Draghi announces to halve the ECB monthly asset purchases as from next year, following market consensus

- Monthly asset purchase volumes will be reduced from currently € 60 billion to € 30 billion as from January 2018 for 9 months, reserving for itself to increase purchases in terms of size and duration – if necessary.
- The ECB decision has to large parts already been discounted by the markets, resulting in moderate market reactions today.
- The economic recovery in the Eurozone, the tapering implementation as well as the re-anchoring of inflation expectations should place the Bund yield above current levels by the end of the year ("Sintra Tantrum" put 10 Y Bund yield at 60 bps). Consequently, we expect the ongoing compression of the 10 Y Portuguese Bund spread to lose some steam, however with still some room to go on the basis of a potential Fitch upgrade in December (spread range between 150 and 200 bps).
- The ECB estimates an unchanged 1.5% annual inflation rate for 2017, with headline inflation likely to remain below its price stability target for the next years.

Monthly asset purchases will continue beyond 2017, likely to fade out by the end of next year

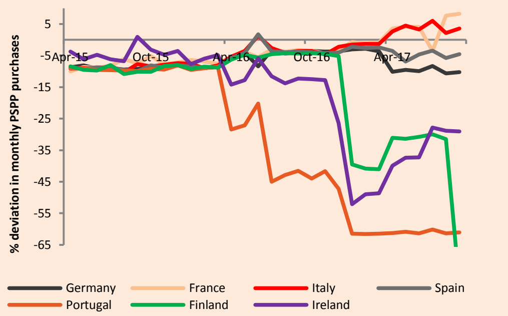
- The ECB has accumulated a balance sheet worth more than € 4.3 trillion, having bought sovereign bonds worth more than € 1.7 trillion under its public sector purchase program (PSPP) since March 2015.
- The monthly purchase volume has already been reduced from € 80 billion to € 60 billion in April this year, given considerable supply shortage of eligible bonds under the current design of the ECB asset program.[1]
- Potential further Euro appreciation will require an ongoing monitoring with regards to its potential deflationary pressure on medium-term price stability.

Unchanged forward guidance for interest rates

- The ECB main refinancing and deposit rate will "remain at their present levels" and "well past the horizon" of the asset program, implying a rate rise earliest in the fourth quarter 2018 and the depository rate likely to be lifted first. Draghi also highlighted the absence of a sequence between APP stocks and interest rates, which further suggests a possible "depo" rate increase still next year.
- We expect the reinvestments of principal payments to represent a considerable ongoing market support on behalf of the ECB – with reinvestment amounts to be published on a 12-month rolling period as from next month.[2]
- Corporate bond buying will likely gain of relative importance among the monthly asset purchases.

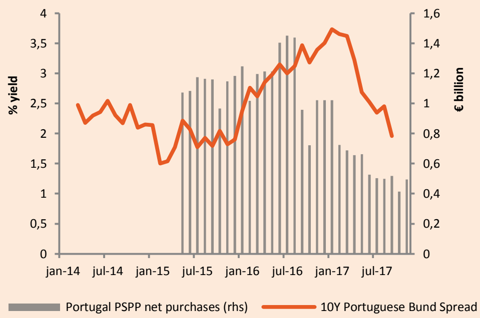
Tapering effect for Portuguese debt market

- We expect the tapering effect on Portuguese yield spreads to be comparably less pronounced than for the rest of the peripherals (in specific Italy), as we believe current yield levels of Portugal to already discount for receding ECB support. Since March 2016, Portugal´s monthly asset purchases have remained well below its *capital-key* implied monthly purchase volume, primarily with respect to the issuer limit (-60% deviation for this year so far).
- As much as the financing conditions are primarily anchored at the ECB main refinancing and deposit rate, the gradual normalization of monetary policy could mark a sensible phase for the financial intermediation in Portugal. The recovery in loan provision to the private sector in Portugal stays behind the Euro Zone, with bank lending to non-financial corporations actually still receding.



Fonte: ECB

% Deviation defined as the difference between capital-key-implied net purchase volume and actual ECB net purchases undertaken in that month



Fonte: ECB, Reuters

[1] Operational constraints primarily emanate from the issuer limit, an ECB self-imposed rule that regulates the maximum amount of total public debt outstanding the central bank can hold (33%), with Portugal and Germany already being in reach of this limit. (Further loosening of self-imposed rules this year: removal of deposit rate floor, extension of lower maturity limit to one year).

[2] Allianz estimates the reinvestment amount for Germany, France, Italy and Spain to be around €135 billion in 2018. ("*ECB:A secret tapering recipe?",Sept* 2017, Allianz)

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