

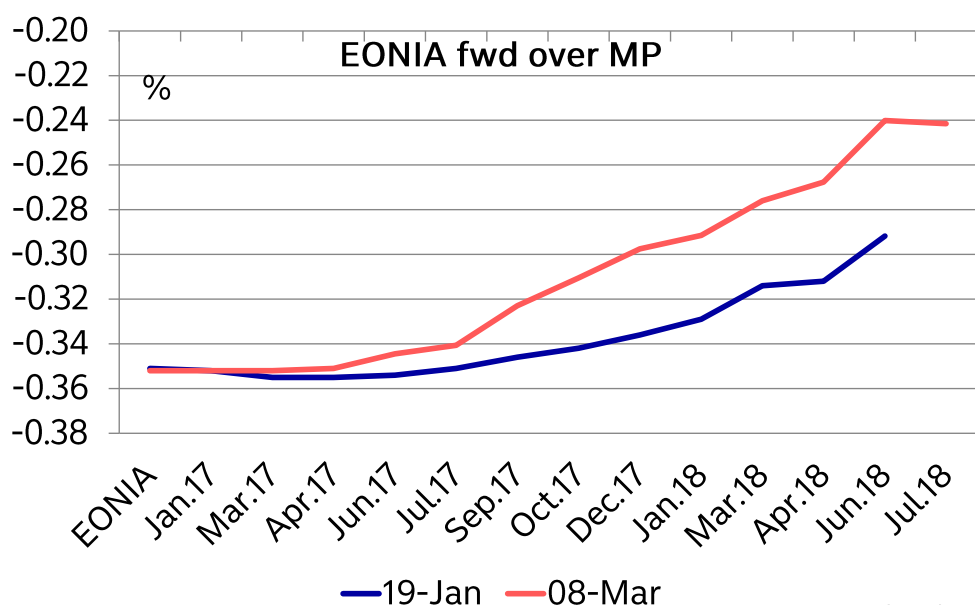
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ECB: What to expect

The seemingly dull ECB meeting tomorrow has turned into a much more interesting event due to recent market pricing. We will focus on the following **two themes in the introductory statement**; forward guidance and the asymmetric communication on the PSPP programme. In the Q&A session; *limited and temporary* as well as WAM of German purchases will likely be addressed.

Bottom line

- We believe it's too early for ECB to change its stance, hence we **like to re-enter our receiver position on the front of the EONIA curve**.
- Schatz to stay at current levels in our baseline.



EONIA fws are pricing in a rate hike already in mid-2018. A significant change since the last ECB meeting in January.

Source: Bloomberg

Forward guidance and asymmetric communication

The recent market theme of ECB potentially hiking rates while still buying government bonds will not materialise in our view. First, it would be a complete shift in timeline from the ECB. In their latest introductory statement, ECB said *"We continue to expect them to remain at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases"*. Quite clear message of rates to remain at current or lower levels.

Second, should the ECB decide to hike rates while buying sovereign bonds, it would result in much flatter yield curve which in turn will impact the transmission mechanism and the profitability of banks. The front of the EONIA curve will also be repriced.

We don't expect a change to the wording from January introductory statement on *"...if the outlook becomes less favourable, [...], we stand ready to increase our asset purchase programme in terms of size and/or duration."*, but we see a deviation from the current wording as a hawkish signal, and a sign of the beginning of a gradual normalisation.

Wait for summer:

The repricing is expected to take place, but **not until summer**. The political turmoil that currently persist in markets, combined with a too long taper discussion period should it start now, will keep ECB off the brake pedal. **We believe that ECB will address a gradual normalisation for the first time in September, and to be announced later, only in Q4 2017.**

Q&A

In the Q&A session tomorrow, we expect two things to be addressed.

- *"limited and temporary deviations were possible and inevitable"* plus the trade-off of deviating from the capital key and buying below the deposit rate. We don't expect Draghi to quantify what limited and temporary means, but simply dismiss the question by repeating the wordings from the January minutes. Consequently, that's also acknowledging that it will happen – and in our view something that can go on several months. At the same time, ECB will continue to buy significant volume below the deposit rate to reach its volume target.
- WAM of German purchases. The February purchase data showed that the ECB moved significantly down the curve, and bought bonds yielding below the deposit rate on a weighted average. That fuels the trade-off described above. If Draghi is very vocal on deviating from capital key, peripheral sovereigns will perform at the expense of safer, in particular, German paper. We don't expect him to be vocal on this.

Positioning

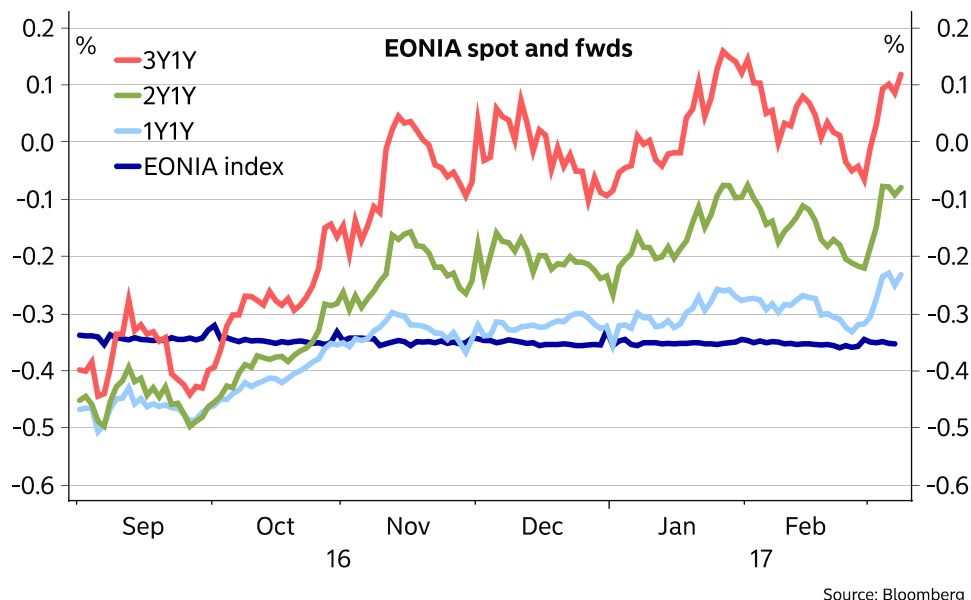
We recommended to receive the EONIA 2y1y already in January and decided to close that position on 22 February as the market pricing was perceived to be in line with the outlook. Now, with the repricing during the past week, **we re-enter the trade at -8bp**, with a target of -20bp and stop loss at 0bp.

Also, we expect the Schatz to remain at significant low levels for the foreseeable future amid limited purchases done away from capital key, see also piece from Monday: "Schatz pricing: A result of ECB?"

Risks:

ECB should keep its policy rates at current levels following their recent communication. At the same time, we do see a minor risk for the rates could be hikes earlier than H1 2019, as our baseline to be less punishable for banks due to the high excess liquidity.

Our economists take on the ECB meeting: <https://nexus.nordea.com/#/article/34565>



The recent repricing of EONIA fwds has provided with an attractive level to re-enter the receiver positions.

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Distribution of recommendations (last quarter)

Recommendation	Distribution	Definition
Buy	12.2%	Recommendation to buy
Sell	8.1%	Recommendation to sell
Hold	1.4%	Recommendation to hold
Other	78.4%	Recommendations that include buying and/or selling more than one financial instrument

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Recommendation changes in the past 12 months

Author(s)	Date issued	ISIN	Recommendation	Entry price	Price target	Valid until
Piet Philip Christiansen	01/07/2016		Buy 5y5y EUR vs. Sell 5y5y USD	92	115	
Piet Philip Christiansen	13/07/2016		Buy EUR 5y5y swap vs. EUR 15y5y swap	38	64	
Piet Philip Christiansen	18/07/2016		Buy EUR 5Y3Y swap vs. EUR 15Y10Y swap	49	80	
Piet Philip Christiansen	29/07/2016		Sell EUR 2y5y 0.40% payer swaption Buy EUR 2y30y 0.90% payer swaption Sell EUR 2y30y 1.32% payer swaption			
Piet Philip Christiansen	09/08/2016	FI4000197959, FR0013131877	Buy: France 5/26 at 0.151% Sell: Finland 4/26at 0.033% Spread 11.8bp	11.8	6	
Piet Philip Christiansen	18/08/2016	FR0013131877, BE0000337460	Buy: France 5/26 at 0.151% Sell: Belgium 6/26 at 0.133%	-1.8	2	
Piet Philip Christiansen	24/08/2016		Pay 2y1y EONIA			
Piet Philip Christiansen	26/08/2016		Sell 1Y10Y 0.1% receiver and buy 1Y10Y 0.5% 0.775% payer spread (ref atm: 0.408%)			
Piet Philip Christiansen	16/09/2016		Sell SGBi 3109 BEI at 1.44% Buy DBRi 0.5% 26 BEI 0.77% Ref: BEI spread at 0.67%			
Piet Philip Christiansen	21/09/2016	Receive 1Y2Y EURSEK	Buy	24.5		
Piet Philip Christiansen	07/10/2016		Pay 5y5y USD swap vs. receive 5y5y EUR swap	104	120	
Piet Philip Christiansen	26/10/2016		Payer ATMF swaption on upcoming events until year end			
Piet Philip Christiansen	26/10/2016		Payer ATMF swaption, in case of a Trump win in US presidential election			
Piet Philip Christiansen	08/11/2016		EUR swap 2s10s30s (receive belly)			

Piet Philip Christiansen, Uffe Kalmar Hansen	22/11/2016		Netherlands butterfly trade (Nether 5-10-25 long the 10-year)		20bp	
Piet Philip Christiansen	09/12/2016		Receive EUR swap 2y2y			
Piet Philip Christiansen	10/01/2017		Receive 2y2y EUR swap			
Piet Philip Christiansen	10/01/2017		Seagul: Sell 1Y10Y EUR -35ATMF receiver and buying 1Y10Y +25 +75 payer spread (ref atm: 0.9%)			
Piet Philip Christiansen	26/01/2017		Receive 2y1y EONIA			
Piet Philip Christiansen	26/01/2017		EUR 5y5y receiver swaption			
Piet Philip Christiansen	03/02/2017		Buy Nether 2027 into the DDA auction			
Piet Philip Christiansen	14/02/2017		Sell Nether Jul22, and to buy RFGB Apr22 in ASW package			
Piet Philip Christiansen	22/02/2017		Buy DGBi Nov. 2023 BEI Sell OBLi Apr. 2023 BEI			
Piet Philip Christiansen	06/03/2017		Receive Euribor Dec17 or Receive 7th EONIA contract or Receive Euribor Dec17 against the 7th EONIA fwd contract.			
Piet Philip Christiansen	08/03/2017		Receive EONIA 2y1y			