

Bank Pulse: Few TLTRO repayments seen in September

In September, banks will have the option to repay cheap loans from the European Central Bank. But we doubt they will



In September, banks will get the chance to pay back some of the cheap loans borrowed from the ECB under the first five tranches of the Targeted Longer-Term Refinancing Operations programme (TLTRO-III, tranches 1-5), set at €1.7 trillion. But with banks able to benefit from a -1% interest rate for another year (until June 2022) we doubt that many will use this early repayment option, or even shift their borrowing to the final tranches. This means banks will continue to use central bank funds abundantly, and thus remain less active in primary bond markets, at least until well into next year.

Reasons to repay early

- Repaying TLTRO-III.1-5 drawings and borrowing fresh funds under the TLTRO-III.9 operations (or in December 2021 under the TLTRO-III.10 operation), could offer banks the opportunity to lengthen the maturity date of their TLTRO drawings by one year (in the case of the TLTRO-III.5) to two years (in the case of the TLTRO-III.1), to September 2024. Those facing restrictions in terms of their borrowing allowance or collateral availability for TLTRO-III.9 or

TLTRO-III.10 participation could therefore opt to shift.

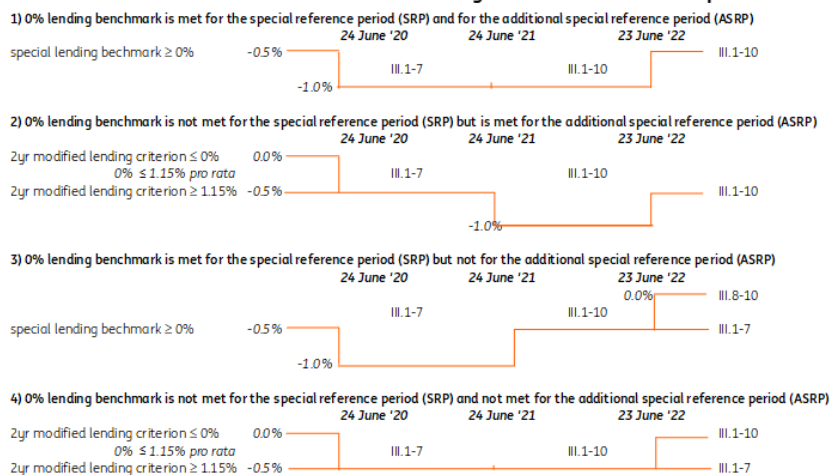
- By shifting into the last two tranches, banks may also spread their TLTRO redemptions more evenly, thereby avoiding a substantial repayment spike in June 2023 when the largest TLTRO-III.4 tranche expires.
- Net stable funding considerations could also play a role, as shifting into the new tranches would push forward the moment of a (partial) loss of a tranche’s net stable funding recognition.

And reasons not to

That said, shifting into the new operations has drawbacks.

- Those shifting towards the new TLTRO-III.9 in September 2021 would miss out on the additional -1% special interest rate for three months, from June to September 2021. When the old tranche is repaid, an assessment of the additional special lending criteria can’t be made. We understand the old (-0.5%) criteria would therefore still apply for the period following the first special reference period until early repayment.
- Furthermore, if banks fail to meet the additional special lending target for the period 1 October 2020 until 31 December 2021, they would see the interest rate for the TLTRO-III.8-10 operations rise to the average rate on the main refinancing operations (MRO rate) over the remaining life of the operation. Under the TLTRO-III.1-7 tranches, the interest rate is equal to the average MRO rate minus 50bp from 24 June 2021 until the repayment date, if the 1.15% initial lending criterion or the 0% special lending criterion has been met.
- In addition, the ECB said last week that it would continue to provide ample liquidity via its refinancing operations. Some banks may interpret this as a sign that the central bank might provide eurozone banks with better shifting opportunities at a later stage.

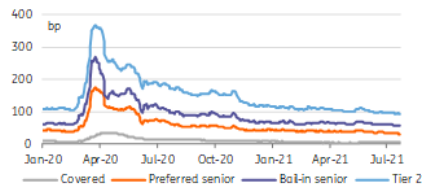
Four different interest rate outcomes for drawings under the TLTRO-III operations



Source: ECB, ING

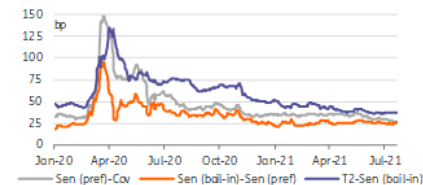
Bank bond spread performance

Bank bond index performance

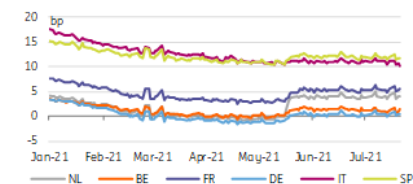


Source: Markit iBoxx, ING

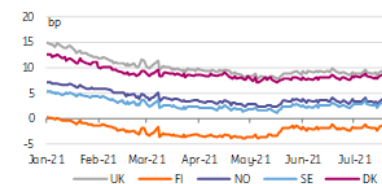
Relative performance of the indices



Covered bond performance

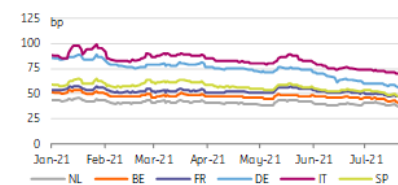


Source: Markit iBoxx, ING

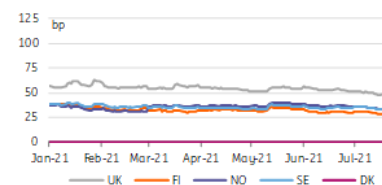


Source: Markit iBoxx, ING

Senior unsecured bond performance

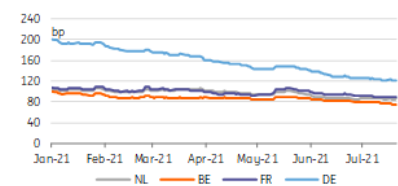


Source: Markit iBoxx, ING

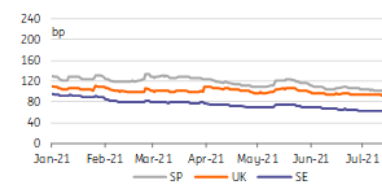


Source: Markit iBoxx, IGM

Subordinated bond performance



Source: Markit iBoxx, ING



Source: Markit iBoxx, ING

€177bn

2021 year-to-date bond supply*

€196bn in 2020* (*public deals)

Bank bond supply

Primary issuance for week ending on 23 July

Date of issuance	Issuer	Country	Moody's	S&P	Fitch	Size (€bn)	Tenor (yr)	Pricing (MS)	Sustainable format	Book size (€bn)
Covered	n/a									
Preferred senior	n/a									
Bail-in senior	n/a									
Tier 2	n/a									
AT1	n/a									

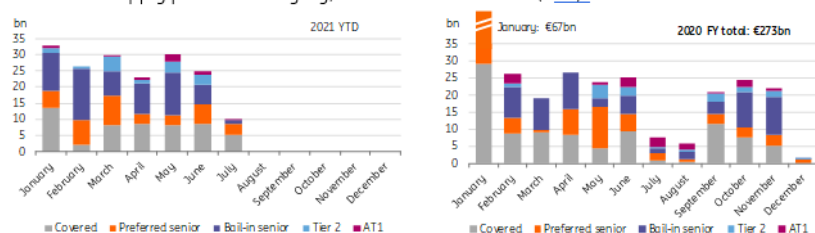
Source: IGM, ING

Deals in the pipeline

Date	Issuer	Country	Tenor (yr)	Size (€bn)
No deals in the pipeline				

Source: IGM, ING

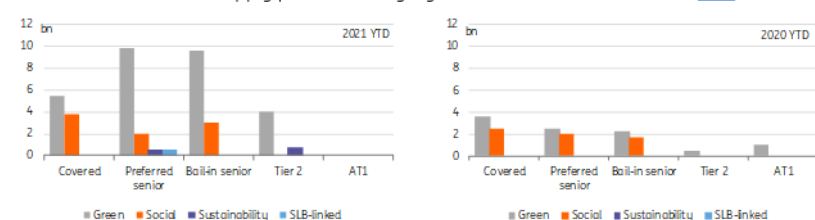
Bank bond supply per debt category, 2021 YTD versus 2020 (€bn)*



*only includes public deals
Source: IGM, ING

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Source: IGM, ING

Sustainable bank bond supply per debt category, 2021 YTD versus 2020 YTD (€bn)*



*only includes public deals
Source: IGM, ING

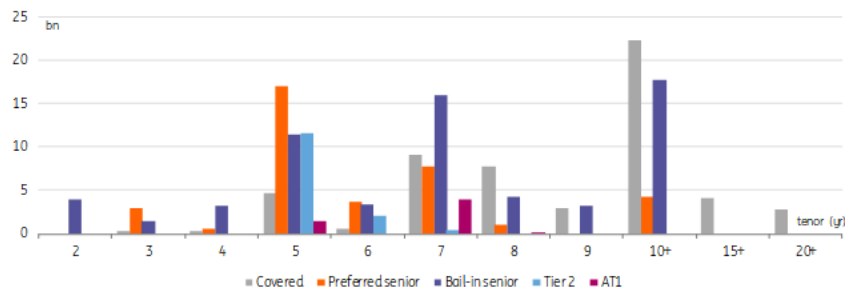
*only includes public deals
Source: IGM, ING

€40bn

2021 YTD sustainable bank supply

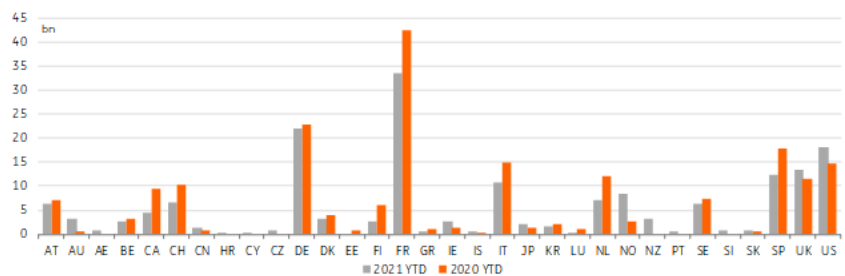
€16bn in 2020 YTD* (*public deals only)

2021 YTD bank bond supply by maturity/first call date (€bn)*



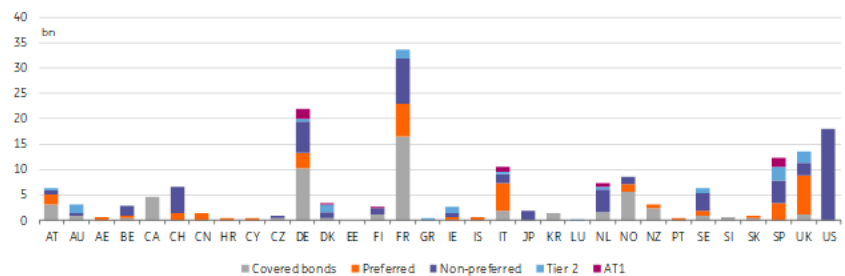
*only includes public deals
Source: IGM, ING

Bank bond supply per country, 2021 YTD versus 2020 YTD (€bn)*



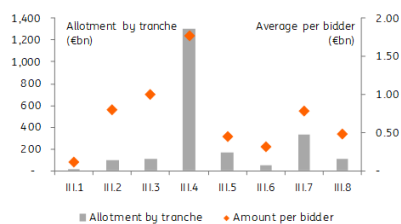
*only includes public deals
Source: IGM, ING

Debt categories per country, 2021 YTD (€bn)*



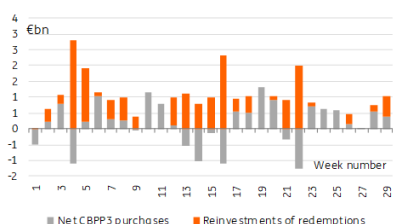
*only includes public deals
Source: IGM, ING

ECB TLTRO-III funding programme (€bn)



Source: ECB, ING

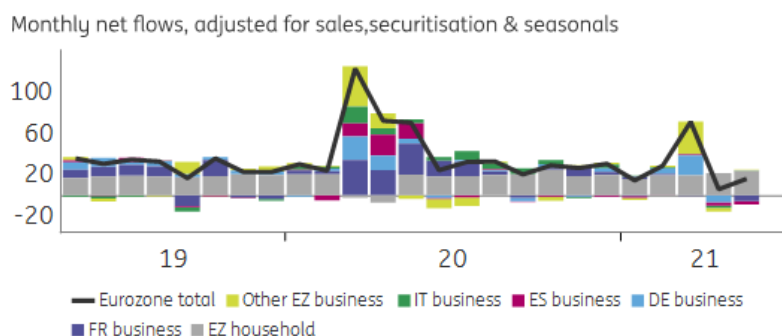
ECB covered bond purchase programme 3 (€bn)



Source: ECB, ING

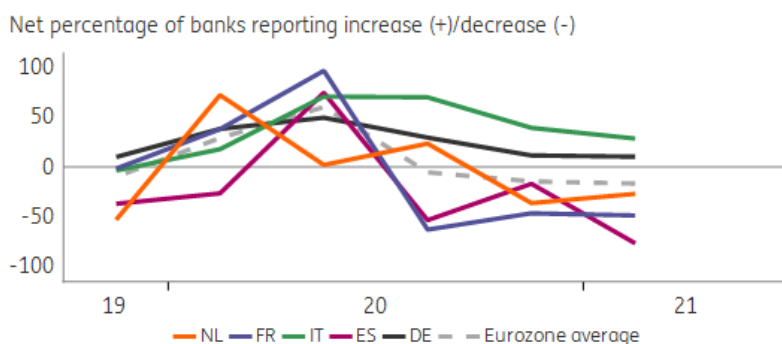
Operating environment

Eurozone monthly bank lending to business and households (€bn)



Source: ECB, ING

Eurozone business demand for bank loans by country (%)



Source: ECB Bank Lending Survey, ING

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