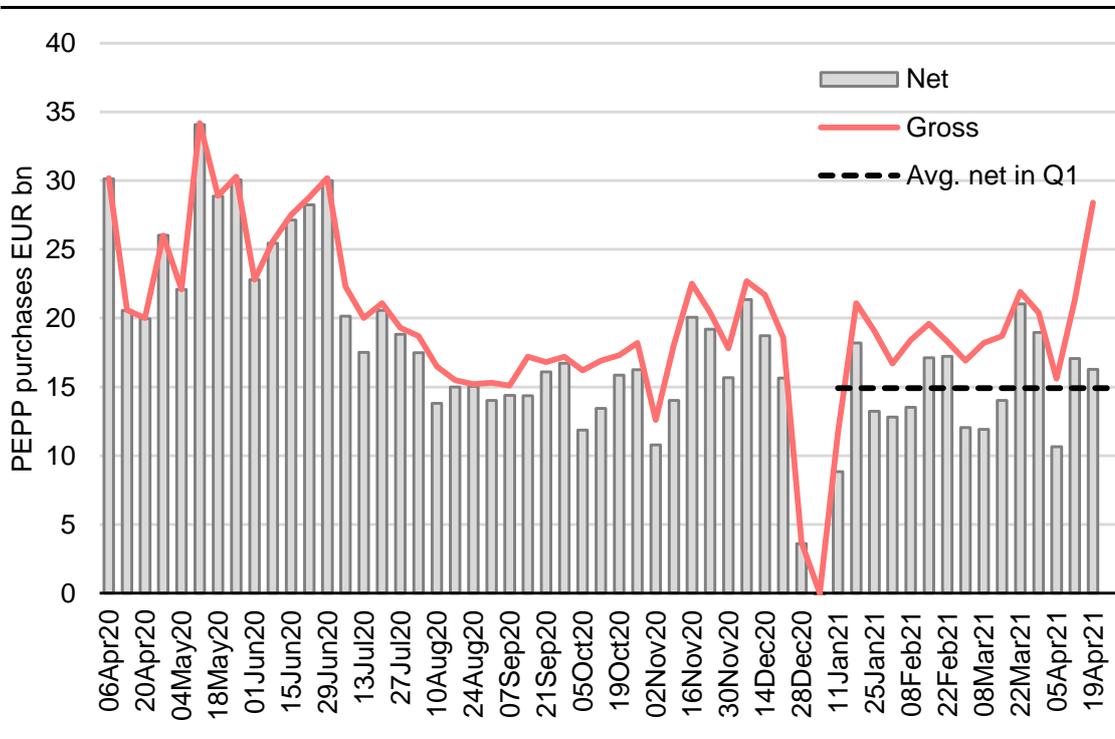


PEPP net vs. gross purchases: The case for better communication



Source: ECB, Bloomberg, UniCredit Research

- The most frequent discussions so far this year with clients have been on the extent of ECB support and PEPP details (how long, how much, how flexible), a topic that has intensified after the March central bank meeting’s promise of “significantly” more purchases. Although the ECB insists on not focusing on the weekly data, these updates, out every Monday at 15:45 CET, have indeed become a fixed appointment for investors. In recent months, they have caused some puzzlement by showing a divergence between ECB action and its rhetoric.
- This Monday was no exception: net purchases under the PEPP that settled in the period 12-16 April, the second full week of 2Q, were EUR 16.3bn, lower than in the previous week (EUR 17.1bn) and only 10% up from the average in 1Q (EUR 15bn). While the ECB indications from the March meeting are subjective, we would be surprised if “significant increase” was meant to be less than a 20-25% boost in purchases. Also, our understanding is that it referred to net purchases.
- However, while net purchases were rather low, gross purchases, published yesterday, were very high at EUR 28bn. This is due to a EUR 12bn redemption, the highest level so far and well above the YTD average (EUR 3.2bn). Which of the two matters more, gross or net purchases? There are two key features of a QE program: net purchases and the composition of the stock, summarized by the weighted average maturity (WAM). Usually, net purchases are the most important way for the central bank to extract duration while reinvestments do not absorb any additional debt from private investors. However, things are not so clear-cut with the PEPP, which is still only about one year old. Last week’s redemptions originate from securities that were purchased with one-year maturity and, in case reinvestments are carried out with a significantly longer maturity, this would extract duration. This would happen, for example, as the ECB runs off its portfolio of commercial paper, which was almost EUR 13bn at the end of March. Discussing the relevance of gross versus net purchases becomes trickier.
- More transparency regarding this program would help a great deal. If the ECB lengthens the maturity of its portfolio via reinvestments, communicating this clearly to markets would increase its effectiveness. We will eventually get an indication by looking at the data on the weighted average maturity (WAM) of the PEPP portfolio, but the data are only published every other month, and the next release will be in June. Telling investors what they should look at to assess the ECB’s purchase action would improve communication more than just insisting that investors should not read too much into weekly PEPP data.

- Finally, the ECB provides a twelve-month forward rolling estimate of APP redemptions. The time is ripe for a similar disclosure also with respect to PEPP redemptions, especially if the difference between net and gross purchases carries any relevance. If not, the ECB should explain why net purchases remain so low compared to 1Q, and clarify whether they plan to implement the promised increase via gross or net purchases.

Dr. Luca Cazzulani, Co-Head of Strategy Research, FI Strategist (UniCredit Bank, Milan)
+39 02 8862-0640
luca.cazzulani@unicredit.eu

Legal Notices

Glossary

A comprehensive glossary for many of the terms used in the report is available on our website: <https://www.unicreditresearch.eu/index.php?id=glossary>

Disclaimer

Our recommendations are based on information obtained from or are based upon public information sources that we consider to be reliable, but for the completeness and accuracy of which we assume no liability. All information, estimates, opinions, projections and forecasts included in this report represent the independent judgment of the analysts as of the date of the issue unless stated otherwise. We reserve the right to modify the views expressed herein at any time without notice. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice. This report may contain links to websites of third parties, the content of which is not controlled by UniCredit Bank. No liability is assumed for the content of these third-party websites.

This report is for information purposes only and (i) does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any financial, money market or investment instrument or any security, (ii) is neither intended as such an offer for sale or subscription of or solicitation of an offer to buy or subscribe for any financial, money market or investment instrument or any security nor (iii) as marketing material within the meaning of applicable prospectus law. The investment possibilities discussed in this report may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. The investments discussed may fluctuate in price or value. Investors may get back less than they invested. Fluctuations in exchange rates may have an adverse effect on the value of investments. Furthermore, past performance is not necessarily indicative of future results. In particular, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety.

This information is given without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual advice. Investors must make their own determination of the appropriateness of an investment in any instruments referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. As this document does not qualify as an investment recommendation or as a direct investment recommendation, neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever. Investors are urged to contact their bank's investment advisor for individual explanations and advice.

Neither UniCredit Bank AG, UniCredit Bank AG London Branch, UniCredit Bank AG Milan Branch, UniCredit Bank AG Vienna Branch, UniCredit Bank Austria AG, UniCredit Bulbank, Zagrebačka banka d.d., UniCredit Bank Czech Republic and Slovakia, ZAO UniCredit Bank Russia, UniCredit Bank Czech Republic and Slovakia Slovakia Branch, UniCredit Bank Romania, UniCredit Bank AG New York Branch nor any of their respective directors, officers or employees nor any other person accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

This report is being distributed by electronic and ordinary mail to professional investors, who are expected to make their own investment decisions without undue reliance on this publication, and may not be redistributed, reproduced or published in whole or in part for any purpose.

This report was completed and first published on 21 April 2021 at 11:53.

Responsibility for the content of this publication lies with:

UniCredit Group and its subsidiaries are subject to regulation by the European Central Bank

a) UniCredit Bank AG (UniCredit Bank, Munich or Frankfurt), Arabellastraße 12, 81925 Munich, Germany, (also responsible for the distribution pursuant to §85 WpHG). Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany.

b) UniCredit Bank AG London Branch (UniCredit Bank, London), Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom. Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and subject to limited regulation by the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN, United Kingdom and Prudential Regulation Authority 20 Moorgate, London, EC2R 6DA, United Kingdom. Further details regarding our regulatory status are available on request.

c) UniCredit Bank AG Milan Branch (UniCredit Bank, Milan), Piazza Gae Aulenti, 4 - Torre C, 20154 Milan, Italy, duly authorized by the Bank of Italy to provide investment services. Regulatory authority: "Bank of Italy", Via Nazionale 91, 00184 Roma, Italy and Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany.

d) UniCredit Bank AG Vienna Branch (UniCredit Bank, Vienna), Rothschildplatz 1, 1020 Vienna, Austria. Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Otto-Wagner-Platz 5, 1090 Vienna, Austria and subject to limited regulation by the "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany. Details about the extent of our regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht are available from us on request.

e) UniCredit Bank Austria AG (Bank Austria), Rothschildplatz 1, 1020 Vienna, Austria. Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Otto-Wagner-Platz 5, 1090 Vienna, Austria

f) UniCredit Bulbank, Sveta Nedelya Sq. 7, BG-1000 Sofia, Bulgaria. Regulatory authority: Financial Supervision Commission (FSC), 16 Budapeshta str., 1000 Sofia, Bulgaria

g) Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, HR-10000 Zagreb, Croatia. Regulatory authority: Croatian Agency for Supervision of Financial Services, Franje Račkoga 6, 10000 Zagreb, Croatia

h) UniCredit Bank Czech Republic and Slovakia, Želetavská 1525/1, 140 92 Praga 4, Czech Republic. Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praga 1, Czech Republic

i) ZAO UniCredit Bank Russia (UniCredit Russia), Prechistsenskaya nab. 9, RF-119034 Moscow, Russia. Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

j) UniCredit Bank Czech Republic and Slovakia, Slovakia Branch, Šancova 1/A, SK-813 33 Bratislava, Slovakia. Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic and subject to limited regulation by the National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia. Regulatory authority: National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia

k) UniCredit Bank Romania, Bucharest 1F Expozitiei Boulevard, 012101 Bucharest 1, Romania. Regulatory authority: National Bank of Romania, 25 Lipscani Street, 030031, 3rd District, Bucharest, Romania

l) UniCredit Bank AG New York Branch (UniCredit Bank, New York), 150 East 42nd Street, New York, NY 10017. Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and New York State Department of Financial Services, One State Street, New York, NY 10004-1511 Further details regarding our regulatory status are available on request.

ANALYST DECLARATION

The analyst's remuneration has not been, and will not be, geared to the recommendations or views expressed in this report, neither directly nor indirectly. All of the views expressed accurately reflect the analyst's views, which have not been influenced by considerations of UniCredit Bank's business or client relationships.

POTENTIAL CONFLICTS OF INTERESTS

You will find a list of keys for company specific regulatory disclosures on our website <https://www.unicreditresearch.eu/index.php?id=disclaimer>.

RECOMMENDATIONS, RATINGS AND EVALUATION METHODOLOGY

You will find the history of rating regarding recommendation changes as well as an overview of the breakdown in absolute and relative terms of our investment ratings, and a note on the evaluation basis for interest-bearing securities on our website <https://www.unicreditresearch.eu/index.php?id=disclaimer> and <https://www.unicreditresearch.eu/index.php?id=legalnotices>.

ADDITIONAL REQUIRED DISCLOSURES UNDER THE LAWS AND REGULATIONS OF JURISDICTIONS INDICATED

You will find a list of further additional required disclosures under the laws and regulations of the jurisdictions indicated on our website <https://www.unicreditresearch.eu/index.php?id=disclaimer>.

E 20/1

UniCredit Research*

Macro & Strategy Research



Erik F. Nielsen
 Group Chief Economist
 Global Head of CIB Research
 +44 207 826-1765
 erik.nielsen@unicredit.eu



Dr. Ingo Heimig
 Head of Research Operations
 & Regulatory Controls
 +49 89 378-13952
 ingo.heimig@unicredit.de

Head of Macro Research

Heads of Strategy Research



Marco Valli
 Head of Macro Research
 Chief European Economist
 +39 02 8862-0537
 marco.valli@unicredit.eu



Dr. Luca Cazzulani
 Co-Head of Strategy Research
 FI Strategist
 +39 02 8862-0640
 luca.cazzulani@unicredit.eu



Elia Lattuga
 Co-Head of Strategy Research
 Cross Asset Strategist
 +44 207 826-1642
 elia.lattuga@unicredit.eu

European Economics Research

Dr. Andreas Rees
 Chief German Economist
 +49 69 2717-2074
 andreas.rees@unicredit.de

Dr. Loredana Federico
 Chief Italian Economist
 +39 02 8862-0534
 loredanamarca.federico@unicredit.eu

Stefan Bruckbauer
 Chief Austrian Economist
 +43 50505-41951
 stefan.bruckbauer@unicreditgroup.at

Tullia Bucco
 Economist
 +39 02 8862-0532
 tullia.bucco@unicredit.eu

Edoardo Campanella
 Economist
 +39 02 8862-0522
 edoardo.campanella@unicredit.eu

Walter Pudschedl
 Economist
 +43 50505-41957
 walter.pudschedl@unicreditgroup.at

Chiara Silvestre
 Economist
 chiara.silvestre@unicredit.eu

Dr. Thomas Strobel
 Economist
 +49 89 378-13013
 thomas.strobel@unicredit.de

International Economics Research

Daniel Vernazza, Ph.D.
 Chief International Economist
 +44 207 826-7805
 daniel.vernazza@unicredit.eu

FX Strategy Research

Roberto Mialich
 FX Strategist
 +39 02 8862-0658
 roberto.mialich@unicredit.eu

FI Strategy Research

Michael Rottmann
 Head
 FI Strategist
 +49 89 378-15121
 michael.rottman1@unicredit.de

Dr. Luca Cazzulani
 Co-Head of Strategy Research
 FI Strategist
 +39 02 8862-0640
 luca.cazzulani@unicredit.eu

Chiara Cremonesi
 Deputy Head
 FI Strategist
 +44 207 826-1771
 chiara.cremonesi@unicredit.eu

Francesco Maria Di Bella
 FI Strategist
 +39 02 8862-0850
 francescomaria.dibella@unicredit.eu

Kornelius Purps
 FI Strategist
 +49 89 378-12753
 kornelius.purps@unicredit.de

Credit & Equity Sector Strategy Research

Christian Stocker, CEFA
 Lead Equity Sector Strategist
 +49 89 378-18603
 christian.stocker@unicredit.de

Dr. Stefan Kolek
 EEMEA Corporate Credits & Strategy
 +49 89 378-12495
 stefan.kolek@unicredit.de

Cross Asset Strategy Research

Elia Lattuga
 Co-Head of Strategy Research
 Cross Asset Strategist
 +44 207 826-1642
 elia.lattuga@unicredit.eu

UniCredit Research, Corporate & Investment Banking, UniCredit Bank AG, Am Eisbach 4, D-80538 Munich, globalresearch@unicredit.de
 Bloomberg: UCCR, Internet: www.unicreditresearch.eu

M/S 21/1

*UniCredit Research is the joint research department of UniCredit Bank AG (UniCredit Bank, Munich or Frankfurt), UniCredit Bank AG London Branch (UniCredit Bank, London), UniCredit Bank AG Milan Branch (UniCredit Bank, Milan), UniCredit Bank AG Vienna Branch (UniCredit Bank, Vienna), UniCredit Bank Austria AG (Bank Austria), UniCredit Bulbank, Zagrebačka banka d.d., UniCredit Bank Czech Republic and Slovakia, ZAO UniCredit Bank Russia (UniCredit Russia), UniCredit Bank Romania.