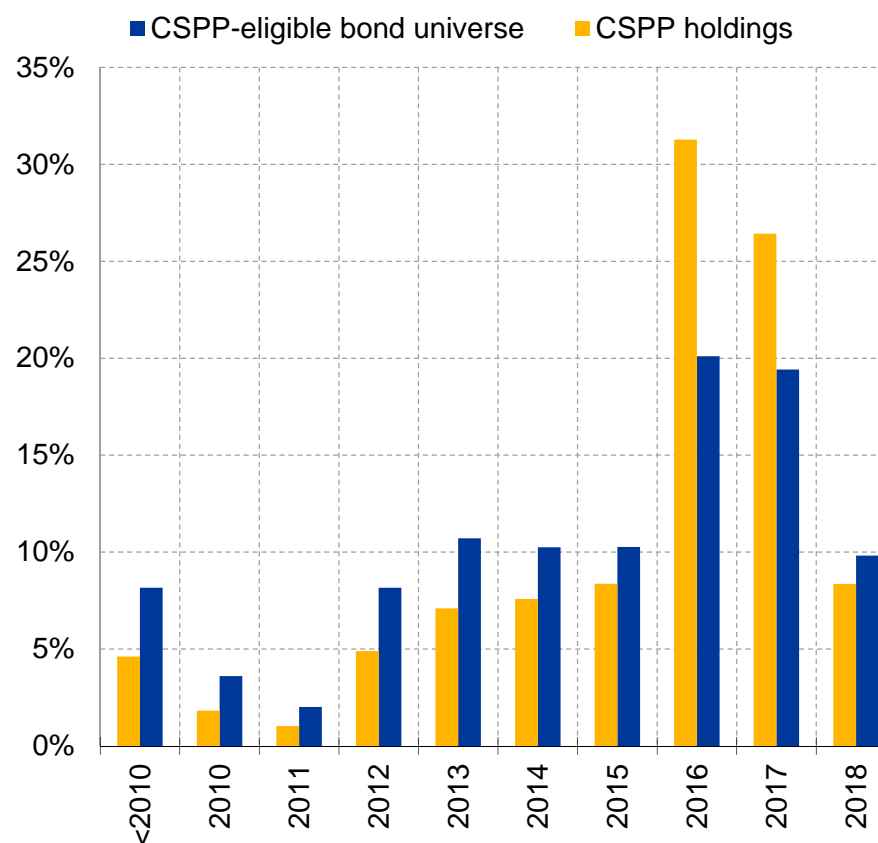
... calibration considers market functioning and liquidity impact to ensure market neutrality...

(1) CSPP purchases vary month by month, including split between primary and secondary markets

(2) CSPP holds more of recently issued bonds (holdings per year of issuance)



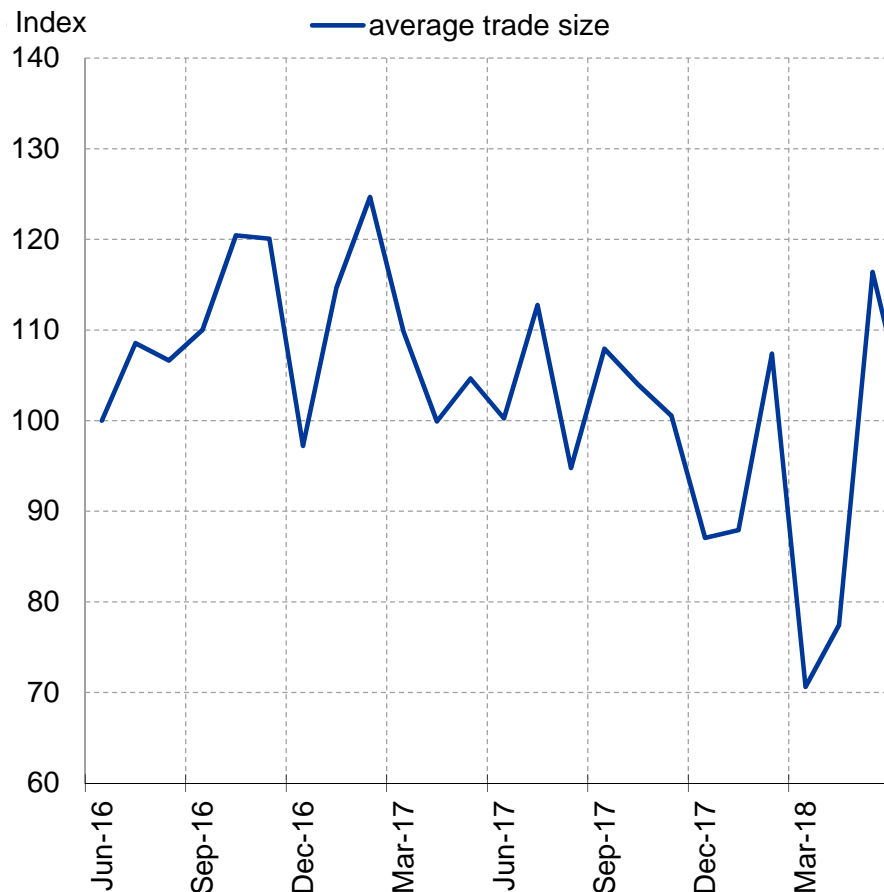
Source: ECB. Last observation: 31 May 2018.



Source: ECB, Bloomberg. Distribution based on nominal amounts. Last observation 31 May 2018.

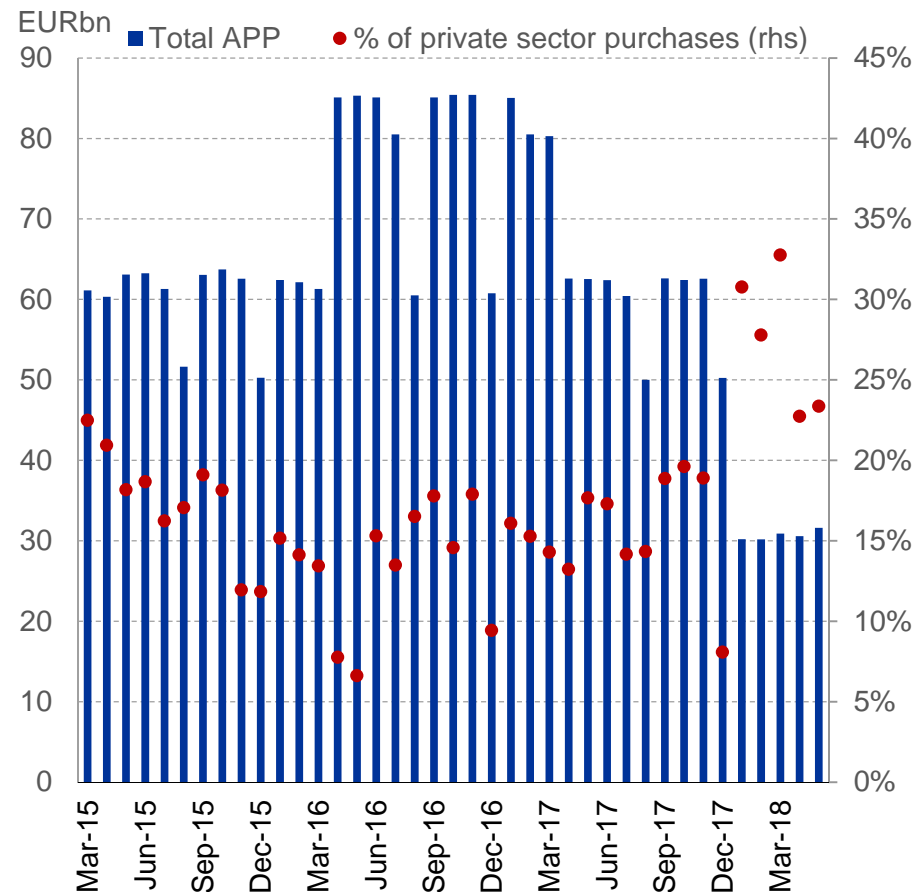
...flexibility is the key

(3) Evolution of the average CSPP trade size suggests that liquidity conditions have remained



Source: ECB. Note: Index: June 2016 = 100. Last observation: 31 May 2018.

(4) Contribution of private sector programmes overtime illustrates flexibility in implementation



Source: ECB. Last observation: 31 May 2018.

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Flexible set-up of the Eurosystem facilities

- **Aim: To support bond and repo market liquidity without unduly curtailing normal repo market activity**
- Common principles and pricing rules
- Decentralised implementation
 - Balance between harmonisation and adjustments to local markets
- Primarily targeting market makers
- Strategic and fails lending facilities
- Monitoring the markets and the usage of facilities
 - To ensure the ongoing effectiveness
- Changes in parameters introduced when deemed appropriate

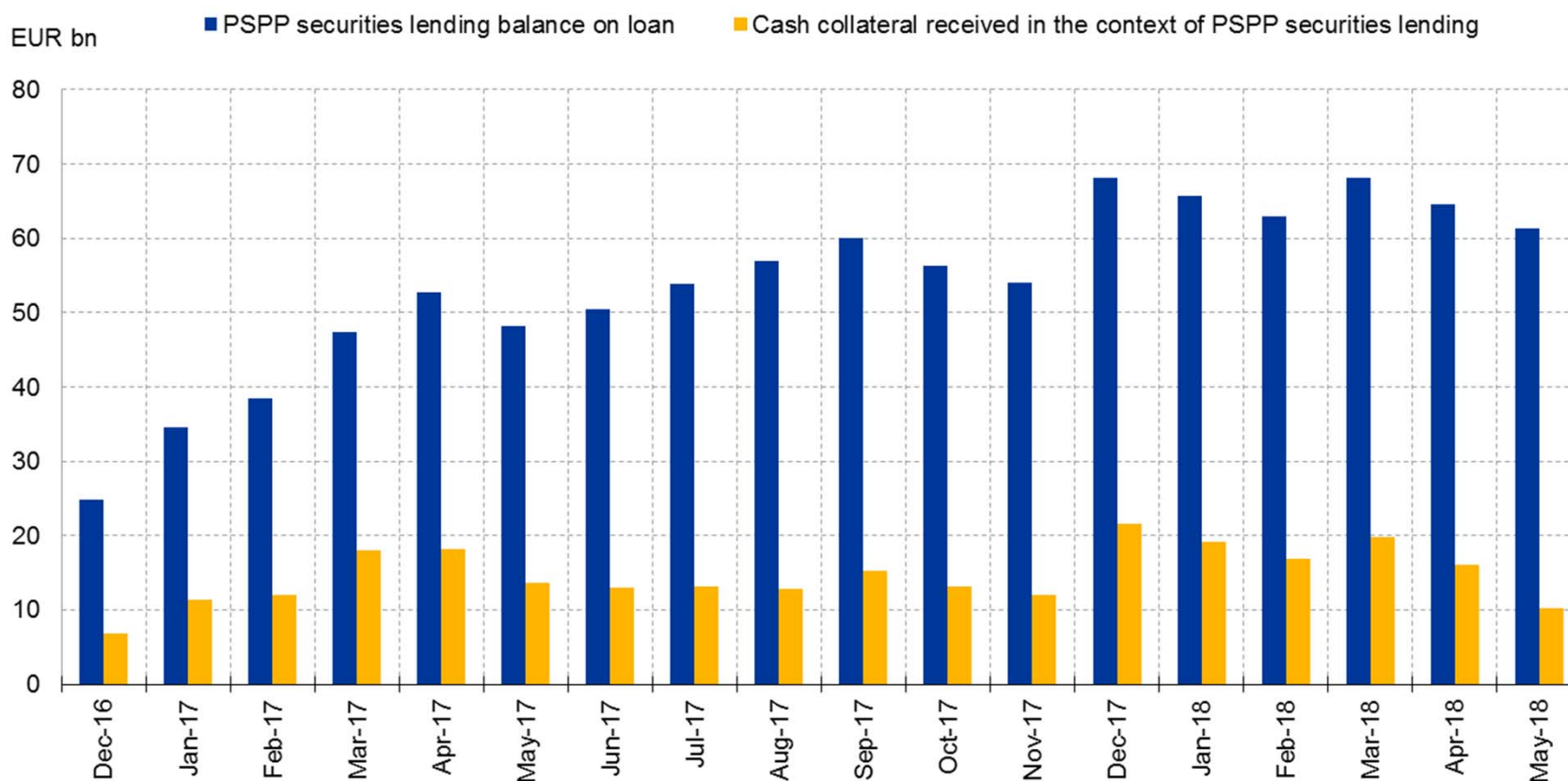
Parameters of the ECB securities lending have been adjusted over the years

Date	Decision / Event	Description
Apr 2016	Significant amendments of parameters	<ul style="list-style-type: none"> • Move to open repo • More favourable pricing schedule and lower fails fee
Nov 2016	More flexibility in timelines for borrowing	Settlement possible at T, T+1 and T+2 (used to be only T+1)
Dec 2016	Introduction of PSPP SL versus cash	7 Eurosystem members (including the ECB) started accepting cash collateral (currently 9), overall limit of EUR 50bn
Dec 2016	Pricing of lending versus security collateral	Minimum spread lowered from 30 bps to 10 bps
May 2017	Introduction of term repo up to 2 weeks and change in cut-off time	In addition to open repo, borrowing on term repo basis introduced (up to 2 weeks) and longer cut-off time for returning bonds
Mar 2018	Increase in cash collateral limit	Limit on cash collateral received versus PSPP securities lending up from EUR 50 bn to EUR 75 bn.

Note: The marked changes were applied to the entire Eurosystem.

Eurosystem PSPP on-loan balance rather stable this year, lending vs cash declining recently

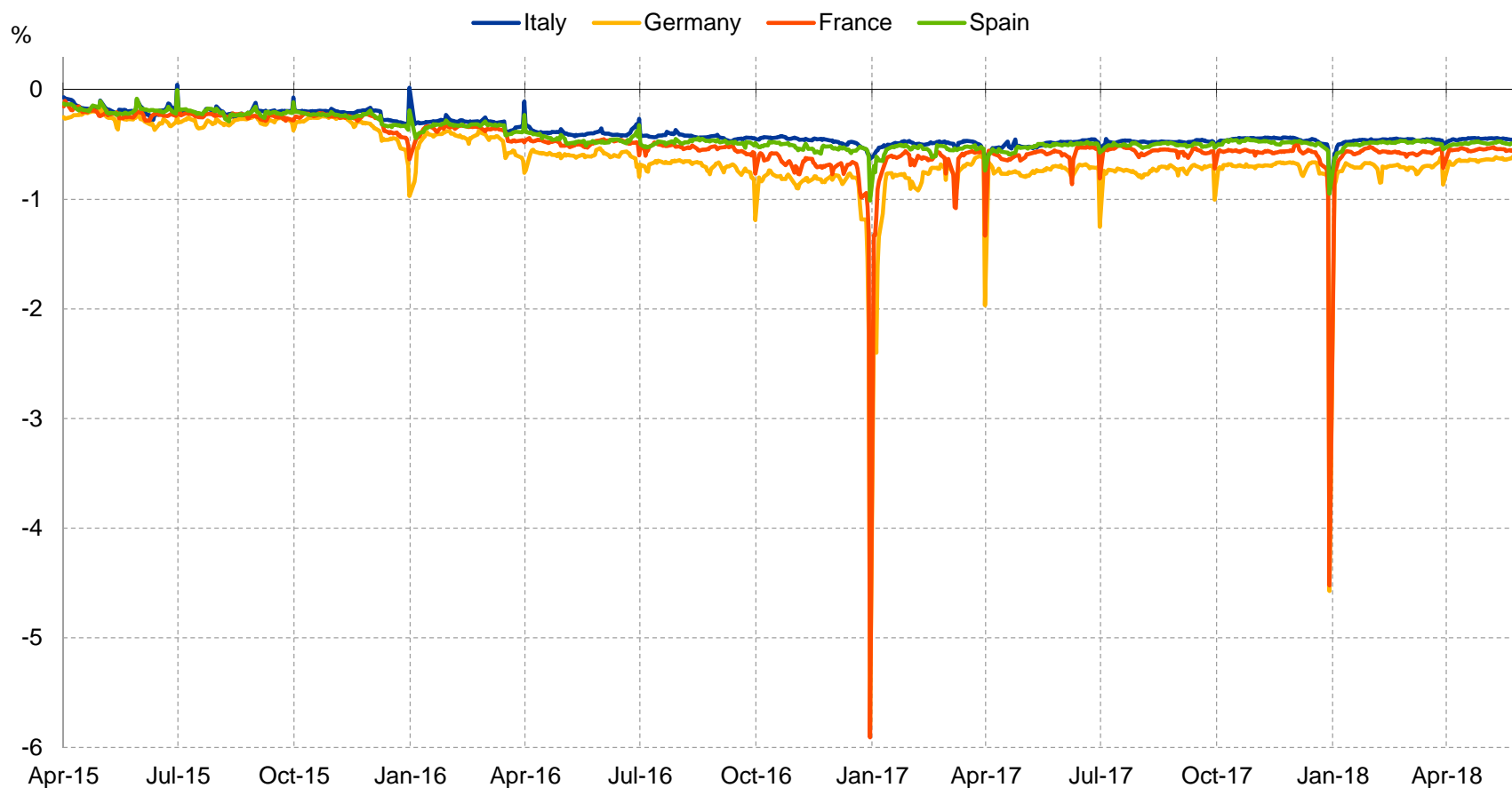
Average balances over the month in euro billion



Source: ECB. Latest observation: 31 May 2018. Note: Includes average on-loan balance of SMP holdings.

Secured market functioning has improved recently

Repo rates in selected jurisdictions



Source: BrokerTec. Latest observation: 31 May 2018.

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The **APP**, alongside other measures, has been **instrumental** in providing an adequate degree of **monetary policy accommodation**;

The operational set up of the several components of the APP is sufficiently **flexible** to allow for **market neutrality**;

More responsive APP securities lending has led to increased lending volumes, coinciding with diminishing repo-market tensions;

Monthly pace of the net asset purchases is now **€30 billion per month**, and it is anticipated that, subject to incoming data confirming the Governing Council's medium-term inflation outlook, it will be reduced from October to December 2018 to **€15 billion**;

Positive net purchases will then end but **reinvestments** of principal payments will continue for an extended period of time and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.