

ECB seeks optionality as uncertainty rises

Research Webcast

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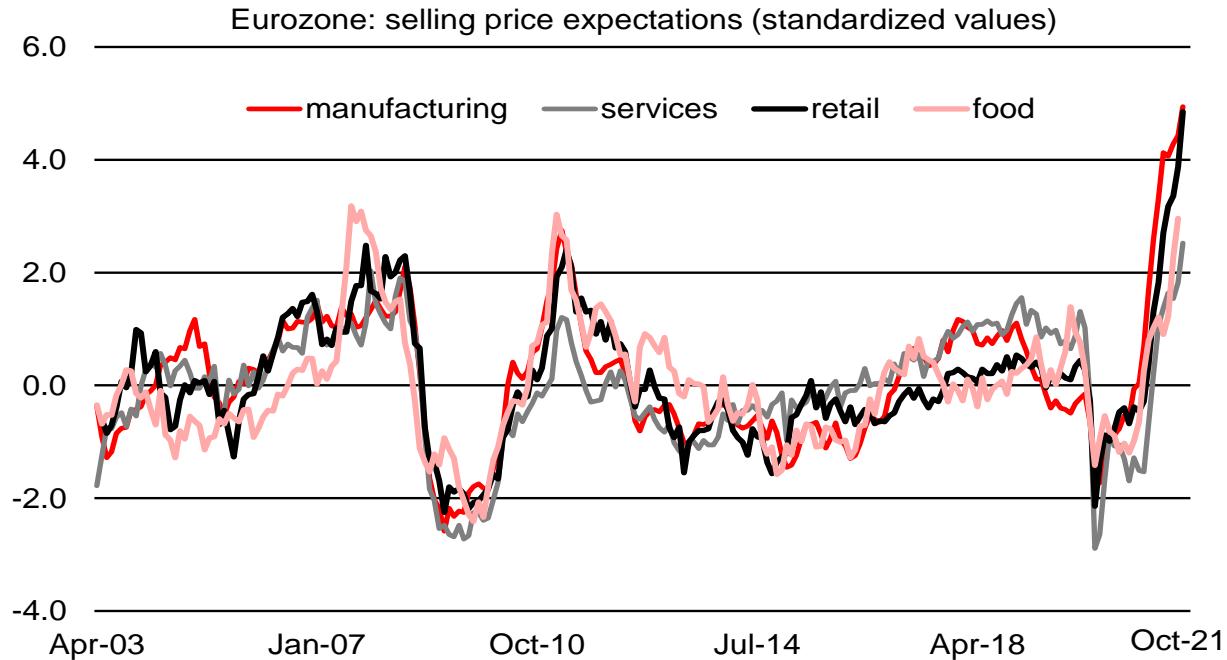
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Summary of views

- The ECB is still on track to finish PEPP net purchases in March. The Omicron variant of COVID-19 might derail its plan if the effectiveness of vaccines drops meaningfully. We do not forecast a post-PEPP cliff.
- After PEPP, APP might run at an average pace of EUR 40bn per month. If the ECB announces an APP envelope for 2022, it would leave plenty of room for a (possibly quarterly) recalibration of purchases. “Silent” PEPP would provide flexibility.
- We do not expect the ECB to hike rates in 2022 and even 2023 looks unlikely. We regard market expectations in this regard as overdone.
- The share of net supply covered by ECB purchases will be lower than in 2021. A more data-dependent ECB will lead to higher yield volatility.



Pipeline price pressure has surprised to the upside

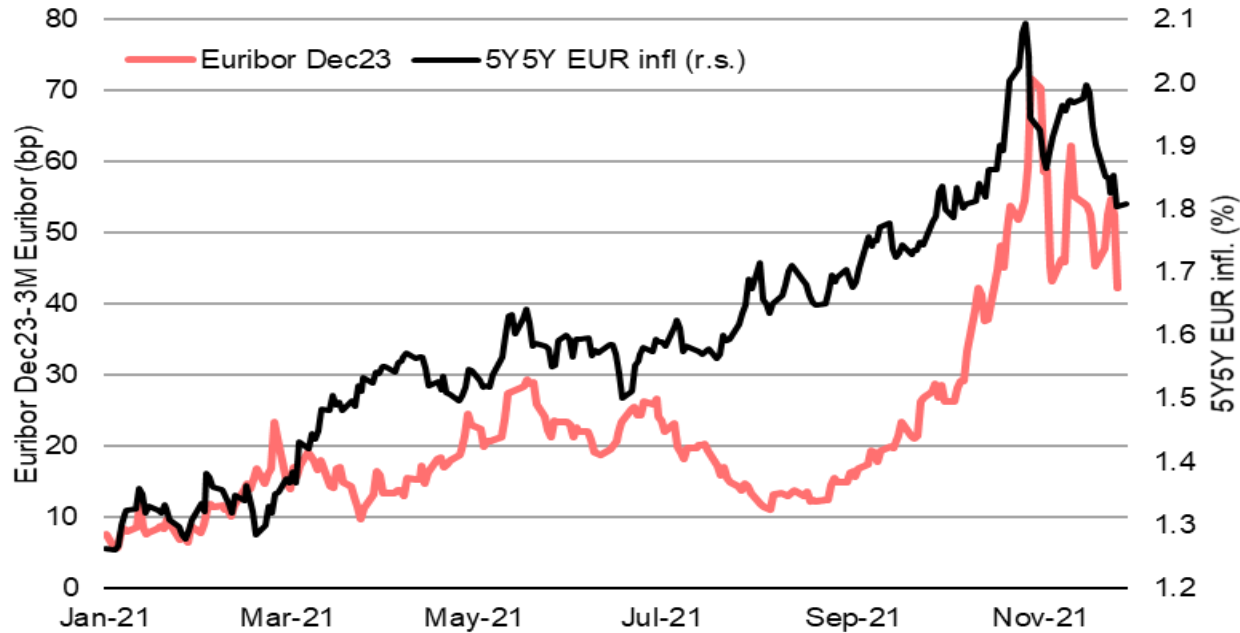


Key points on the agenda for 16 December

- On track to stop PEPP net purchases: we do not expect a cliff after March
- After PEPP, APP might run at an average pace of EUR 40bn per month
- Any APP envelope for 2022 would leave plenty of scope for a (possibly quarterly) recalibration of purchases
- “Silent” PEPP would allow flexibility to be retained
- Probably no major news on TLTRO



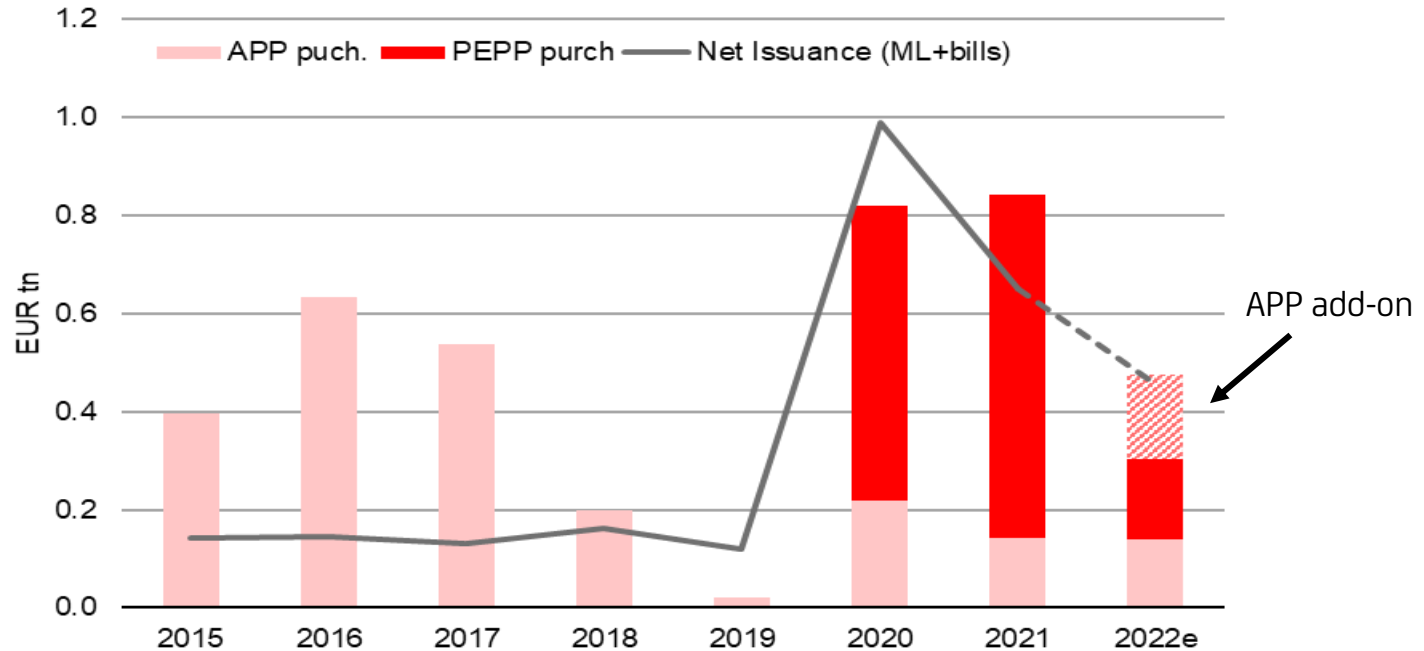
Rate hikes in 2023? Not if inflation drops below 2% (as we expect)



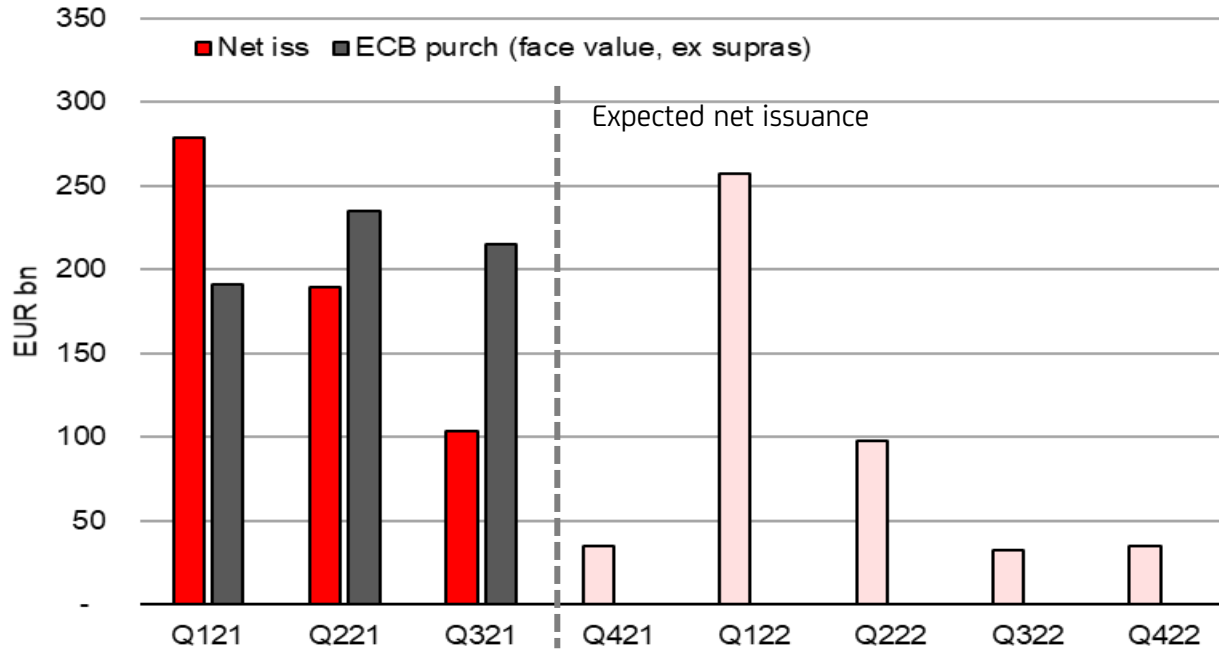
Source: Bloomberg, UniCredit Research



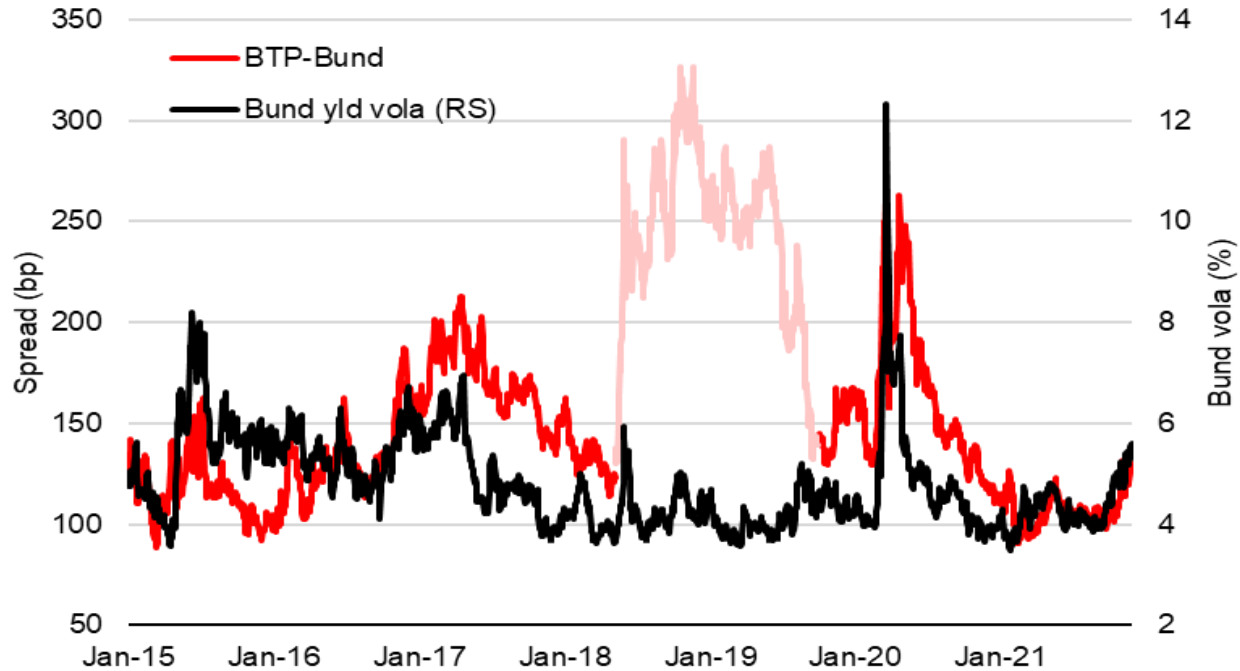
ECB support still there in 2022, but dwindling



ECB: flow distribution will likely be stronger in 1Q22



Implications for BTPs



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