

ECB projections for credit

European Central Bank President Christine Lagarde said the next meeting on 22 July may be an eventful one with “some interesting variations and changes”. Interestingly, she also mentioned that the Pandemic Emergency Purchase Programme may “transition into a new format”



Source: Shutterstock

Change in messaging

We hadn't expected all that much from the July European Central Bank (ECB) meeting, however we are now gearing up for an eventful gathering after Lagarde [hinted at a change in messaging](#), along with “some interesting variations and changes”.

Lagarde repeated that she expects the PEPP to run until at least March 2022, but said there may be a transition into a new format after that. Of course, the messaging from the ECB in terms of the end of PEPP is centred around keeping the support in place as long as needed. However, it must come to an end at some point. One potential option that we have mentioned before is for the ECB to smooth the transition by increasing purchases under its Asset Purchase Programme.

This could be as significant as €40-50bn per month, up from the current €20bn per month. While most of this will target public assets under the Public Sector Purchase Programme, we feel

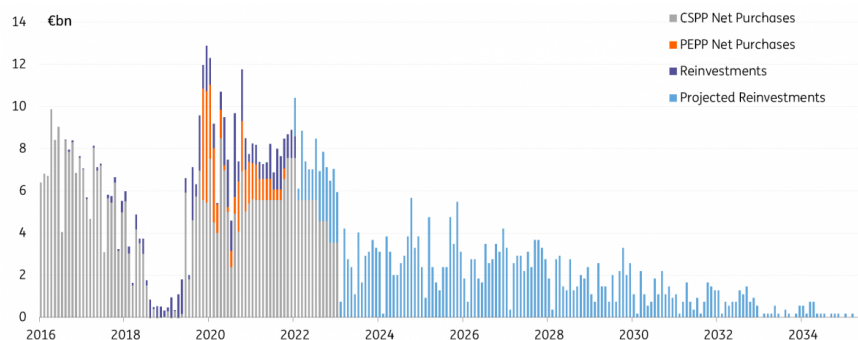
that the ever-popular Corporate Sector Purchase Programme will also benefit. Indeed, we wouldn't be surprised if the net result is zero; in other words, purchases of corporate credit could fully compensate for the end of the PEPP. The central bank has been buying €5.5bn of corporate bonds per month, on average, under its CSPP but could raise this to about €7bn per month. Currently, the CSPP runs at 25% of the APP, so even a slight decline would still mean a net rise.

Looking further ahead, the CSPP may well remain active until mid-2023. The messaging from the ECB is that this programme will remain in place until shortly before the Bank starts to raise interest rates. Our economists are looking for the first rate hike to take place in late 2023.

What's more, the reinvestment of redemptions by the CSPP is increasing such that by late 2023 and into 2024, we expect reinvestment flows alone to support credit by some €2.5-3bn a month on average.

Actuals & Projections of CSPP, PEPP and reinvestments

Monthly net purchases and reinvestments of CSPP and corporate purchases under PEPP, alongside reinvestments



Source: ING, ECB

Regardless of the specifics of next week's meeting, the ECB is looking to continue its substantial support whilst maintaining the flexibility to do so. Whatever happens, the ECB will remain supportive for credit markets.

Author

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.