

UniCredit Research Webcast

ECB's quantitative tightening: implications for reinvestments and fixed income markets

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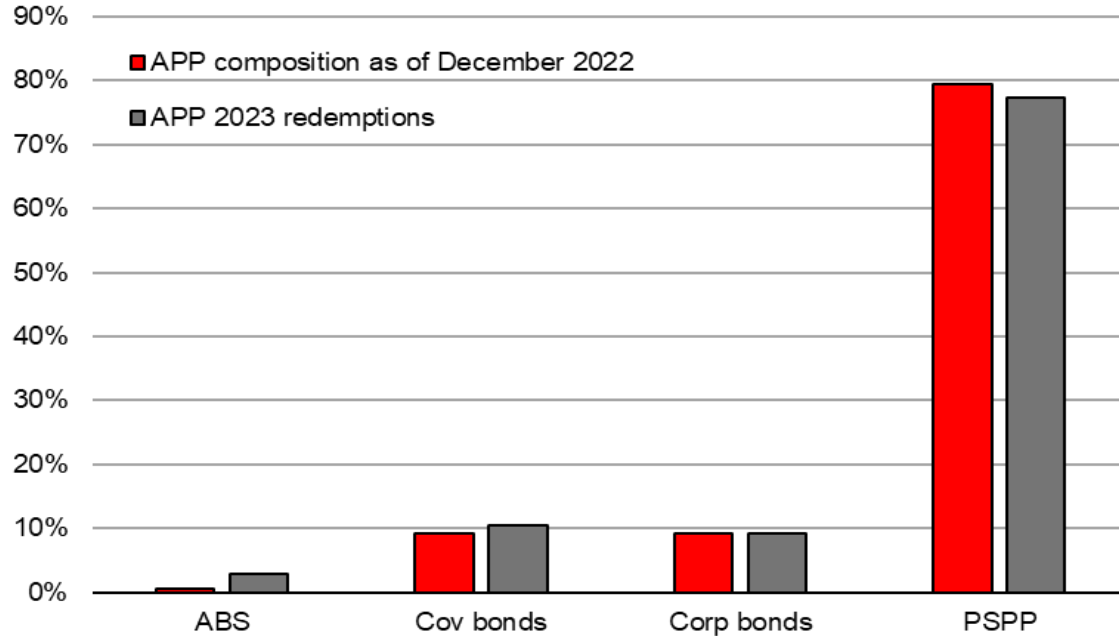
Summary

- The ECB will begin quantitative tightening in March, reducing its APP portfolio at an initial pace of EUR 15bn per month. Technical details will be announced at next week's meeting.
- We expect the run-off to be applied proportionally across the various fixed-income asset classes and that the monthly pace after June will be in the EUR 15-25bn range.
- Bonds not reinvested by the ECB will have to be purchased by private investors. This will increase net supply to the market.
- The run-off is likely to be EUR 100-150bn for government bonds, pushing net supply to the market to a record high. QT will be modest for supranational bonds (EUR 15-20bn) but comes in a year when net supply is already very large.
- The run-off should be around EUR 15-20bn for covered bonds and for corporate bonds. Low expected net supply should help to contain pressure on spreads



We expect QT to reflect composition of the APP portfolio

Breakdown of APP redemptions by asset class

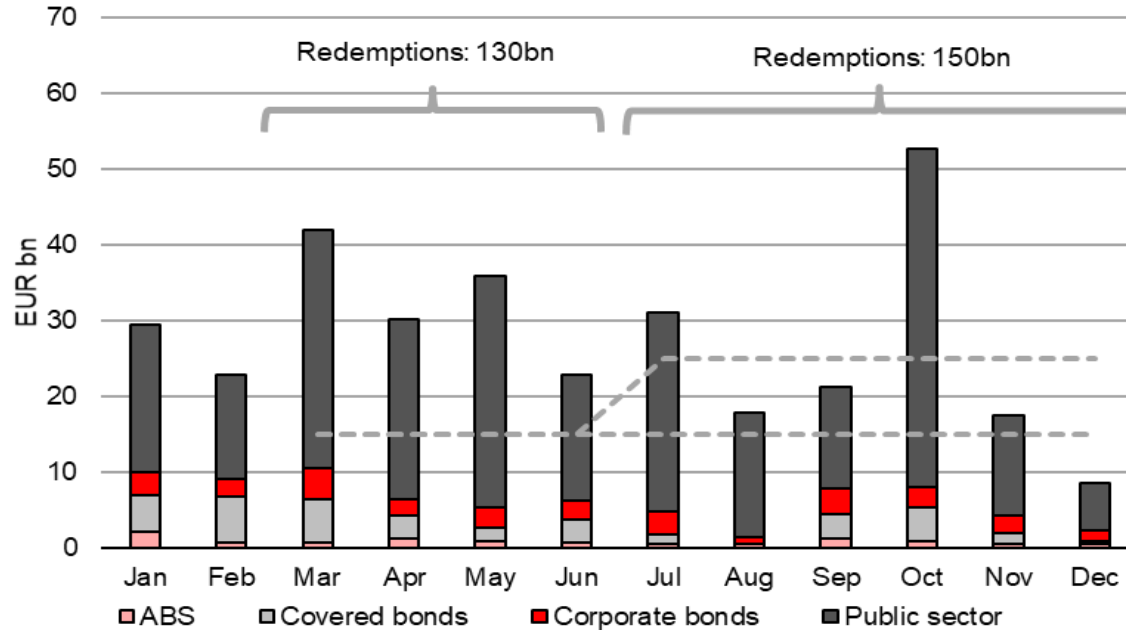


Source: ECB, Bloomberg, UniCredit Research



Run-off to start at EUR 15bn/month, possible increase after June

APP redemptions in 2023

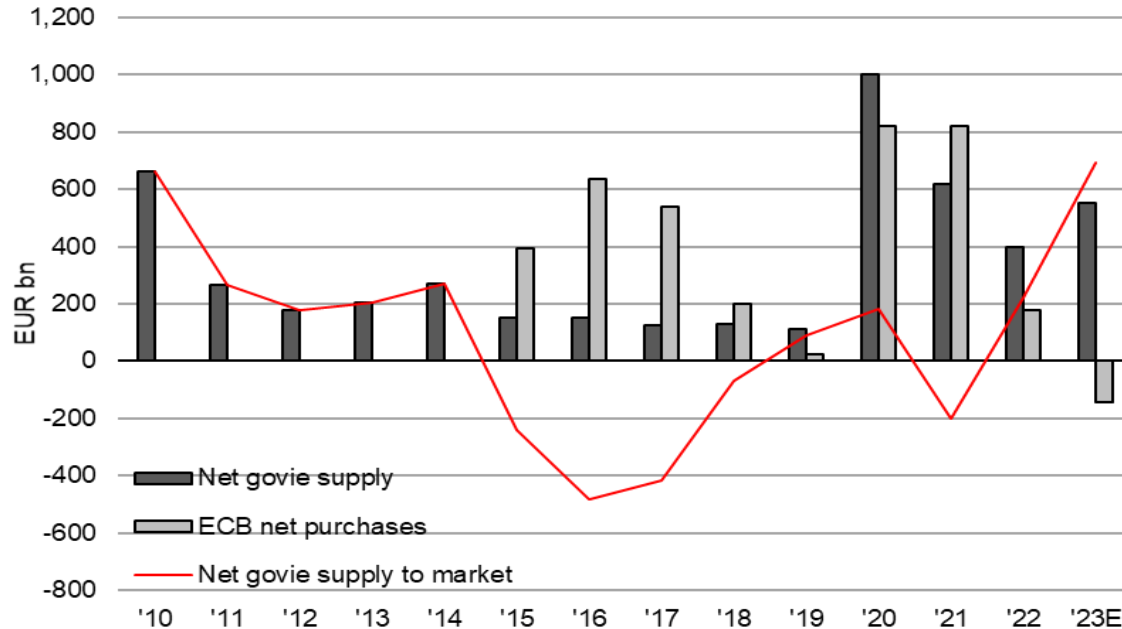


Source: ECB, Bloomberg, UniCredit Research



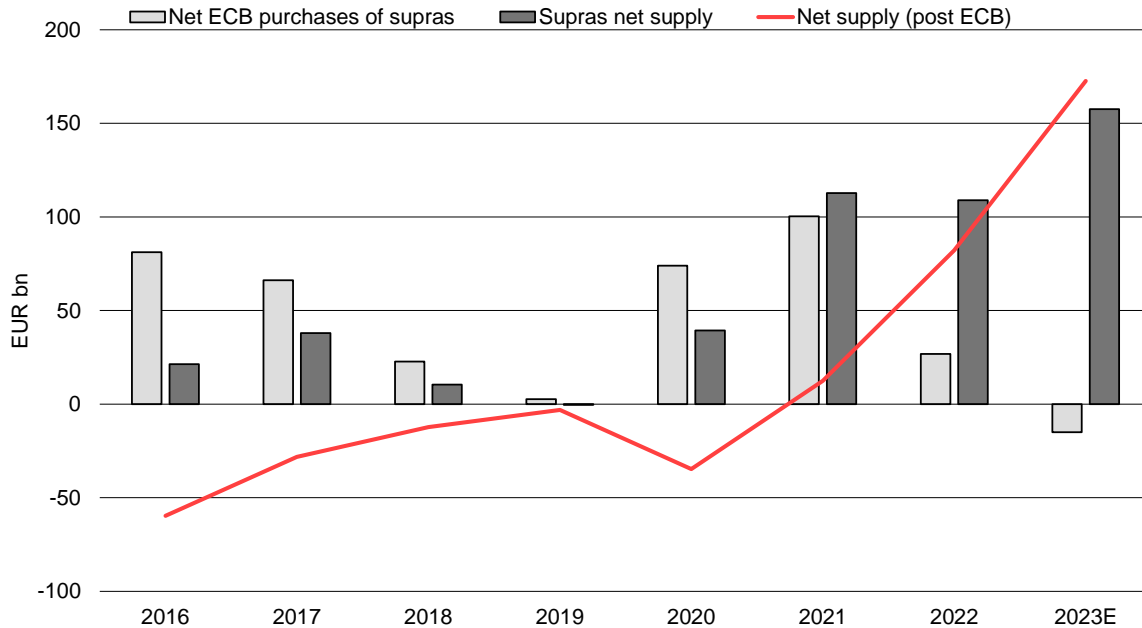
Sovereign bonds: net supply to the market to reach nearly EUR 700bn

Government bonds: net supply versus ECB net purchases



Supranational bonds: QT will be modest (~EUR 15bn) but comes in a year when net supply is already very large

Supras: net supply versus ECB net purchases

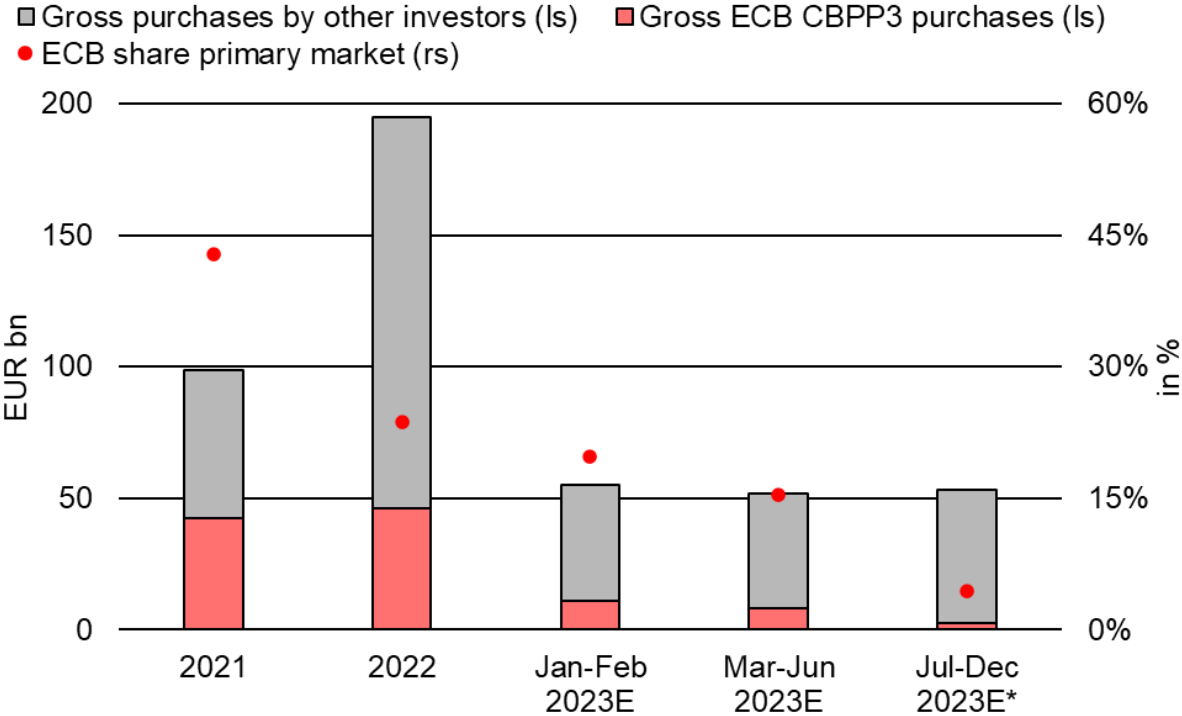


Source: Bloomberg, ECB, UniCredit Research



Covered bonds: Spread widening & less ECB support in primary market

Historical and expected ECB share in primary market deals

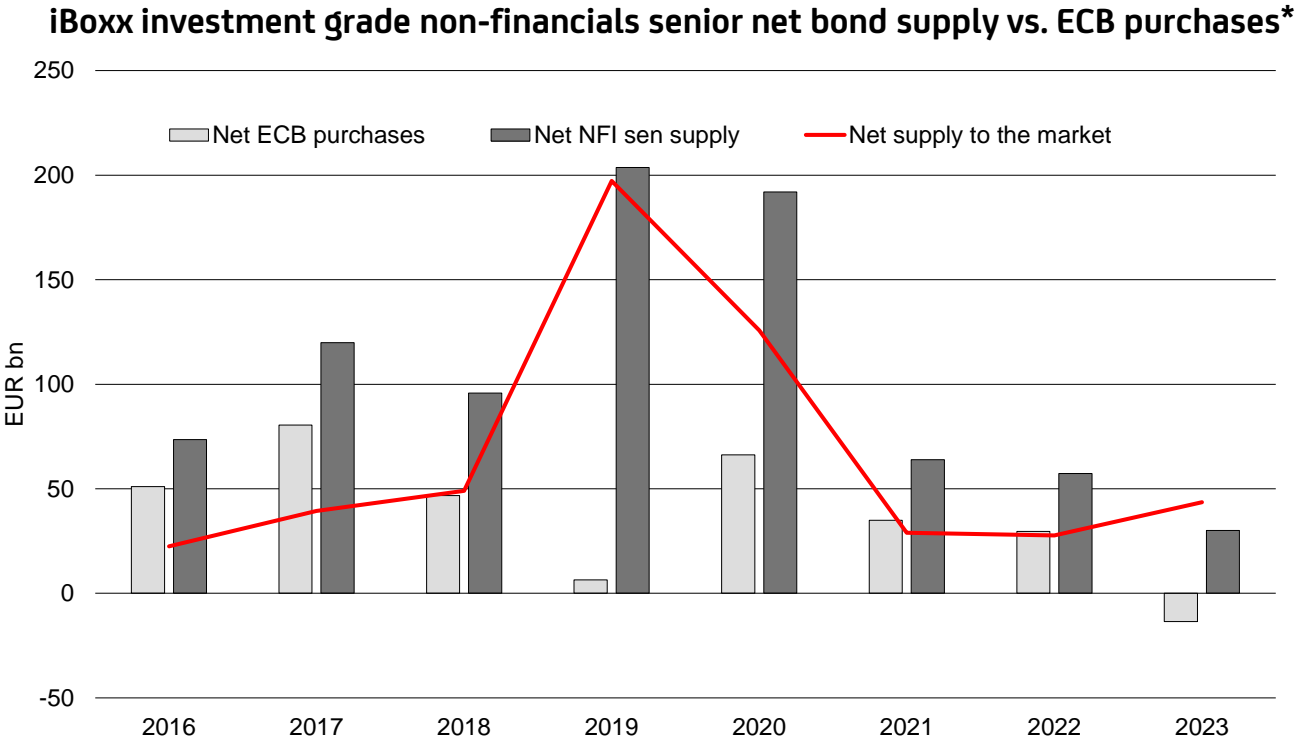


*assumes a continued EUR 15bn monthly reduction in July-December 2023, could go to zero if no reinvestments are made anymore

Source: ECB, IHS Markit, UniCredit Research



Corporate bonds: expected QT will not change our outlook for moderate net supply to the market



*The 2016 net-supply volume refers to the period from the start of CSPP purchases, i.e. from June 2016.



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