



Tracking the Transition

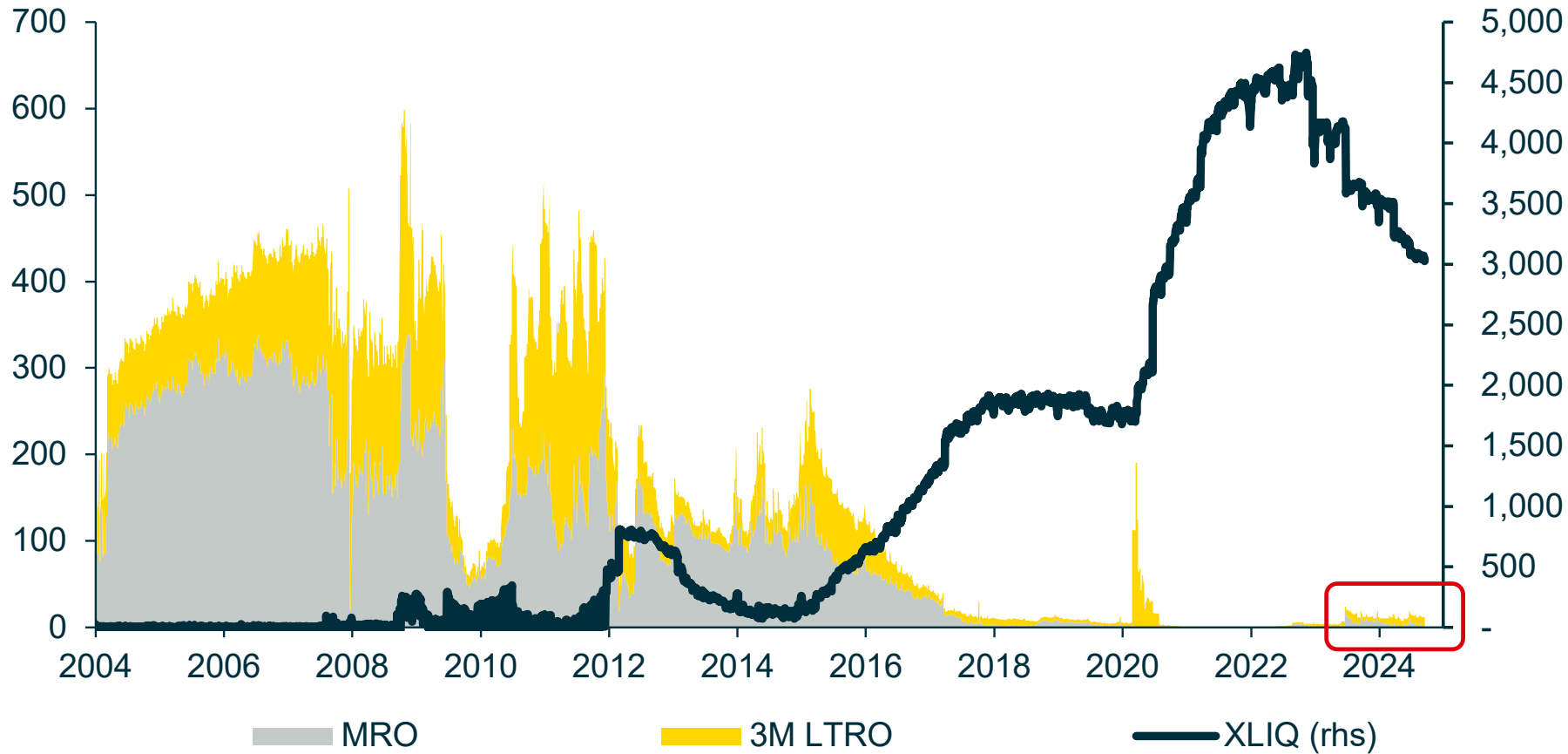
Initial effects of the ECB's new Operational Framework

Christoph Rieger, 25 September 2024



ECB is open for business!

Outstanding ECB MRO and 3M LTROs and excess liquidity, in € bn



“You can lead a horse to water, but you can't make it drink.”

John Maynard Keynes

Source: ECB, Bloomberg, Commerzbank Research



Key questions:

- **Is depo+15 too generous or too expensive?**
- **What are the lessons from the BoE?**
- **What are the implications on LCR compositions and spreads?**
- ... how far will the ECB cut and how will curves react?



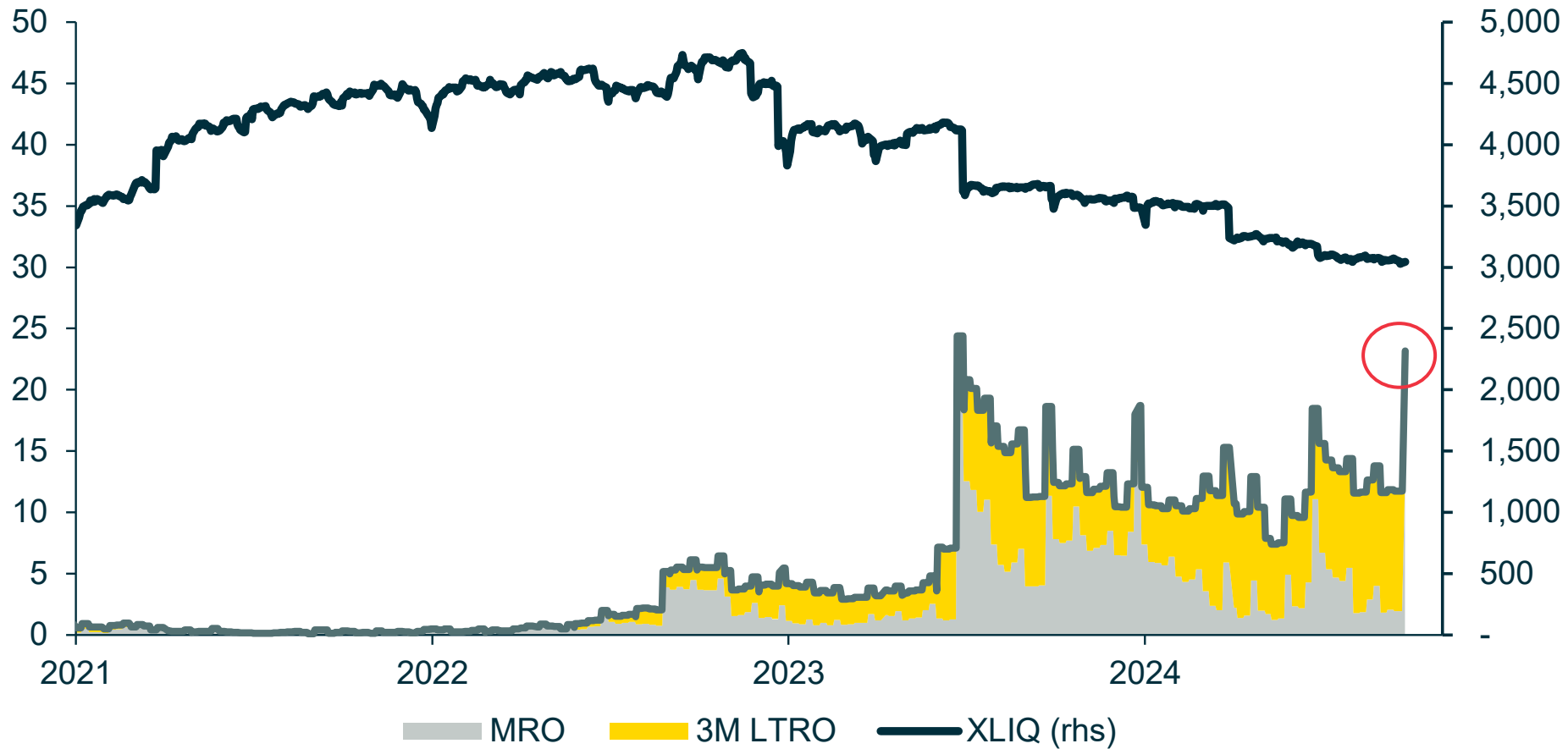
Is depo+15 too generous, or too expensive?





Initial effects of depo+15

Outstanding ECB MRO and 3M LTROs and excess liquidity, in € bn

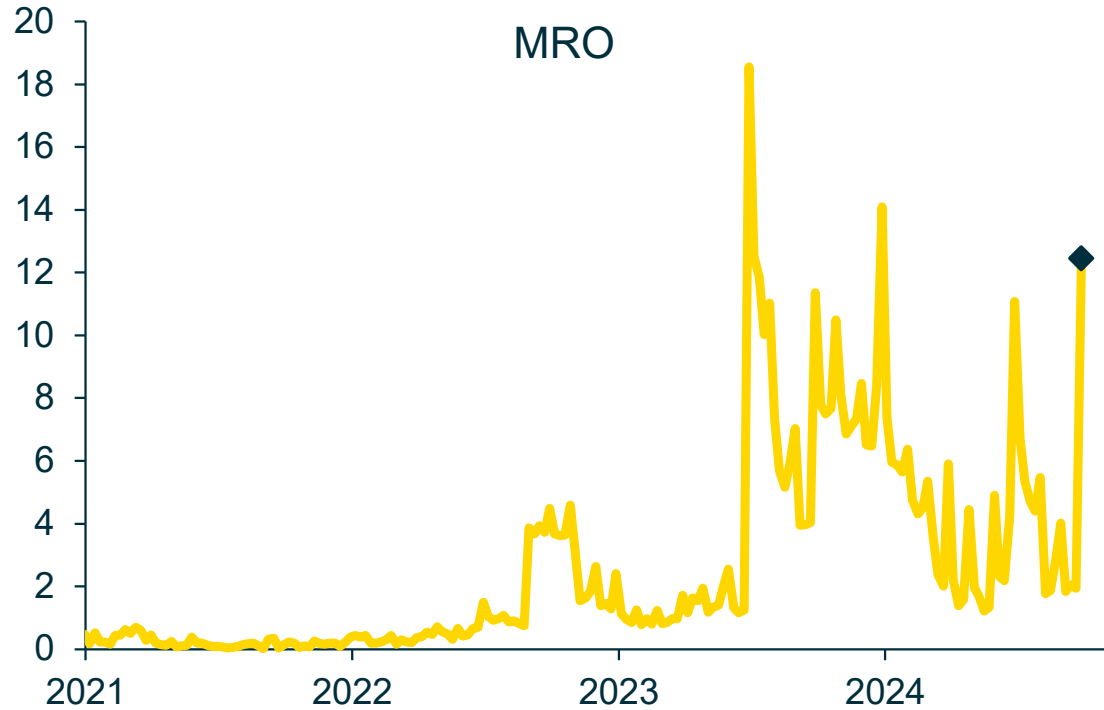


Source: ECB, Bloomberg, Commerzbank Research



Tepid demand in operations settling before year-end

Outstanding 1w MRO, in € bn

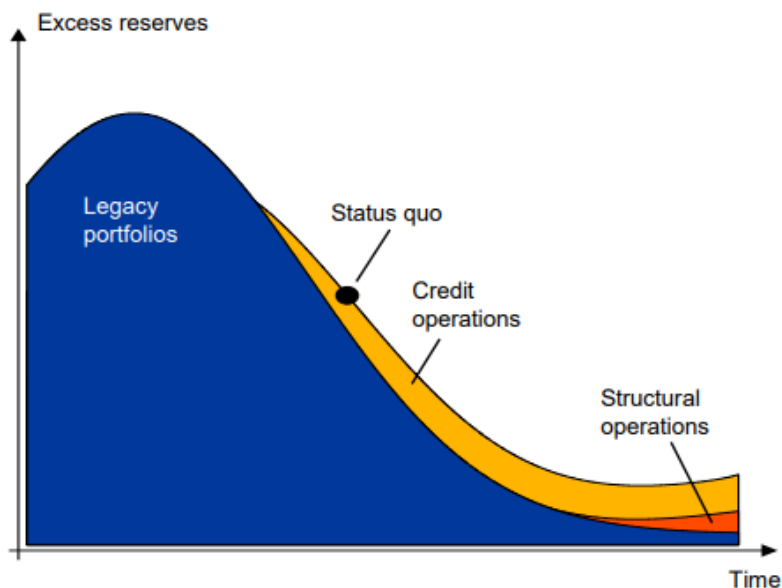


Outstanding 3m LTRO, in € bn



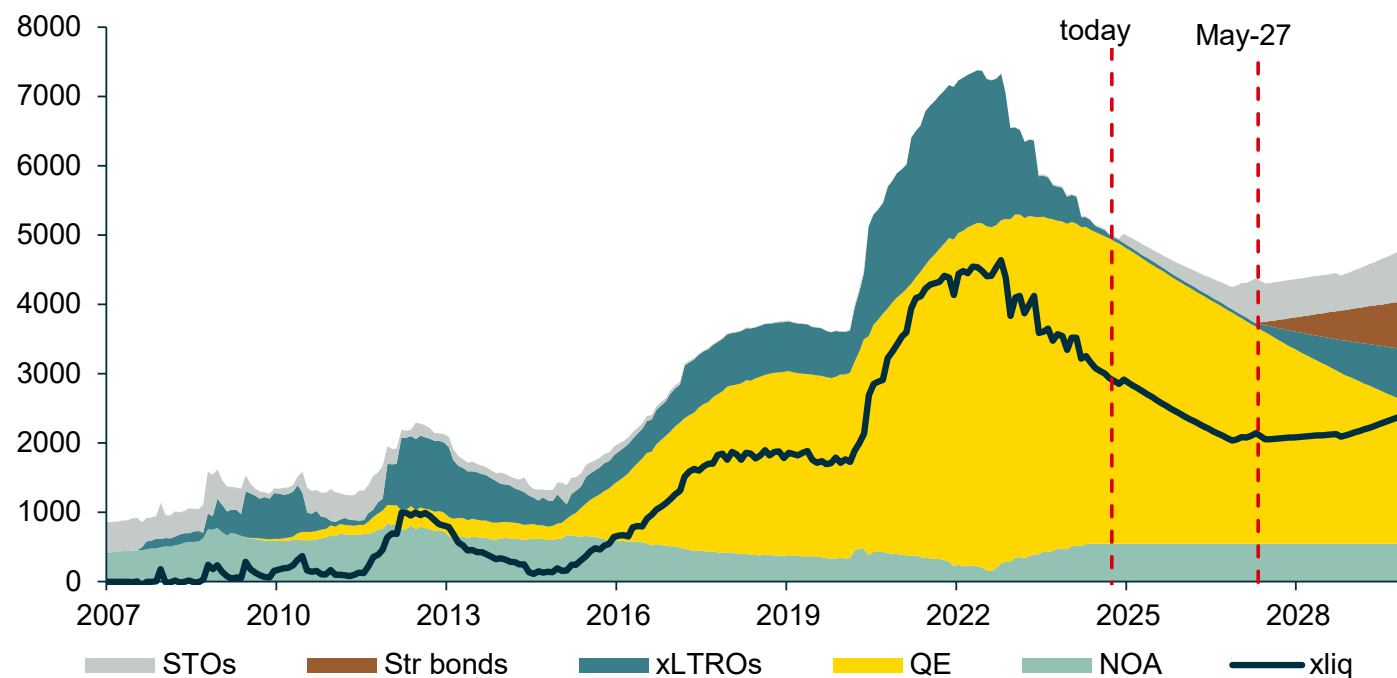
Source: ECB, Bloomberg, Commerzbank Research

When (and how) will the ECB balance sheet grow “durably” again?



Source: ECB, Bloomberg, Commerzbank Research

Reserve supplying Eurosystem assets, including projections (assumptions, see [AotC 21Mar](#)), in € bn. "Str. bonds" is structural bond portfolio, NOA is net other assets, STO is short-term operations (MRO and 3M LTRO)





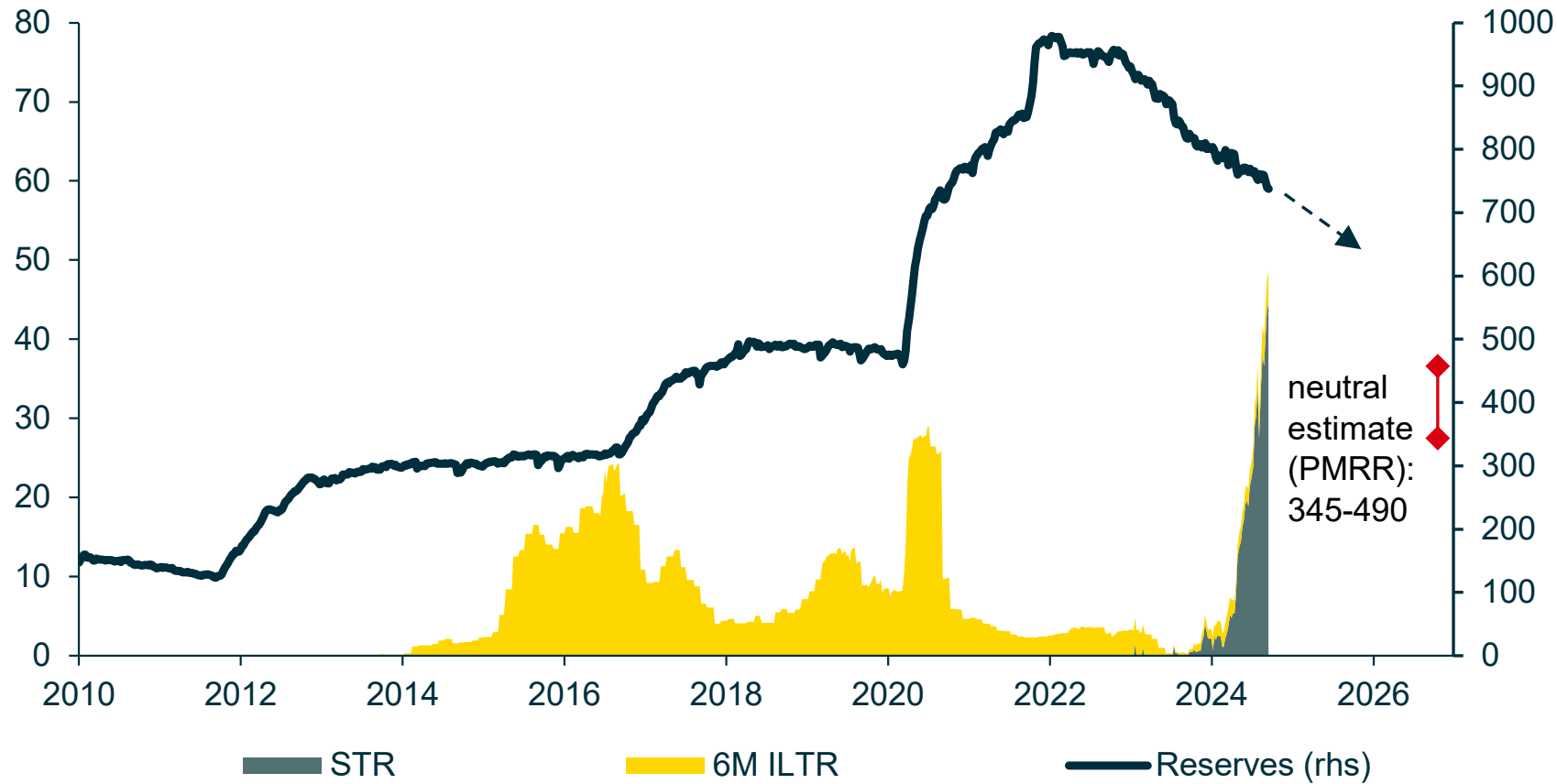
Lessons from the BoE





UK banks embrace Short-Term Repos

Outstanding BoE Short Term Repo and 6M ILTRs and sterling reserves, in £ bn



"We are therefore also in the process of reviewing the calibration of the ILTR to ensure it is effective and attractive enough..."

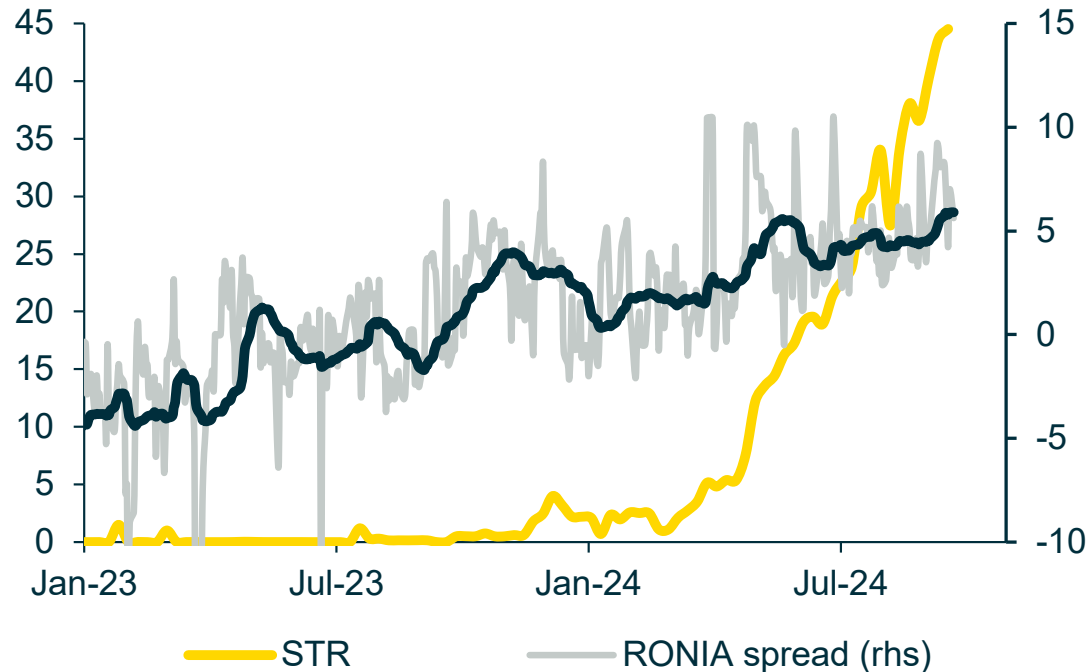
Vicky Saporta, BoE

Source: BoE, Bloomberg, Commerzbank Research

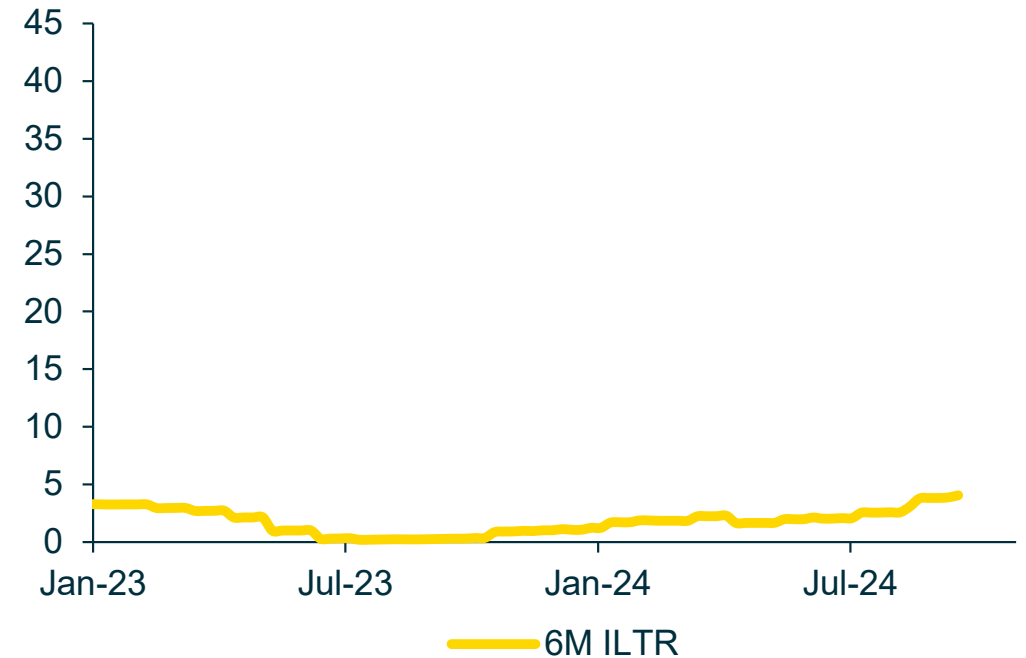


Tactical arbitrage, but no structural BoE funding

Outstanding 1w STR, in £ bn, and RONIA - Bank Rate spread, in bp



Outstanding 6M ILTR, in £ bn



Source: BoE, Bloomberg, Commerzbank Research



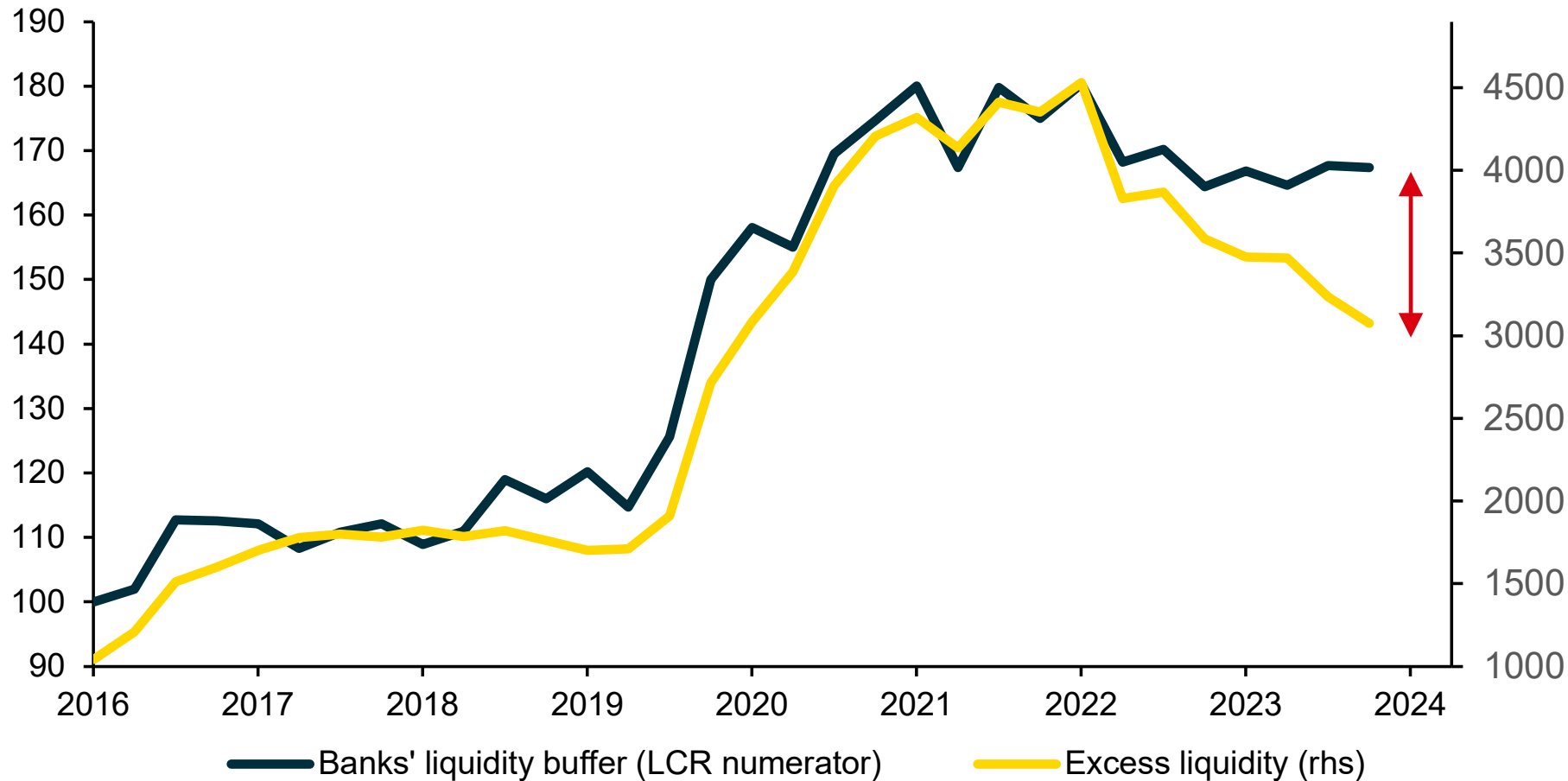
LCR & spread implications



Banks maintain liquidity buffer as excess liquidity falls...



Liquidity buffer of EBA banks (Index, 2016 = 100) and excess liquidity at the ECB (in € bn)

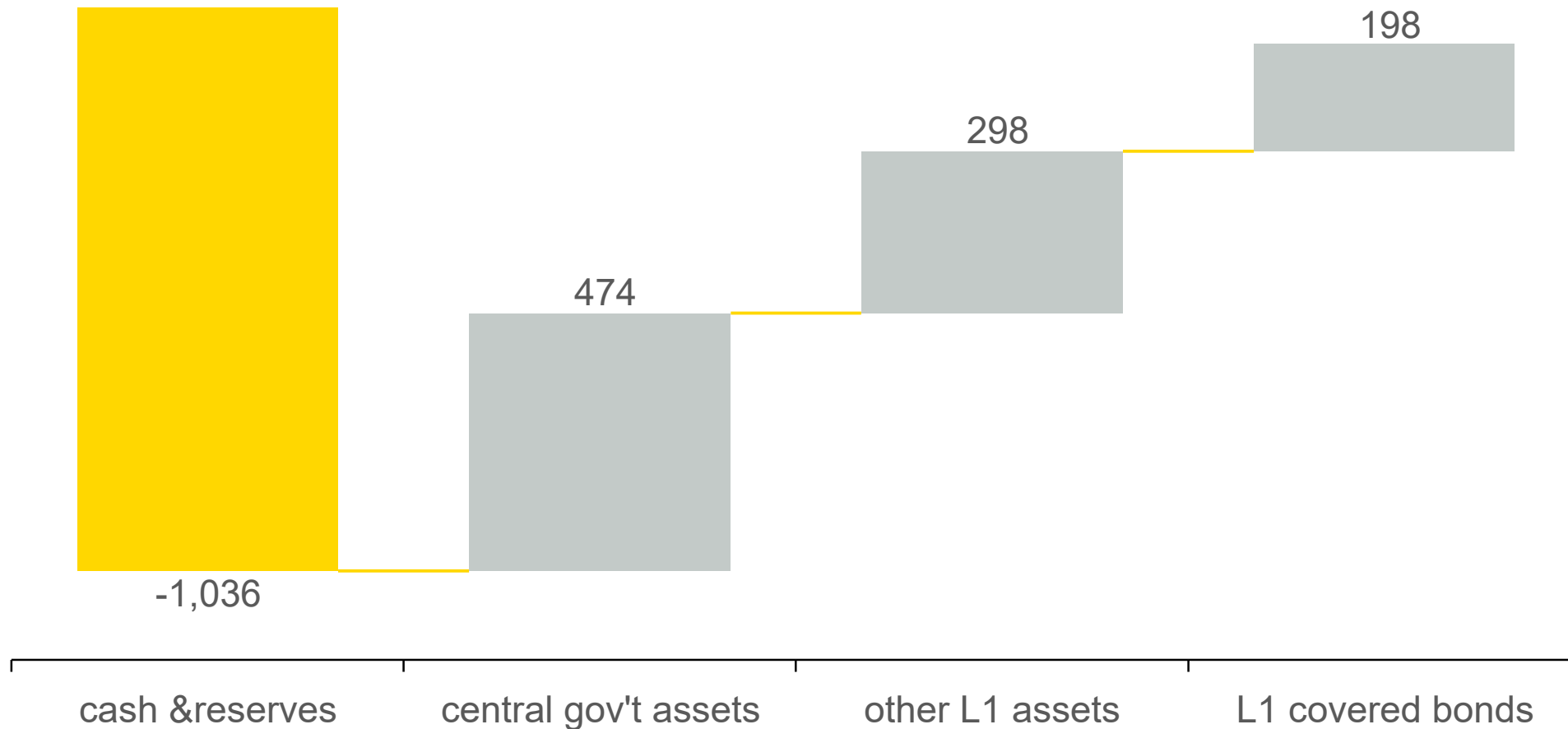


Source: EBA, Bloomberg, Commerzbank Research



... replacing central bank liquidity with liquid assets...

Change in EBA banks' LCR assets (after weighting), Q2-22 – Q2-24, in € bn

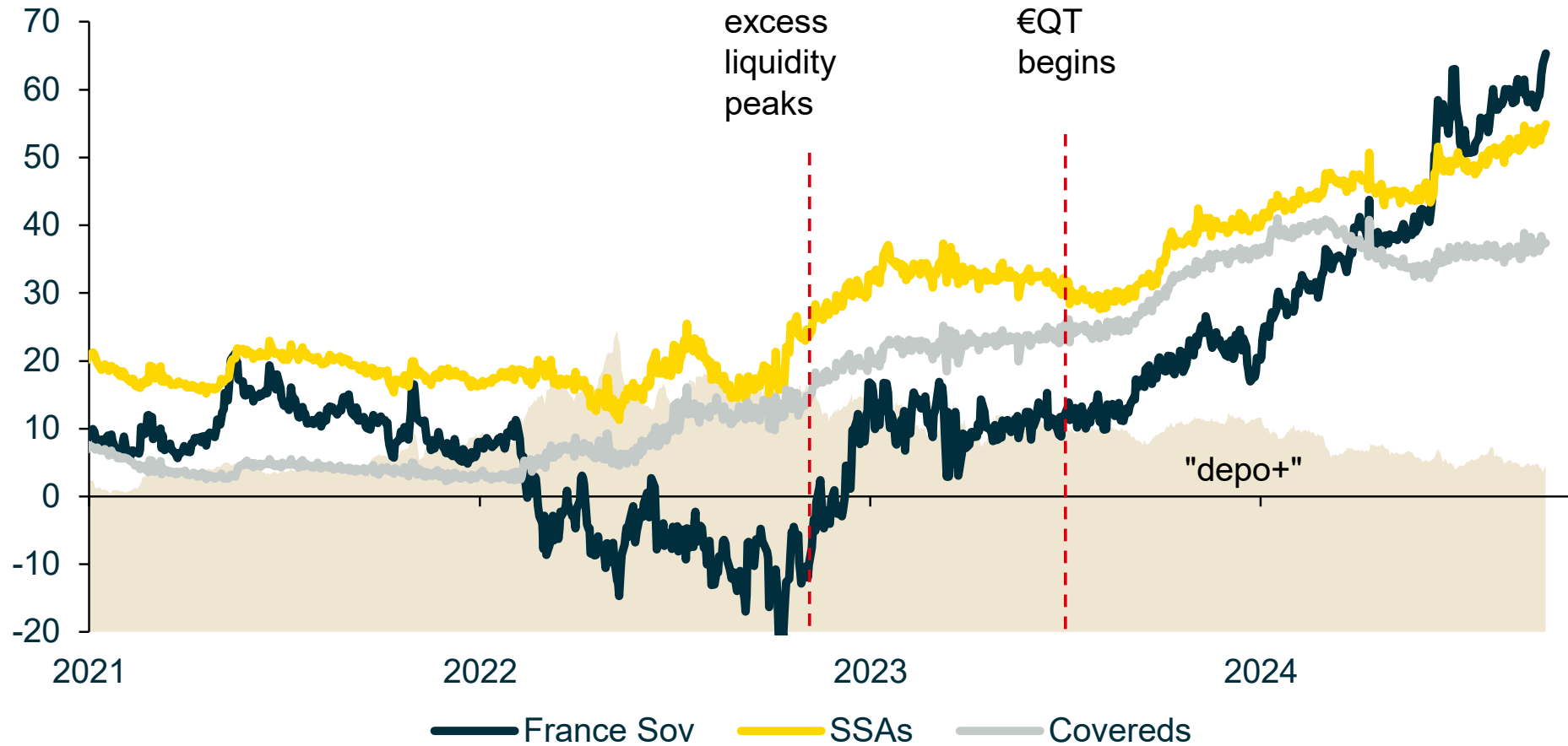


Source: EBA, Bloomberg, Commerzbank Research



... in pursuit of higher yields!

iBoxx index z-spreads, in bp, shaded area indicates flat yield vs ECB depo curve (proxied via 5y €STR/6M and 10bp €STR-depo basis)

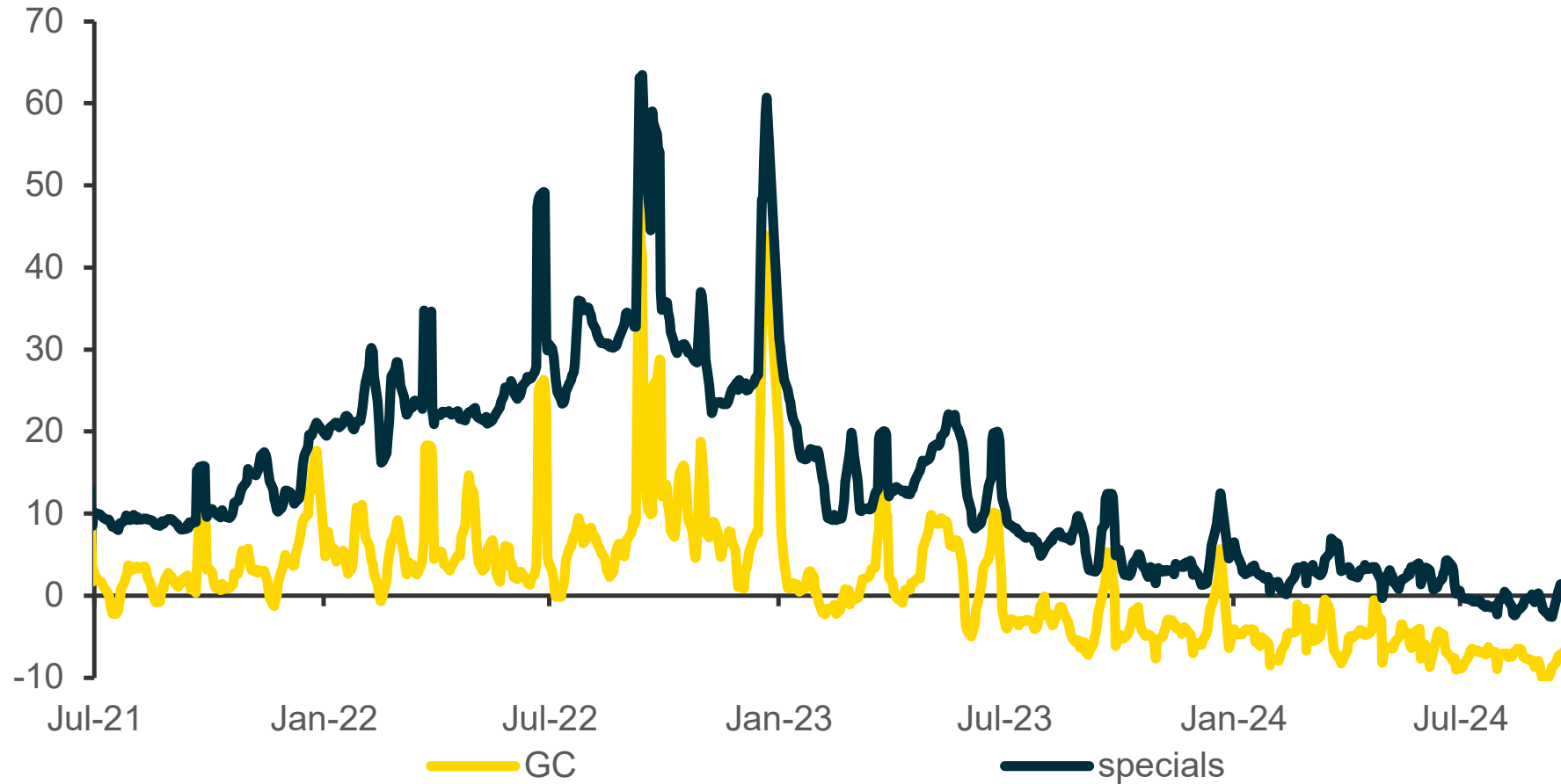


Source: Markit, Commerzbank Research



From scarcity to collateral abundance

Bund repo spreads vs €STR, in bp

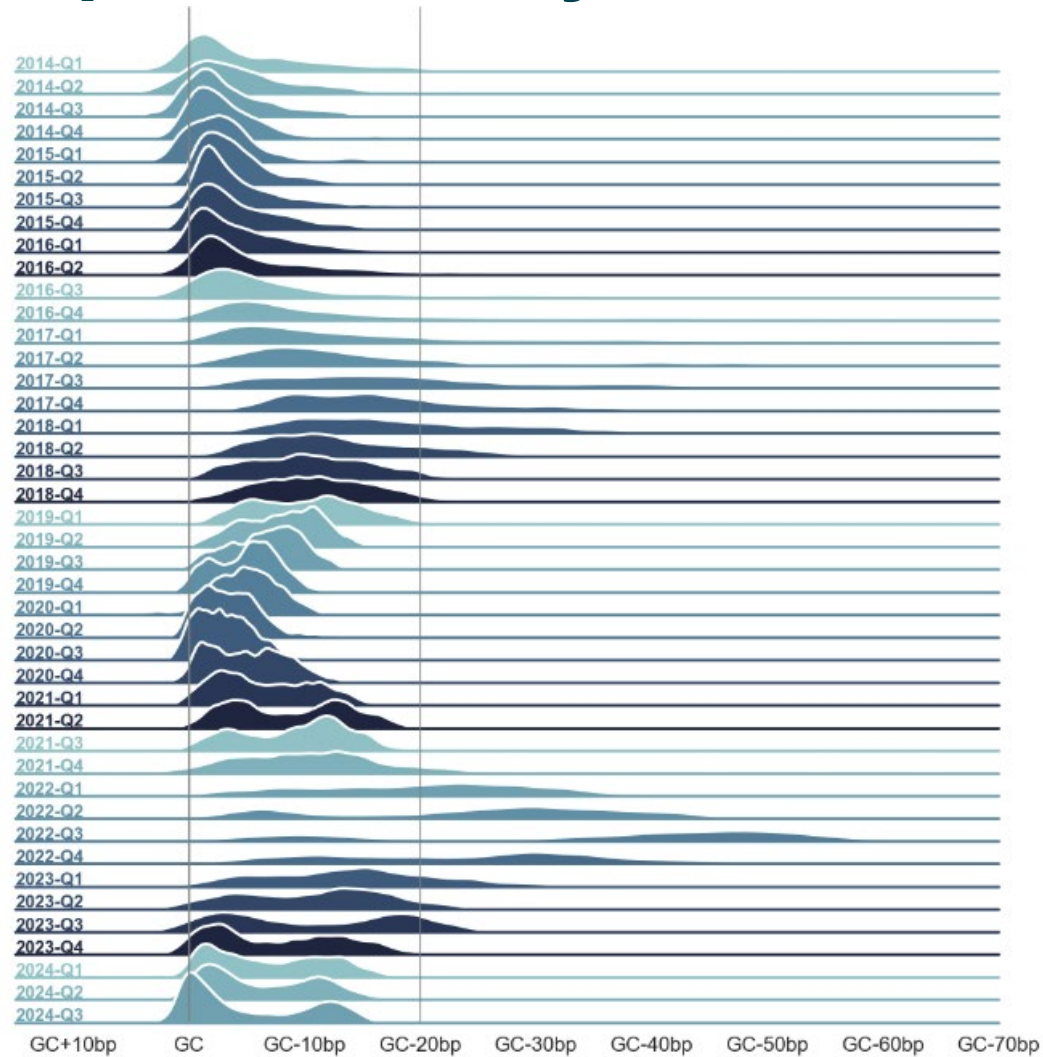


Source: Bloomberg, Commerzbank Research & Repo desk



A 'special' journey to post-scarcity

Evolution of the Bund specialness distribution*

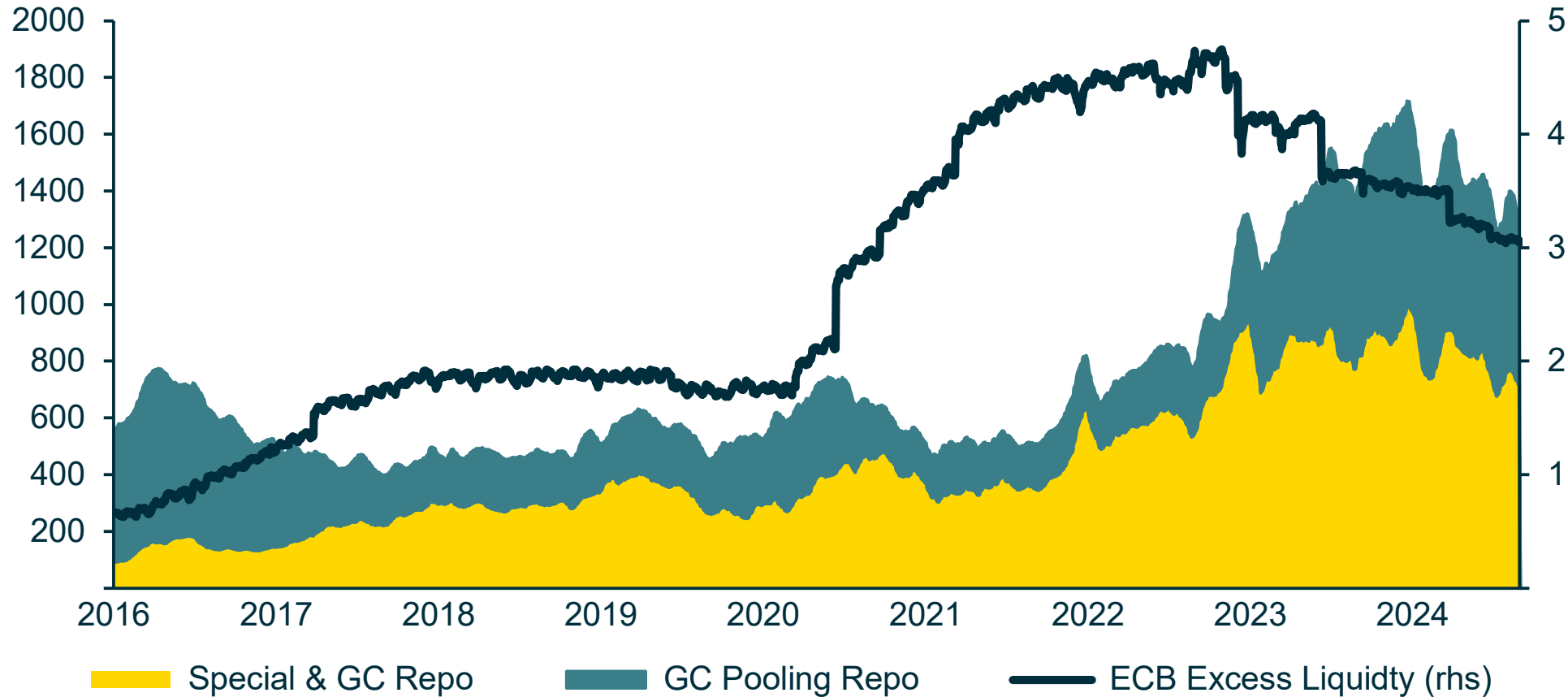


Source: Commerzbank Research & Repo desk, *) density estimate derived from spread of each active ISIN against GC, aggregation of all daily points during respective period, see [AotC - Collateral capitulation!](#) for monthly evolution



Repo markets taking over from ECB?

Outstanding Eurex repo volumes, in € bn, and ECB excess liquidity, in € trn



Source: Eurex Repo, Bloomberg, Commerzbank Research



Key questions:

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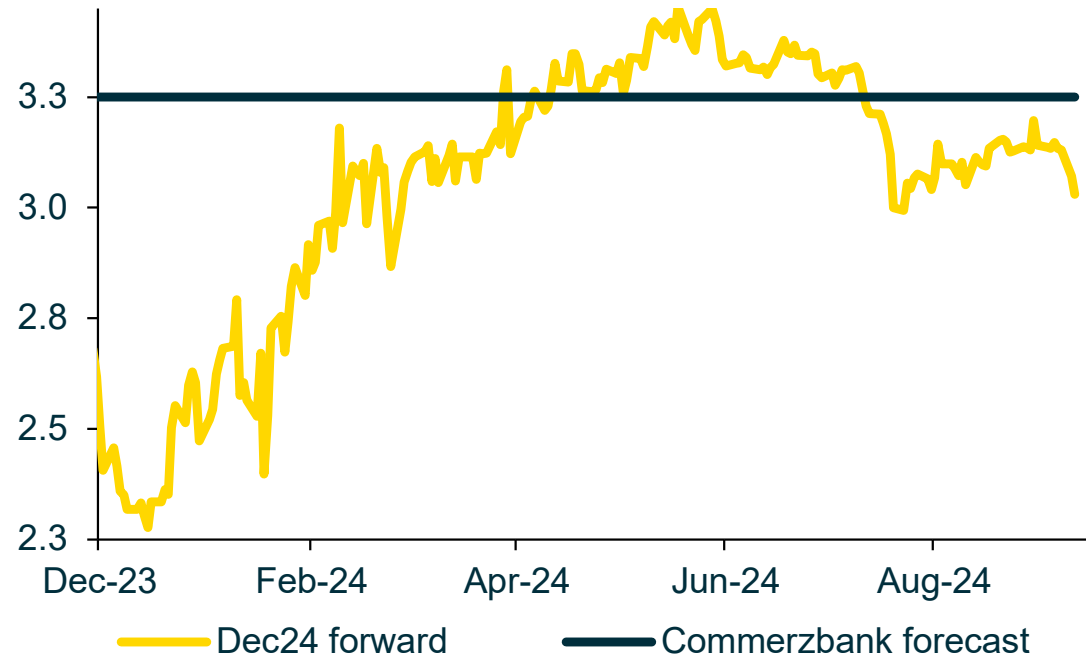
Where are rates heading?



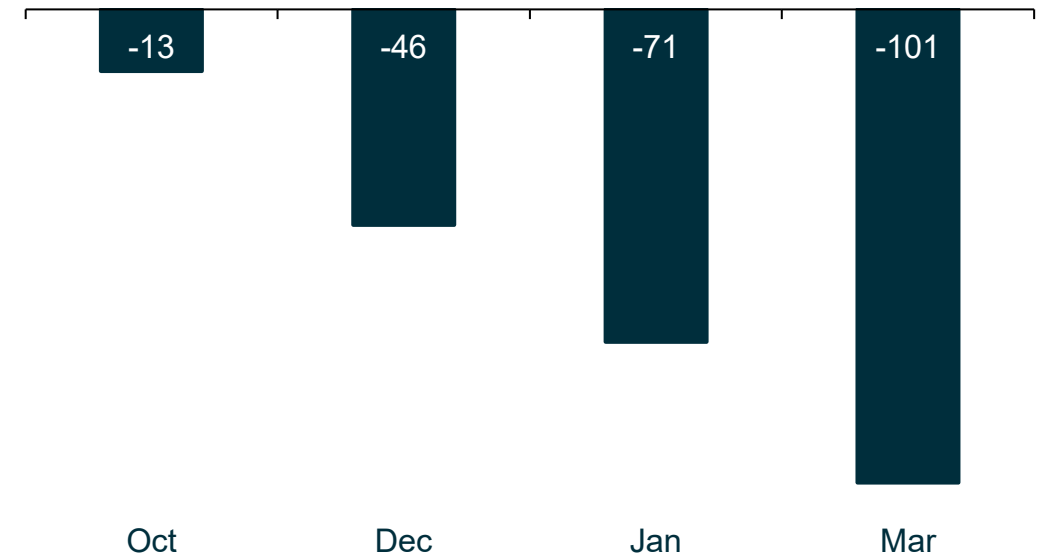


ECB forwards back below our forecast!

End-2024 ECB depo rate implied by €STR forwards and Commerzbank forecast, in %



Cumulative ECB depo rate expectation, in %

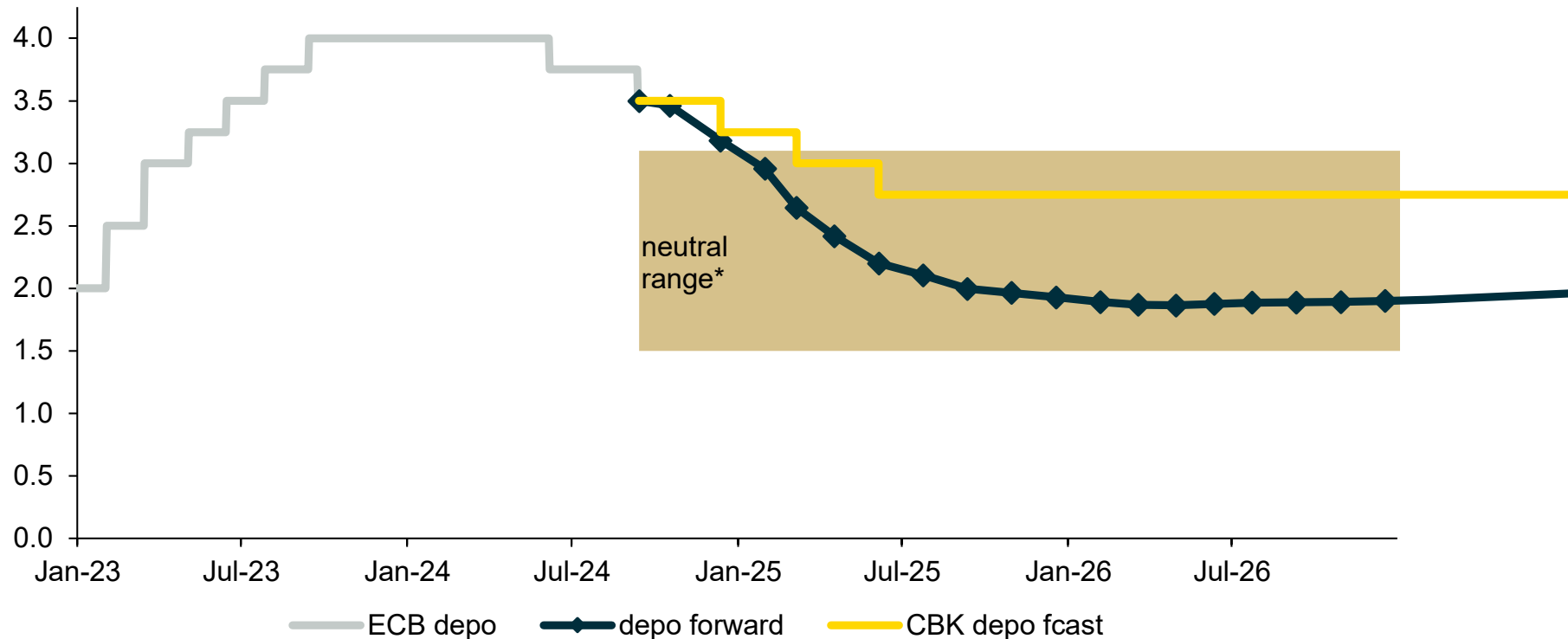


Source: Bloomberg, Commerzbank Research



ECB: In pursuit of neutral

ECB depo rate, including €STR implied forwards and Commerzbank forecasts. Neutral range is most recent estimate from a range of models*.



"The closer policy rates get to the upper band of estimates of the neutral rate of interest ... , the more cautious we should be to avoid that policy itself becomes a factor slowing down disinflation".

Isabel Schnabel, 30 August

Source: Bloomberg, ECB, Commerzbank Research *) see ECB Economic Bulletin, Issue 1/2024

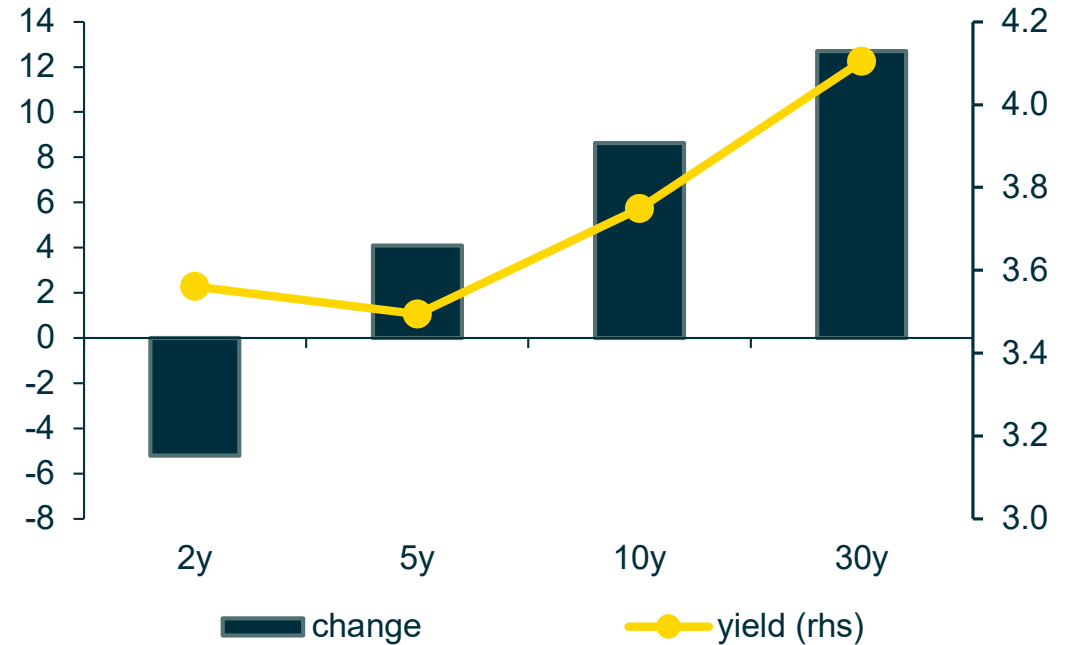


Long-end conundrum risks!

Fed funds target, forwards at time of first rate hike and 10y US Treasury yield, in %



Change in UST yields, in bp, and yield, in %



Source: Bloomberg, Commerzbank Research



Thank you for your attention!

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	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Overweight	33%	33%
Marketweight	33%	67%
Underweight	33%	33%

Source: Commerzbank Research

Distribution of Commerzbank AG rates research recommendation as of 31 March 2022

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Neutral	14%	0%
Underweight	45%	0%

Source: Commerzbank Research

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Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000	Tel: +852 3988 0988



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