2021: Another year of heavy issuance but ECB to remain supportive

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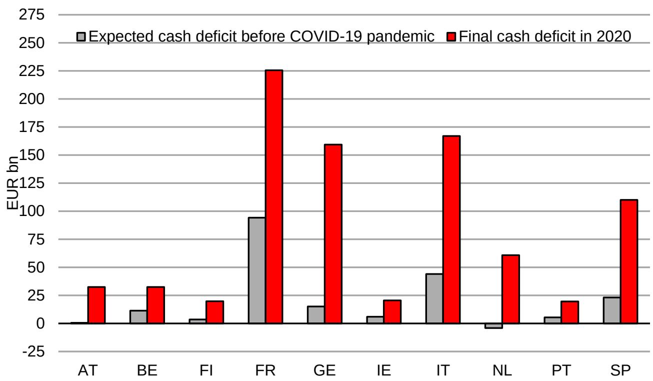
- 2021 will be another year of very heavy funding requirements in the eurozone, with overall financing needs amounting to around EUR 1.52tn, only moderately lower than this year. M/L redemptions will amount to EUR 665bn, down from EUR 700bn in 2020. We expect an overall cash deficit of EUR 835bn, only moderately lower than in 2020.
- We expect the use of funds from the EU (under either the SURE or the NGEU) to mitigate only moderately intense issuance activity in the primary market by around EUR 85/90bn.
- T-bill issuance is expected to be much less heavy than in 2020: we pencil in around EUR 80bn of net T-bill supply in 2021, down from EUR 255bn in 2020.
- This will leave M/L domestic bond issuance to represent the lion's share of funding sources. We project M/L-term issuance at the eurozone level to reach EUR 1.3tn in 2021, some EUR 100bn higher than this year. We expect the lengthening of debt maturity to be a theme in 2021. Net M/L issuance will likely be particularly heavy in 1Q21, due to front-loading and low redemptions.
- However, heavy market funding will not be a key driver of yields, as the ECB will remain extremely active with asset purchases, as in 2020. Indeed, we expect the ECB to purchase an amount similar to the entire new net issuance in 2021.

1. Net supply of government securities to reach EUR 770bn in 2020 in the eurozone

The launch of extraordinary fiscal measures to counter the effects of the COVID-19 pandemic on the economy has forced eurozone countries to revise their funding plans. Compared to their original plans published at the end of last year, net financing needs in the eurozone rose by EUR 650bn to roughly EUR 850bn this year, with several countries exhibiting considerable cash deficits for the first time since the global financial crisis of 2008-9. Chart 1 shows the cash deficits[1] expected at the beginning of 2020 and the deficits that materialized. It is worth noting that, following the first revision, over the past few months several issuers have had to adjust their funding objectives in light of ongoing uncertainty relating to the pandemic.

[1] In the publication we refer to cash deficit as to the deficit that needs to be financed in the year.

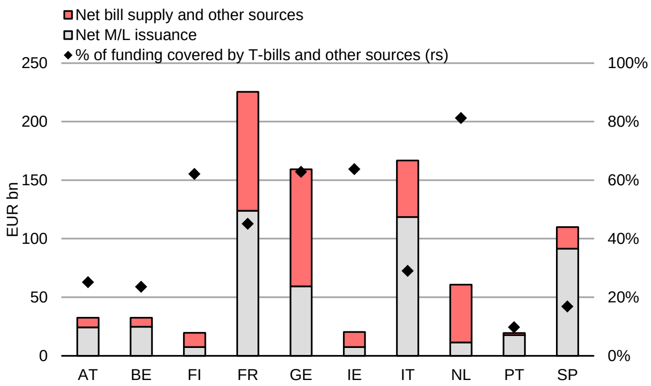
CHART 1: COVID-19 HAS LEFT ITS MARK ON CASH DEFICITS



Source: eurozone debt agencies, UniCredit Research

As we discussed at length in our Rates Perspectives – Eurozone funding needs in 2020 after COVID-19, several countries have relied on especially T-bills to cover the extraordinary fiscal measures implemented this year. Indeed, T-bills appear more appropriate than government bonds to finance temporary fiscal deficits. Moreover, the ECB is allowed to purchase T-bills under the PEPP, as part of the enhanced flexibility of this envelope compared to the regular APP. Core counties have been particularly active in the issuance of T-bills. Indeed, Germany, Finland and the Netherlands have covered more than 60% of their funding issuing T-bills. On the other hand, countries from the periphery, along with those countries where bill markets are not particularly deep such as Austria and Belgium, have preferred to cover their needs through issuing bonds.

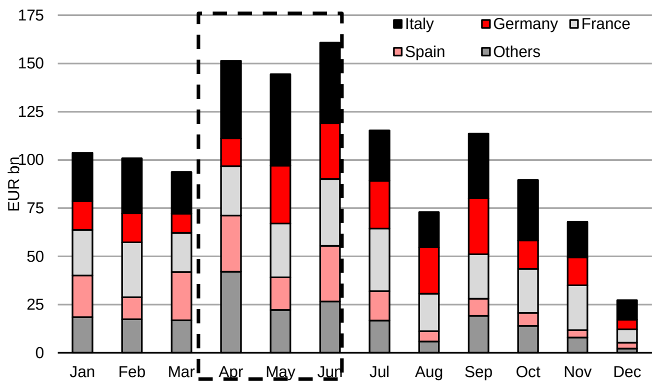
CHART 2: CORE COUNTRIES HAVE BEEN THE MOST ACTIVE IN THE SUPPLY OF T-BILLS



Source: Bloomberg, eurozone debt agencies, UniCredit Research

In terms of medium/long-term primary market activity, in 2020, gross supply of government bonds will amount to around EUR 1.2tn, with Italy, (EUR 315bn), France (EUR 260bn), Germany (EUR 225bn) and Spain (EUR 175bn) representing more than 80% of overall issuance. As shown in the chart below, primary market activity was particularly intense in 2Q20 following the outbreak of the pandemic. Indeed, over that quarter, eurozone countries issued more than EUR 450bn in government bonds and were particularly active also in the monetary market.

CHART 3: EGB SUPPLY EXCEEDED EUR 450BN IN 2Q20



The chart shows the gross supply, excluding buyback operations.

Source: Bloomberg, eurozone debt agencies, UniCredit Research

To sum up, in 2020 net funding needs (roughly EUR 900bn) will be covered by net issuance of government bonds (EUR 510bn), net supply of T-bills (EUR 255bn) and other sources of funding (EUR 130bn).

2. Needs and sources in 2021: main trends

2020 has been an extraordinary year in many respects. Although we see ample room for macroeconomic data to normalize, next year is likely to be challenging again for eurozone debt agencies. Below are the predominant themes that will likely characterize EGB primary market activity in 2021:

- Cash deficits are expected to remain elevated and not too far from 2020's exceptionally high levels.
- Use of funds from the EU (under either the SURE or the NGEU) will mitigate only moderately intense issuance activity.
- But we do not expect heavy issuance to be a key driver of yields (actually in some countries, scarcity will increase despite heavy issuance) as the ECB will remain extremely active in asset purchases, as in 2020. Indeed, we expect the central bank to purchase an amount of government bonds similar to the entire new net issuance of both government bonds and T-bills.
- In this context, eurozone debt agencies are likely to exploit the low-yield environment to lengthen debt maturities, by both lowering the net supply of T-bills (which, however, we expect to remain positive for most countries) and issuing more bonds at the extra-long end of the curve.
- Uncertainty surrounding borrowing requirements is likely to remain high also in 2021: issuers might revise their funding plans one or more times over the year depending on how the economy goes; moreover, more clarity on the amount of relief from EU funding will only emerge as the year goes by.

TABLE 1: NEEDS AND SOURCES EXPECTED FOR 2021

	Funding needs			Funding sources				
	Redemp-tions	Net borrowing needs	Total	M/L Issuance	MM Net Supply	SURE & NGEU	Others	Total
AT	16	27	43	38	3	0	2	43
BE	16	33	49	37	1	9	2	49
FI	6	12	18	14	2	0	1	18
FR	128	202	330	265	30	11	25	330
GE	152	180	332	307	20	5	0	332
GR	1	21	22	17	0	4	0	22
IE	0	21	21	12	4	3	3	21
IT	227	165	393	348	0	25	20	393
NL	16	54	70	55	15	1	0	70
PT	12	12	24	16	1	6	0	24
SL	2	3	5	4	0	2	0	5
SK	1	8	9	7	0	2	0	9
SP	86	118	204	180	5	19	0	204
TOT	663	857	1520	1301	80	87	53	1520

Net borrowing needs includes cash deficit and other needs, such as repayments of ESM/IMF loans, net acquisition of financial assets, etc.

Source: EC, Bruegel, eurozone debt agencies, UniCredit Research

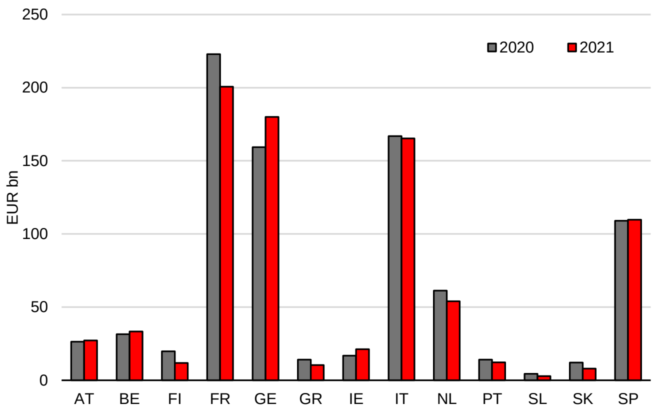
Table 1 shows that we expect total financing needs in 2021 to amount to EUR 1.52tn (down from EUR 1.59tn in 2020), coming from around EUR 665bn of M/L redemptions (down from EUR 700bn in 2020), EUR 835bn in cash deficit (only moderately down from EUR 855bn in 2020) and around EUR 20bn of other needs (vs. EUR 30bn in 2020). At the eurozone level, we expect EUR 1.3tn to be financed by the issuance of M/L-term bonds (vs. EUR 1.2tn in 2020), EUR 80bn via an increase in T-bill stock (vs. EUR 255bn in 2020), EUR 85bn from EU sources (vs. EUR 39bn in 2020) and EUR 55bn via other sources (vs. EUR 90-95bn in 2020).

In the following we will comment on the most important categories of financing needs and sources.

3. Cash deficit: a very similar picture to 2020

We expect the cash deficit in 2021 to amount to EUR 835bn vs. EUR 855bn in 2020. Therefore, the cash deficit will remain extremely high compared to pre-crisis levels (in 2019 the cash deficit amounted to EUR 175bn). Chart 4 shows that in a few countries, the cash deficit will likely be higher in 2021 than in 2020.

CHART 4: CASH DEFICIT BY COUNTRY: 2021 VS. 2020



Source: EC, eurozone debt agencies, UniCredit Research

4. Redemptions and coupons to decline in 2021

Next year, domestic redemptions will amount to EUR 650bn, roughly EUR 40bn lower than in 2020. No Irish or Slovak bonds will mature in 2021. When it comes to the four largest issuers, compared to 2021, bond redemptions will be higher for Italy (EUR 20bn), lower for Germany (EUR -14bn) and France (EUR -13bn) and broadly unchanged for Spain.

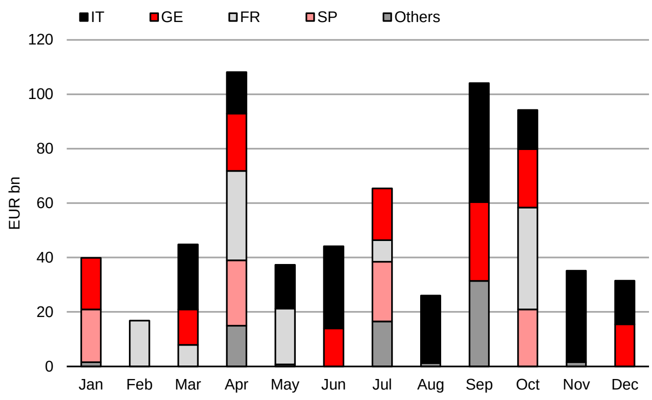
TABLE 2: EGB REDEMPTIONS TO DECLINE BY EUR 40BN IN 2021

Country (EUR bn)	2020	2021	Change
Austria	15	16	1
Belgium	18	15	-2
Finland	13	6	-7
France	136	124	-13
Germany	166	152	-14
Ireland	17	0	-17
Italy	199	218	19
Netherlands	30	16	-13
Portugal	8	11	3
Slovenia	2	2	1
Slovakia	3	0	-3
Spain	84	86	2
TOTAL	691	648	-43

Source: Bloomberg, eurozone debt agencies, UniCredit Research

In terms of monthly distribution, redemptions will be particularly abundant in April (EUR 110bn), September (EUR 105bn) and October (EUR 95bn). In 2020, April, July and October were the months where redemptions were more abundant.

CHART 5: ABUNDANT REDEMPTIONS EXPECTED IN APRIL, SEPTEMBER AND OCTOBER



Source: Bloomberg, eurozone debt agencies, UniCredit Research

International bond redemptions will amount to EUR 12bn, broadly in line with 2020 and will come mostly from Italy.

Next year, domestic redemptions from **Italy** will amount to EUR 218bn, EUR 20bn higher than this year. BTP redemptions, which will increase by EUR 35bn compared to this year, will represent more than 75% of domestic redemptions. On the other hand, there will be no BTP Italia or CCTeu redemptions next year. International redemptions will amount to EUR 9bn, EUR 6bn higher than in 2020.

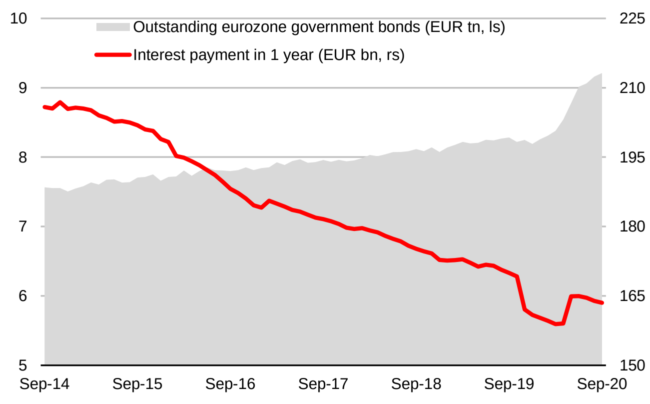
TABLE 3: SIZEABLE INCREASE IN BTP REDEMPTIONS

Security (EUR bn)	2019	2020	2021
BTP	143	132	166
BTPei	19	0	19
BTPi	0	23	0
CCTeu	12	13	0
CTZ	23	31	33
Total domestic bonds	198	199	218
International bonds	4	3	9

Source: Italian debt agency, UniCredit Research

Next year, **coupon payments from EGB issuers** will amount to EUR 155bn, EUR 10bn lower than in 2020. Most coupons will come from Italy (EUR 55bn), France (EUR 35bn) and Spain (EUR 25bn). As shown in Chart 6, despite the ongoing increase in outstanding debt, coupon payments have been decreasing in the eurozone as a result of declining cost of debt.

CHART 6: COUPONS CONTINUE TO DECLINE DESPITE RISING OUTSTANDING DEBT



Source: ECB, UniCredit Research

5. Net supply of T-bills expected to remain positive, especially in core countries

In 2020, T-bills came back in fashion as a flexible tool to finance extraordinary fiscal expenses related to the COVID-19 pandemic. In 2021, eurozone issuers will probably rely less on these instruments given that high financing requirements should not come as a surprise. Nevertheless, net supply of T-bills is unlikely to be neutral again, as it was in 2019, given that financing needs will remain extraordinarily high. The table below shows our forecasts for France, Germany, Italy, the Netherlands and Spain, along with overall net supply expected in the eurozone. We expect around EUR 80bn of net T-bill supply, almost a third of this year, but still much higher than in 2019. In line with this year, in 2021 eurozone issuers are likely to adjust net supply of T-bills over the year depending on borrowing requirements.

TABLE 4: T-BILL NET SUPPLY (EUR BN)

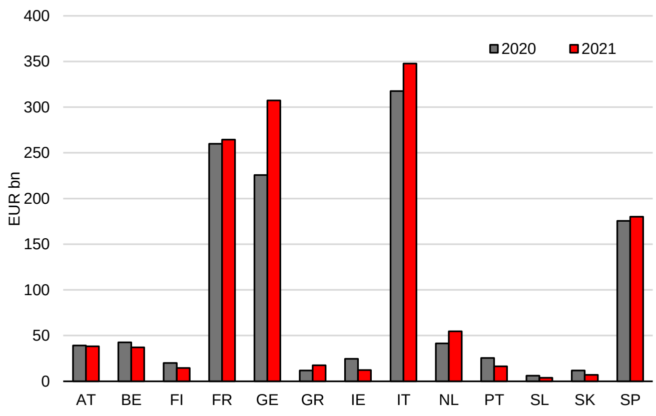
	2019	2020	2021E
France	4	53	30
Germany	1	100	20
Italy	7	10	0
Netherlands	-3	49	15
Spain	-2	9	5
Total eurozone	**9**	**256**	**80**

Source: eurozone debt agencies, UniCredit Research

6. M/L domestic bonds issuance: heavy net supply in 1H and lengthening of debt maturity

We project M/L-term issuance at the eurozone level to reach EUR 1.3tn in 2021, some EUR 100bn higher than this year. Chart 7 shows that, compared to 2020, we expect M/L issuance to be higher in Germany, Italy and the Netherlands. This is partly a consequence of the different mix of funding sources compared to this year, with eurozone countries expected to rely less on T-bills and lower their refinancing risk, and partly a consequence of still very high financing needs.

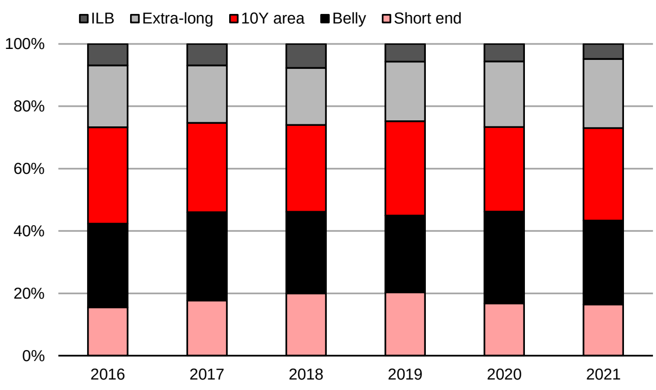
CHART 7: M/L GROSS DOMESTIC ISSUANCE BY COUNTRY, 2021 VS. 2020



Source: eurozone debt agencies, UniCredit Research

Related to this topic is the lengthening of debt maturity (in particular of M/L issuance), which we expect to be a trend in 2021. In 2020, based on our calculations, eurozone countries have increased the average maturity of M/L-term issuance from 10.1 years to 10.3 years; that said, they have also sizeably increased their T-bill stock. In 2021, we expect the T-bill stock to continue to increase, but much less so than in 2020, and we expect the average maturity of M/L issuance to increase to 10.6 years. As shows in Chart 8, we expect issuance at the 10Y and extra-long maturities from eurozone countries to increase compared to 2020.

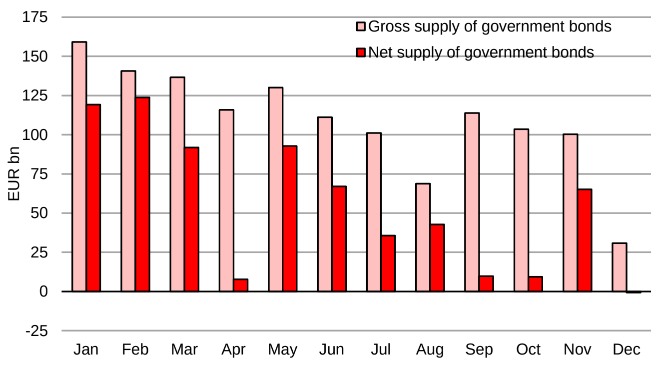
CHART 8: DISTRIBUTION OF M/L SUPPLY BY BUCKET AT THE EUROZONE LEVEL: 2021 VS. PREVIOUS FIVE YEARS



Source: eurozone debt agencies, UniCredit Research

In terms of **monthly distribution** of primary market activity, contrary to what happened this year (see Chart 3), we expect eurozone issuers to front-load supply to exploit the favourable momentum for EGBs and achieve a good share of their funding objectives already in 1H21. On top of this, issuers will probably slow their primary market activity in the second half of the year, as disbursements relating to NGEU are expected to arrive over this period. Given the low amount of bond redemptions in 1Q20, the first quarter will be particularly heavy, with net supply expected to amount to more than EUR 330bn, half the net supply expected for the entire year.

CHART 9: M/L SUPPLY LIKELY TO BE FRONT-LOADED



Net supply is computed as the difference between issuance and redemptions

Source: Bloomberg, eurozone debt agencies, UniCredit Research

7. Syndicated transactions expected next year

In light of the abundant medium/long-term issuance activity expected in 2021, the number of syndicated deals launched by eurozone issuers is likely to be particularly high, but less high than in 2020.

- After having issued new 3Y, 10Y, 20Y, 30Y and 100Y RAGB in 2020, next year we expect the **Austrian Treasury** to launch a new 5/7Y benchmark, a new 10Y bond and a new bond with a maturity of fifty years or longer. With regard to the timing of Austrian syndicated transactions, the new 10Y RAGB will probably be issued in 1Q21, while the other benchmarks are likely to be launched in 2Q21 or 3Q21.
- In 2021, **Belgium** is likely to issue a new 10Y, 15Y and 30Y bond, presumably in the first half of the year.
- **Finland** will probably sell a new 10Y and 30Y bond.
- With regard to syndicated transactions expected by the **French Treasury** next year, we forecast syndicated issuance of a new 15Y and 30Y OAT. The 15Y OAT might be issued as a green bond.
- This year, the **German Finanzagentur** launched its first syndicated transactions since 2015. In particular it issued Bund May35 (inaugural 15Y Bund), tapped Bund Aug50 and launched the Green Bund Aug30 (the first green bond ever issued by the Finanzagentur). Next year, we expect Germany to sell new 15Y and 30Y Bunds. Given the positive reception of the syndicated transactions launched this year, the Finanzagentur might decide to issue these new benchmarks via syndication in 2021. With regard to timing, the new 15Y Bund may be sold in 1H21, while the new 30Y Bund will probably be sold in 3Q21. On top of these new benchmarks, we expect Germany to sell a 30Y green Bund (the green twin of the current or the next benchmark), possibly via syndication.
- **Greece** is likely to sell a new 10Y bond along with a new 5/7Y benchmark.
- **Ireland** is likely to issue a new 10Y and a new 30Y bond.
- In 2020, the **Italian Treasury** sold via syndication BTP Sep50 (also reopened in a syndicated deal), BTP Mar36, BTP Jul25, BTP Dec30, BTP Mar41 and BTP Sep51. We expect Italy to remain particularly active in syndicated transactions, especially at the extra-long end of the curve, in 2021. In particular, we expect Italy to sell a new 15Y, 20Y, 30Y and, possibly, 50Y BTP. Upcoming syndicated deals might arrive as soon as in 1Q21, with a new 15Y benchmark the best candidate as a first transaction of 2021. Moreover, one new benchmark might be issued as a green bond.
- Next year, we expect the **Netherlands** to sell a new 15Y DSL. The transaction might take place in the second half of the year.
- In 2021, **Portugal** will probably issue a new 10Y bond along with a new 30Y benchmark. In terms of timing, the new 10Y PGB is likely to be sold already in January.
- Next year, we expect **Spain** to issue two new 10Y bonds via syndication. In addition, it might launch a new 20Y and a new 30Y bond.

TABLE 5: SYNDICATED DEALS EXPECTED IN 2021

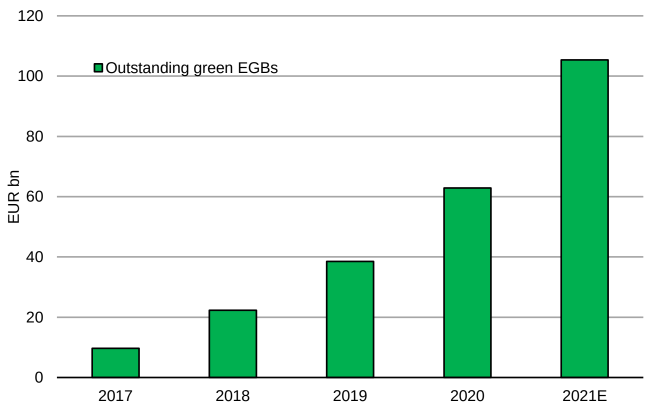
	5/7Y	10Y	15Y	20Y	30Y	50Y+
AT	√	√				√
BE		√	√		√	
FI		√			√	
FR			√		√	
GE			√		√	
GR	√	√				
IE		√			√	
IT			√	√	√	√
NL			√			
PT		√			√	
SL		√				
SK		√				
SP		√√		√	√	

Source: UniCredit Research

8. Green EGB market to grow further

The role of ESG-related investments continues to grow across financial markets. Against this backdrop, the green EGB market has continued to expand and will probably reach an overall outstanding amount of around EUR 65bn at the end of this year. For the time being, green EGBs represent only a limited share of the overall EGB market (1%). However, we expect this market to grow further in 2021 as new issuers, namely Italy, Spain, Austria and Slovenia, are expected to launch their first green EGBs. Considering both existing and new issuers, we expect the supply of green EGBs to amount to EUR 40-45bn. In addition to Italy, Spain and Austria and Slovenia, also France and Germany are expected to launch new benchmarks. Moreover, the German Finanzagentur has already indicated that it will sell green securities in an amount similar to this year (EUR 11.5bn). Indeed, Germany aims at building a green bond curve in the near future. In 2021, in addition to a new 30Y green Bund, Germany is likely to reopen the 5Y Green Obl and the 10Y Green Bund.

CHART 10: THE GREEN EGB MARKET IS GROWING

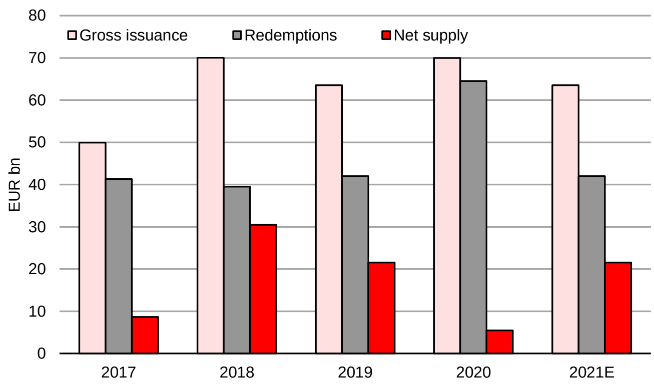


Source: Bloomberg, eurozone debt agencies, UniCredit Research

9. Issuance activity of linkers is likely to remain subdued

While the share of green EGBs is growing, issuance activity of inflation-linked bonds has been weak. Due to subdued inflation expectations, lower liquidity compared to nominal peers and a higher degree of complexity, investor interest in this asset class has diminished over the past few years (as shown by the declining breakeven inflation rates). In addition, in light of historically low breakeven inflation rates, the convenience for issuers is not particularly high.

CHART 11: THE MARKET FOR INFLATION-LINKED BONDS IS UNLIKELY TO TAKE OFF NEXT YEAR

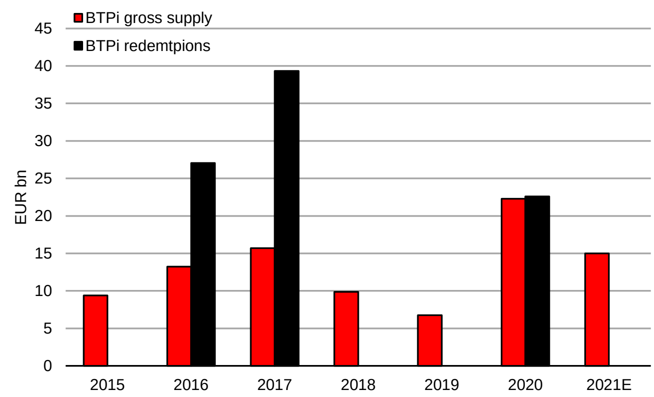


The chart includes the issuance and the redemptions of both European (BTPei, Bundei, OATei, SPGBei) and domestic (BTPi and OATI) inflation-linked bonds.

Source: Bloomberg, eurozone debt agencies, UniCredit Research

As shown in Chart 11, in 2020 gross issuance of linkers will most likely amount to EUR 70bn (net: EUR 5bn), which represents around 6% of overall M/L-term issuance. It is worth noting that EUR 22bn is related to the sale of BTPi May25. Next year, we expect Italy, France, Spain and Germany to sell EUR 60-65bn (net: EUR 20bn), representing less than 5% of overall M/L domestic issuance. This expected amount includes both European and domestic inflation-linked bonds. In terms of new benchmarks, both Italy and Germany might issue new linkers in the extra-long area, while we expect Italy to issue EUR 10-15bn of a new BTPi. Due to a lack of redemptions, the net supply of BTPis will be positive again in 2021

CHART 12: BTPI: NET SUPPLY TO BE POSITIVE AGAIN IN 2021



Source: Italian debt agency, UniCredit Research

10. Other sources of funding: EU funds to become more sizeable than in 2020, but not a game changer

In 2020, eurozone countries have used alternative sources of funding in an amount of around EUR 130bn. The most used alternative sources have been cash in the treasury account (France and Ireland), BTP Futura, international bonds and private placements (Italy) and SURE (Spain, Italy and others).

Next year, the most relevant alternative source of funding for eurozone countries will be funds coming from the NGEU and SURE. Although NGEU funds will represent something new relative to 2020, they will not be a game changer in terms of relief for market funding (see box "Funds from the EU" for a detailed explanation). Indeed, NGEU and SURE funds are expected to cover 5-6% of overall gross funding needs in the eurozone countries in 2021.

Box 1. Funds from the EU

Estimating government bond issuance in the eurozone next year is a more difficult task than usual also due to some financing needs likely being covered by the EU through its various programs to support recovery. In particular, there will be money coming from SURE (support to mitigate unemployment risk in an emergency) and NGEU (Next Generation EU). The ESM pandemic credit line is another potential source of funding, although until now no eurozone countries has asked for it (and in this piece we assume no relief to funding needs coming from this source).

SURE-related funds will amount to EUR 100bn for the period 2020-2021. So far, EU countries have submitted requests for around EUR 90bn and EUR 39bn has been disbursed, leaving around EUR 50bn to be disbursed in 2021, plus an additional EUR 10bn that EU countries have not yet requested but that will most likely be drawn.

The **NGEU**[2] foresees EUR 750bn of funds between grants and loans for all EU countries (EUR 390bn will be provided as grants and EUR 360bn as loans)[3]. The **Recovery and Resilience Facility** (RRF) will be the main program of NGEU and amounts to EUR 672.5bn, EUR 312.5bn of which in grants. Of the grants under the RRF, 70% (EUR 218.8bn) will be committed in 2021 and 2022 and the remaining EUR 93.8bn in 2023. EU members have to prepare national recovery and resilience plans for 2021-2023 to receive RRF funds. Next to the RRF program, a total of EUR 77.5bn will be distributed as grants via different programs.

The European Commission (EC) will borrow funds on capital markets on behalf of the EU to finance the recovery fund. New net borrowing activity will stop at the latest at the end of 2026. Annual debt repayments will start in 2028 and will run to 2058. European economics think tank Bruegel[4] estimates that in 2021, payments to EU countries from NGEU will amount to EUR 89bn, EUR 39bn in grants and EUR 50bn in loans, representing around 12% of the total package.

ESM pandemic credit line support is a tool that allows eurozone countries to request 2% of their respective annual GDP as of end-2019 in order to support domestic financing of direct and indirect healthcare, cure- and prevention-related costs due to the COVID-19 crisis. At the eurozone level, the total amount for these measures is EUR 240bn and it comes in form of a loan. At the moment, no country has requested funds from this facility, but support will be available to the end of 2022.

In this piece we assume that all funds under **SURE** directed to the eurozone countries will be used to cover a portion of deficits in lieu of market funding, providing supply pressure relief.

We adopt a different approach for **NGEU** depending on whether loans and/or grants are included in the deficit, keeping in mind that uncertainty regarding the final disbursement for each country is high.

Indeed, aside from the 10% pre-financing of NGEU grants, the rest of the package is dependent on single countries' projects and the approval of milestones in the project before disbursement is granted. We therefore provide our best guess of how much relief NGEU is going to provide to market funding in 2021 in the various eurozone countries.

In regard to the **ESM pandemic credit line**, as a baseline scenario we assume that it will bring no relief to any eurozone country funding needs.

Table 6 shows the relief we expect from SURE and NGEU to eurozone countries' financing needs in 2021. The third column shows hypothetical maximum support from the ESM, although we do not include it in our calculations as relief to funding needs.

All in all, we expect funding through the EU to cover eurozone countries' funding needs only partially, with SURE contributing at least EUR 34bn and NGEU contributing EUR 50-55bn.

[2] At the moment negotiations on the approval of the EU Budget and NGEU are still ongoing, but we are constructive that it will be approved.

[3] All these amounts are expressed in 2018 fixed euros, hence the actual amount disbursed amounts will be somewhat higher.

[4] https://www.bruegel.org/2020/11/next-generation-eu-payments-across-countries-and-years/

TABLE 6: EXPECTED FUNDING RELIEF FROM EU FUNDS IN 2021 FOR SELECTED EUROZONE COUNTRIES AND ESM HYPOTHETICAL MAXIMUM SUPPORT

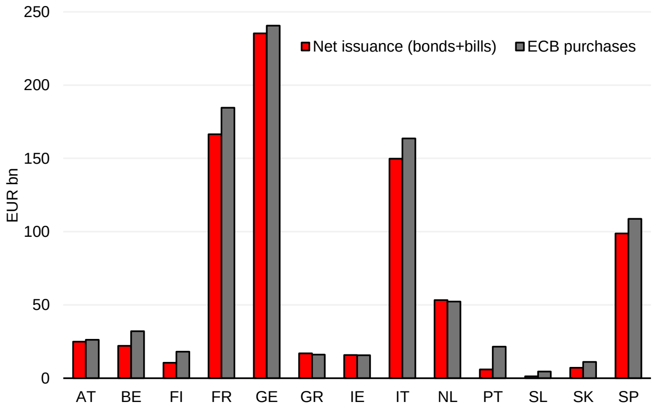
EUR bn	SURE	NGEU	ESM*
Austria	0.0	0.4	8.0
Belgium	4.2	5.2	9.5
Finland	0.0	0.3	4.8
France	0.0	10.7	48.5
Germany	0.0	4.7	69.0
Greece	0.7	3.7	3.7
Ireland	2.5	0.2	7.1
Italy	10.9	14.0	35.8
Netherlands	0.0	0.7	15.5
Portugal	2.9	3.5	1.8
Slovenia	0.9	0.7	1.0
Slovakia	0.3	1.6	1.9
Spain	11.3	7.6	24.9
Total	33.7	53.3	231

The SURE and NGEU funds in the table are expected to provide relief to funding needs in the respective eurozone countries, while in our baseline scenario, we assume that the ESM funds will not.

*It shows maximum hypothetical support by the ESM

Source: Bruegel, EC, ESM, UniCredit Research

CHART 13: ECB PURCHASES VS. NET ISSUANCE IN 2021 (BONDS AND BILLS)



Net issuance from Germany includes states' and agencies' expected issuance for 2021.

Source: Bloomberg, ECB, UniCredit Research

11. ECB purchases vs. net funding

Heavy market funding will likely not be a key driver of yields in 2021, as we expect the ECB to remain extremely active in asset purchases, as in 2020. Indeed, we expect the ECB to purchase an amount similar to the entire new net issuance in 2021.

Chart 12 shows the scenario in which the ECB in 2021 will carry out purchases for the remaining amount of the EUR 1.35tn PEPP envelope (which we estimate at around EUR 600bn at the end of 2020), plus EUR 500bn of extension (which we expect the central bank to announce at its December meeting), as well as EUR 20bn per month of APP. In this scenario, the ECB would purchase slightly more than net supply at the eurozone level and for its four largest member countries.

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