

Review market developments

Money Market Contact Group

Bankia

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1. ECB developments and announcements

ECB developments and announcements.

- **4 July.** Monetary policy decisions:
 - Key interest rates unchanged
 - ECB uses “Forward Guidance” for first time (“The Governing Council confirms that it expects the key ECB *interest rates to remain at present or lower levels for an extended period of time.*”). Additional analysis next slide.

- **5 July.**
 - Change in the eligibility of marketable debt instruments issued or guaranteed by the Republic of Cyprus.

- **18 July.** ECB further reviews its risk control framework allowing for a new treatment of ABS.
 - Updates the H/C for marketable and non-marketable instruments.
 - Adjusts risk control measures for retained covered bonds.
 - Replaces rating requirement for six classes of ABS.
 - Reduces the H/C applicable to ABS eligible under the permanent and temporary Eurosystem collateral framework.

- **1 Aug.** Monetary policy decisions.
 - Key interest rates unchanged.
 - Repeats “Forward Guidance” (ECB interest rates to remain at present or lower levels for an extended period of time).

2. ECB. Forward Guidance

ECB 3 Main Drivers

- Medium Term Outlook for Inflation
- The Economy
- Monetary Dynamics

(Mr. Draghi, Q&A, Press conference 4 July)

Different types of Forward Guidance

- Are **time** based (FED in 2011)
- Are **threshold** based (FED in 2012, BOE in 2013 and BOJ in 2001&2013)
- Do **not have** either an **explicit** time- horizon or threshold (FED in 2003, 2008, BOJ in 1999 and ECB in 2013)

“After the crash, even pulling the lever down to zero failed to stimulate enfeebled economies. So central banks have tried two new policies. One is buying assets (...) to push down long-term interest rates. The other is “forward guidance”, a promise to keep short-term interest rates low until specific targets (such as a particular unemployment rate) are met.”

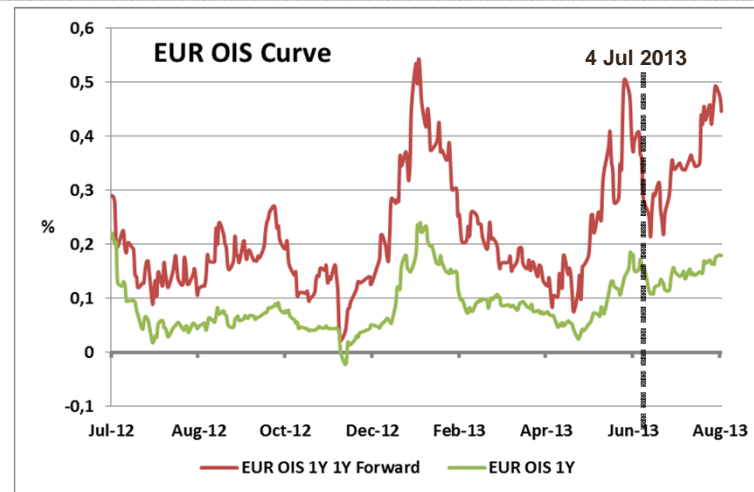
(The Economist, Aug24th 2013)

Will the “Forward Guidance” stimulate the economy?”

Example: Period 2010-2011 : 600 billion of asset purchases undertaken by the Fed.

“The policy, wich was accompanied by forward guidance, added 0,13 percentage points to America`s growth rate.”

(“How Stimulatory Are Large-Scale Asset Purchases?”, by Vasco Cúrdia and Andrea Ferrero, Federal Reserve Bank of San Francisco, 2013).



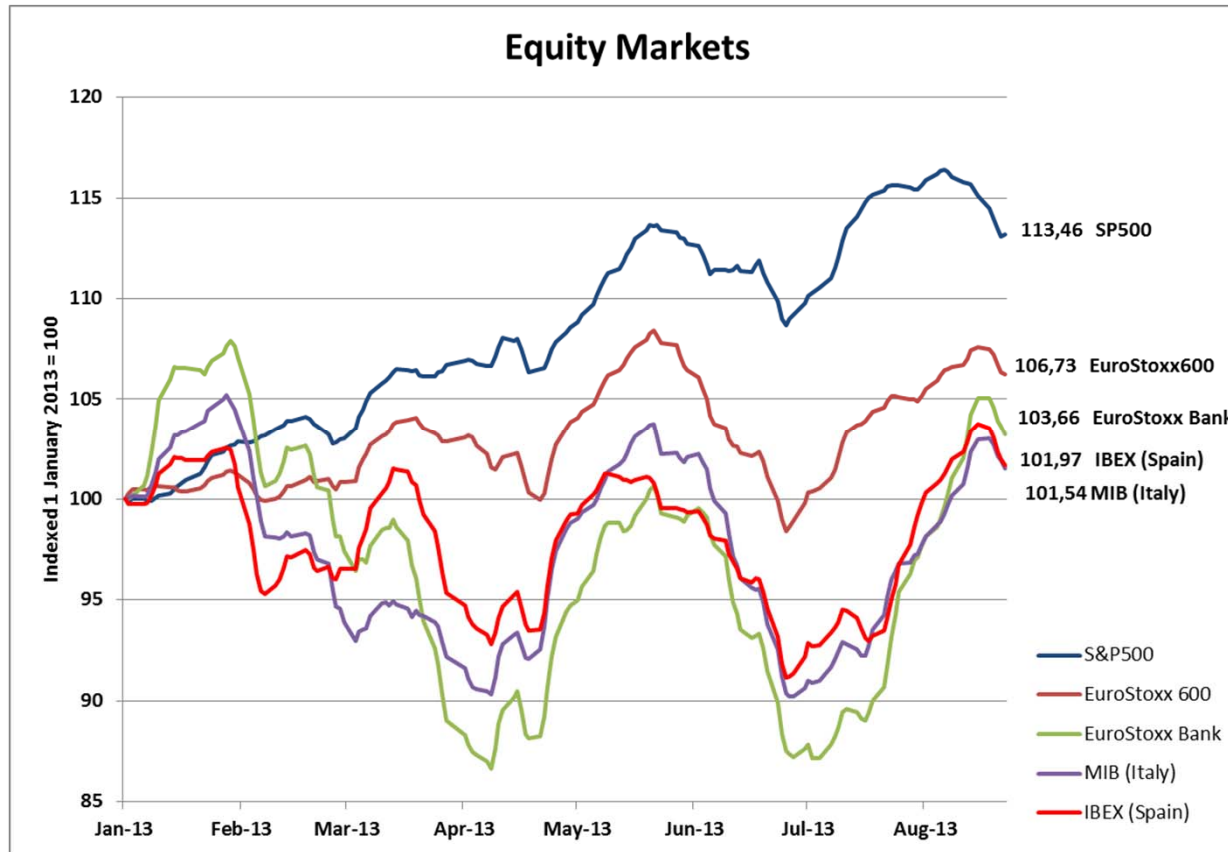
Source: Thomson Reuters

Different variants of Forward Guidance

CB	Adoption date	Forward Guidance Type	Impact in market	
			Bonds rate	IRS rate
FED	ago-03	Soft (open ended)	≈	≈
	dic-08	Soft (open ended)	↓	↓
	ago-11	Time based	↓	↓
	dic-12	Threshold	≈	≈
BOE	ago-13	Threshold	↑	↑
BOJ	abr-99	Soft (open ended)	≈	↓
	mar-01	Threshold	≈	↓
	ene-13	Threshold	≈	↑
ECB	jul-13	Soft (open ended)	↑	↑

Source: Based in Mr. Papadia Blog

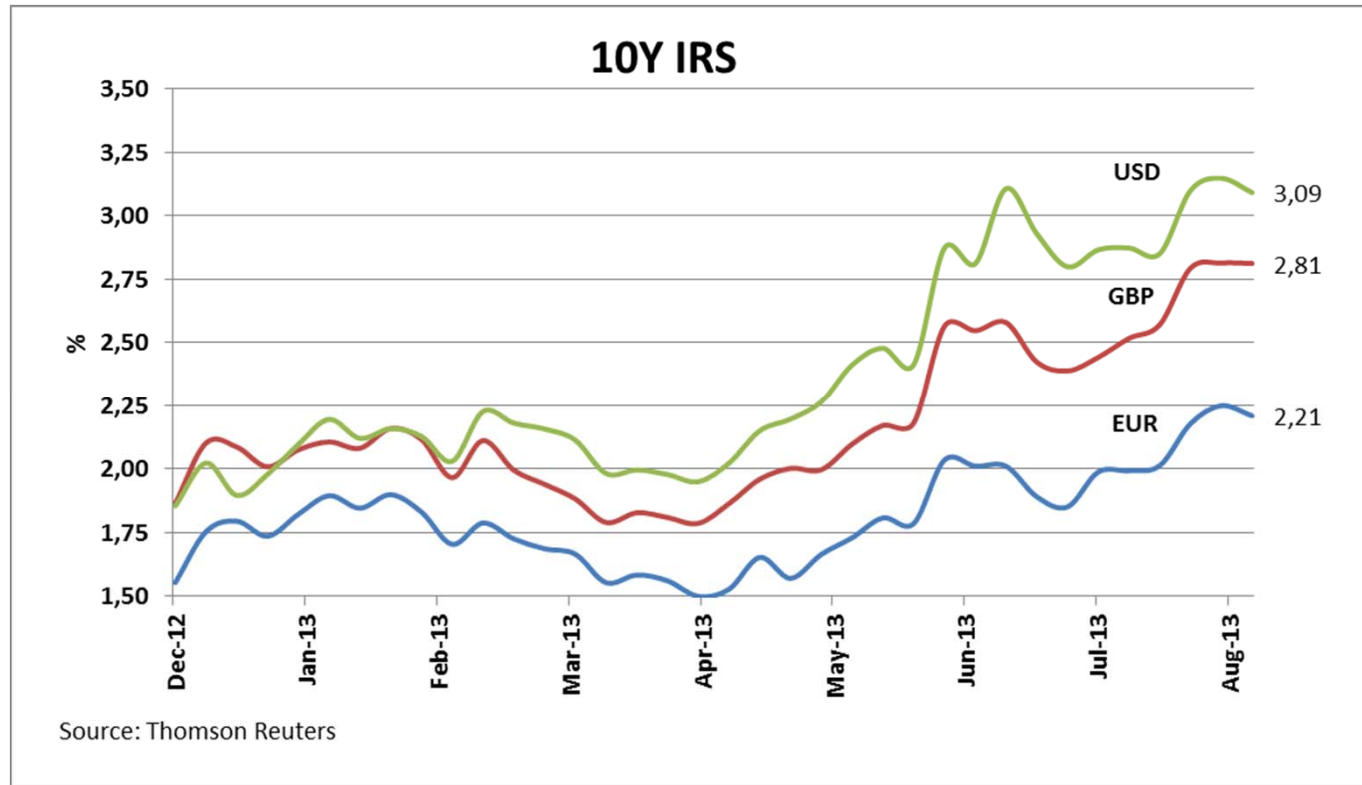
3. Financial market overview – equity markets



Source: Thomson Reuters.

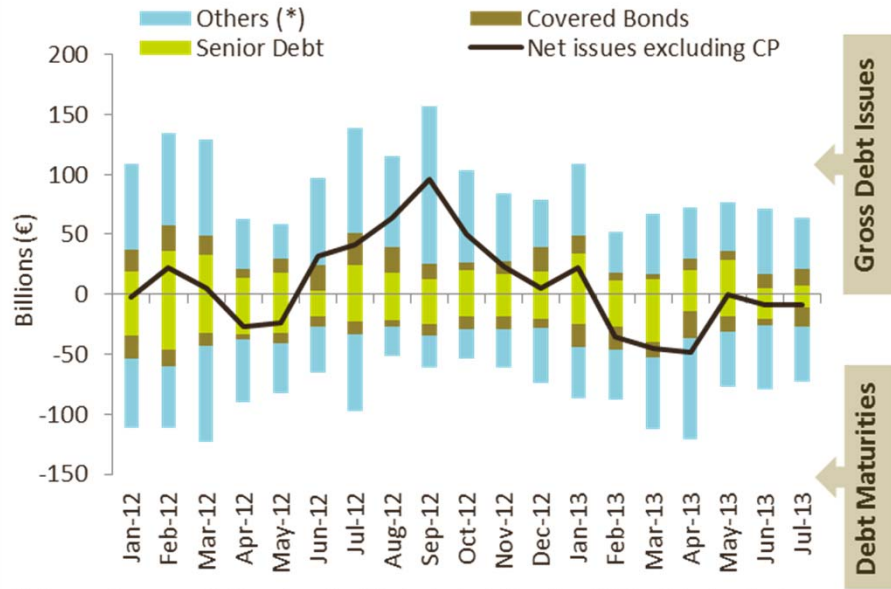
Change since jun 17	
SP 500	1,49%
EuroStoxx 600	3,91%
EuroStoxx Bank	12,09%
MIB (Italy)	7,09%
IBEX (Spain)	6,77%

4. Financial market overview – L/T curve



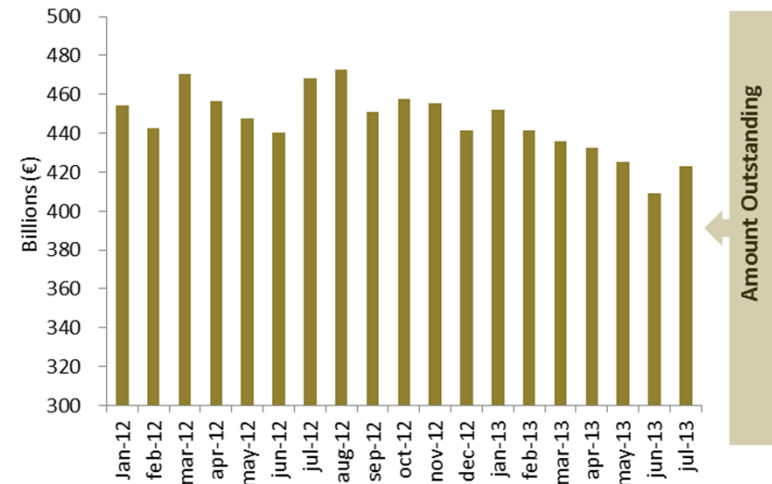
5. Bank Funding

EMU: Banking Sector



(*) Among others, securitizations, deposit certificates, junior debt, preferred debt and structured notes.
Source: Thomson Reuters

STEP Market



Source: ECB

6. ECB borrowing

ECB borrowing estimated breakdown (End June 2013)

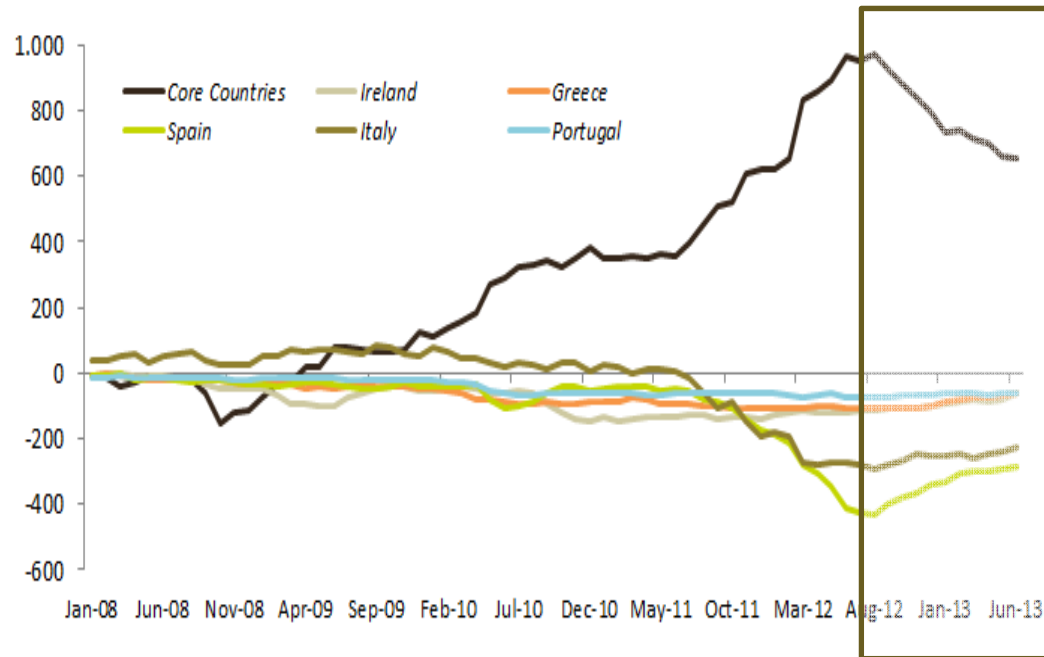
In € Billions

Country	3y LTROs borrowing					Other ECB operations		Tot. ECB liquidity	ELA	Liquidity deposits				
	Dec 3y LTRO	Feb 3y LTRO	Total 3y liquidity	Estimated payback (end of June 2013)	Amount Remaining at the 3y LTROs	End-Jun MRO	End-Jun LTRO			Depo facility	Fixed Term deposits	Curent account	Reserve requirement	Excess reserve
Germany	39	30	69	57	11	1	0	12		24	82	90	27	63
Ireland	31	30	61	24	37	9	1	47		1	2	3	1	2
France	107	65	172	82	90	6	7	103		31	42	40	20	20
Spain	125	175	300	74	226	25	4	255	2	3	0	15	11	4
Belgium	17	23	40	25	16	0	1	17		5	4	9	5	4
Greece	0	0	0	0	0	60	0	60	21	0	0	1,5	1	1
Netherlands	3	21	24	11	13	2	0	15		15	49	47	13	34
Italy	116	139	255	18	237	11	7	255		1	0	23	13	10
Luxembourg	3	2	5	3	3	1	0	4		9	4	15	7	8
Austria	8	7	15	10	5	0	0	5		1	0	12	3	9
Portugal	25	25	50	5	45	2	1	48		2	0	6	2	4
Finland	0	4	4	0	4	0	0	4		1	12	13	1	12
Cyprus	0	0	0	0	0	0	0	1	11	0	0	2	1	1
Total	473	521	994	307	687	117	21	825	34	92	195	276	105	171

Source: Barclays Research, estimate on data from NCB and ECB.

7. Eurosystem Balance. Market access improvement. Banks are reducing their dependence on ECB

Net Balance with the Eurosystem (€ bn)



Source: NCBs and Bankia Research Unit

Main drivers:

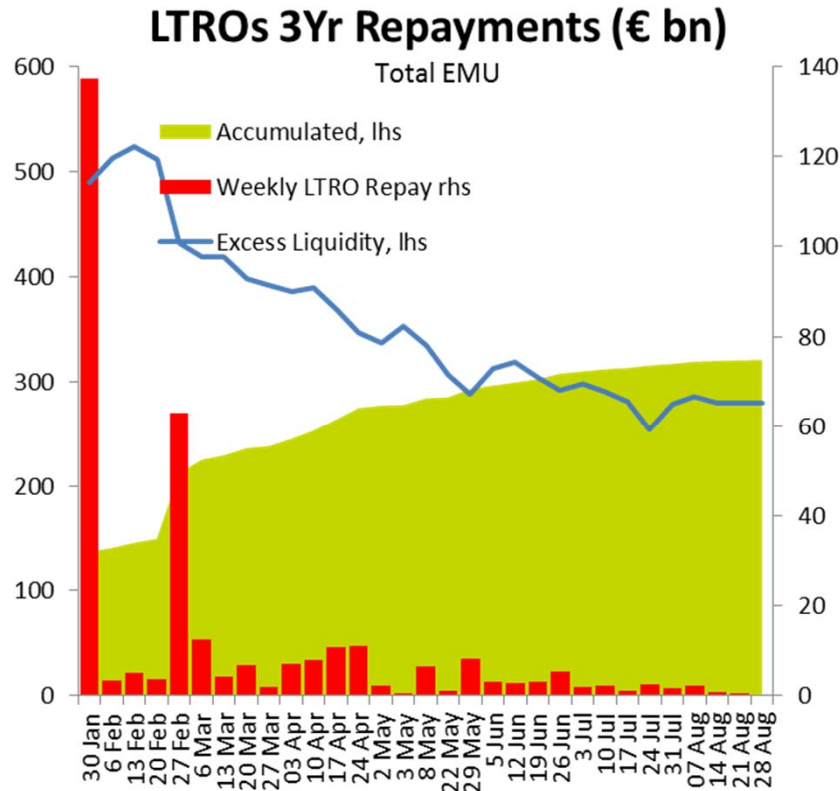
1. Political measures: progress in fiscal integration and banking union.
2. ECB measures: OMT launch announcement

Reduction of the Euro break-up risk

Room for improvement still left. Path to stability continues vulnerable to renewed disruptive episodes unless further political reforms are carried out and imbalances are corrected (current account deficit, fiscal deficit, etc.).

8. LTROs 3Y Repayment. Liquidity Surplus

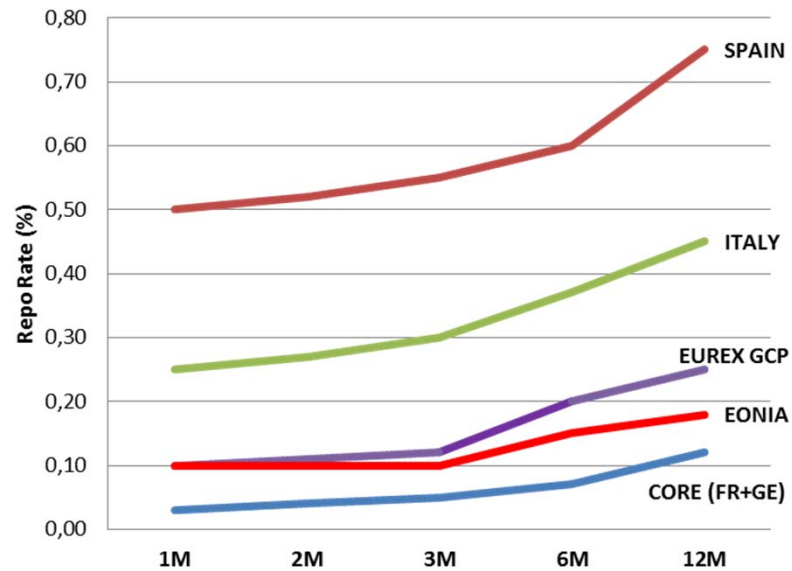
(In Billions)	Last MMCG 17 june	28 aug
Liquidity Surplus	303	280
LTRO Repay accum.	302	321



Liquidity surplus. It is expected to continue the trend of deleveraging the balance sheet, and therefore a gradual reduction of excess liquidity.

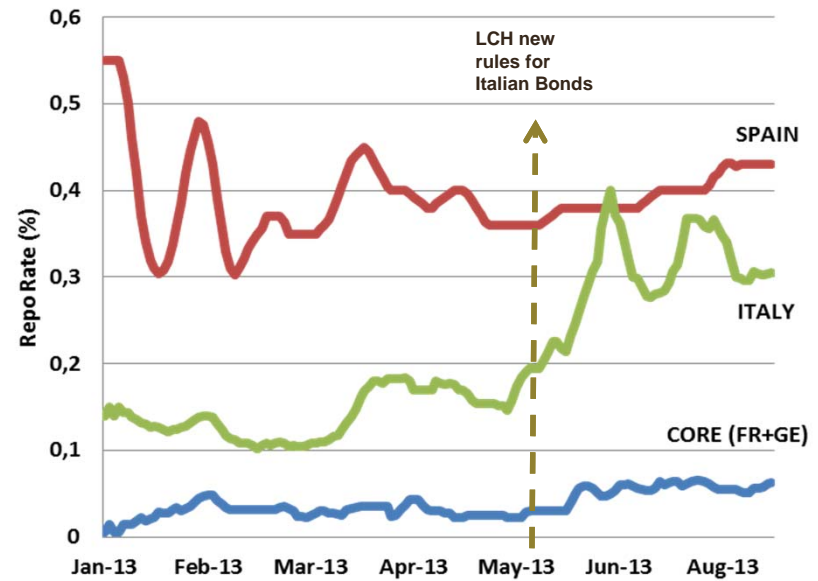
9. Repo. Market disrupted

Spot Repo Curve indications



Source: Bloomberg & Bankia

Historical 1 Month Repo Rates



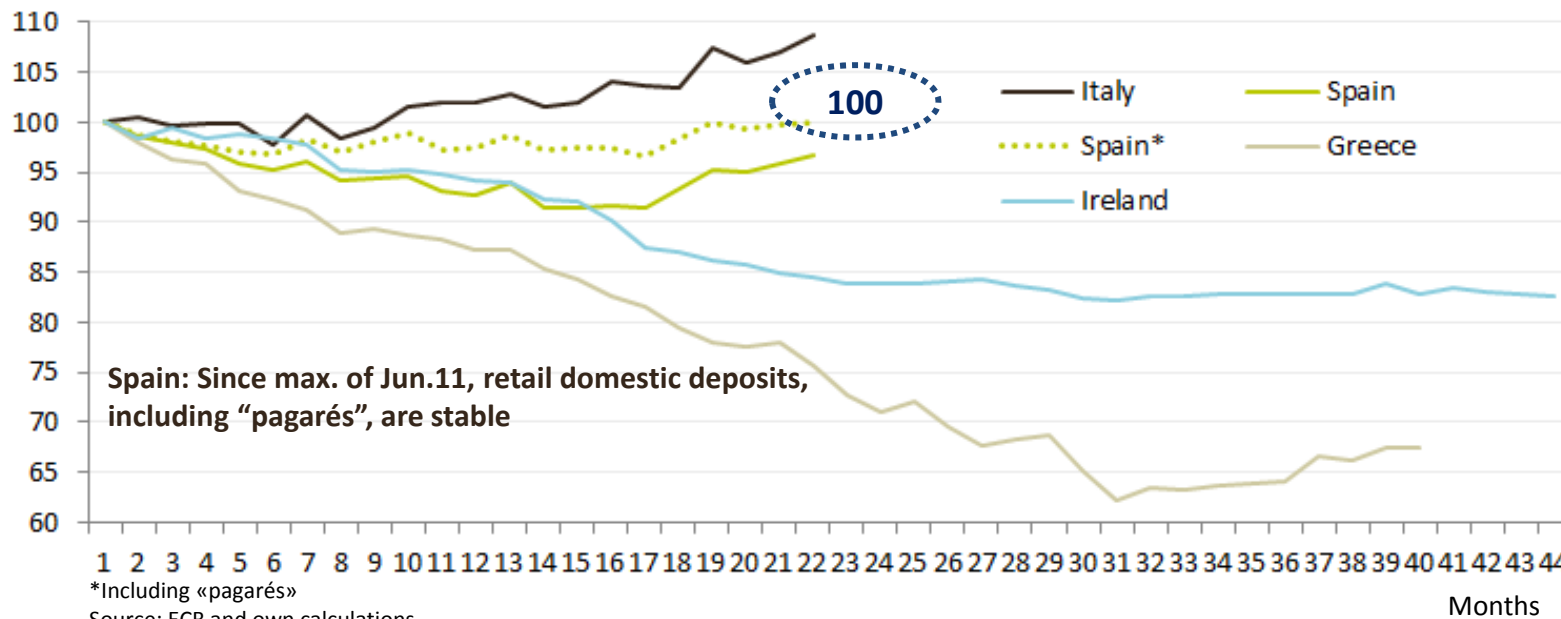
Source: Bloomberg & Bankia

Continued divergence in the Repo Market.
The lack of access to CCPs prevents peripheral countries to be close to Core countries.

10. Funding – No bank deposit flight in Spain/Italy Compared to other periphery countries

Domestic deposits (EMU) Households and non-financial corporations

Index. Rebased: Spain & Italy to Jun. 2011; Greece to Dec. 2009; and Ireland to Aug. 2009



“Since summer of 2012 substantial progress has been made in improving the funding situation of banks and, in particular, in strengthening the domestic deposit base in a number of stressed countries

(Mr. Draghi, Q&A, Press conference 4 July)

11. Households & Non-financial corporation Deposits

2013 JUN	Stock	Var. mil. €			Var %		
	mil. €	-1m	-Dic	-12m	-1m	-Dic	-12m
AUSTRIA	280.195	-1.920	-311	1.054	-0,7%	-0,1%	0,4%
BELGIUM	395.417	2.032	14.182	25.299	0,5%	3,7%	6,8%
GERMANY	2.255.553	-6.055	4.823	76.500	-0,3%	0,2%	3,5%
SPAIN	965.067	14.485	30.413	43.245	1,5%	3,3%	4,7%
FRANCE	1.602.316	9.757	18.856	66.276	0,6%	1,2%	4,3%
GREECE	156.378	-499	181	10.378	-0,3%	0,1%	7,1%
IRELAND	126.519	-337	-749	71	-0,3%	-0,6%	0,1%
ITALY	1.116.859	1.109	14.428	61.360	0,1%	1,3%	5,8%
NEHERLANDS	616.558	1.531	11.541	17.402	0,2%	1,9%	2,9%
PORTUGAL	161.629	162	1.968	-2.512	0,1%	1,2%	-1,5%
CYPRUS	32.207	-1.992	-8.830	-9.935	-5,8%	-21,5%	-23,6%
ESTONIA	9.086	65	43	514	0,7%	0,5%	6,0%
FINLAND	110.574	929	-1.487	-954	0,8%	-1,3%	-0,9%
LUXEMBOURG	77.286	882	747	154	1,2%	1,0%	0,2%
MALTA	10.699	75	381	993	0,7%	3,7%	10,2%
SLOVENIA	19.072	56	46	-232	0,3%	0,2%	-1,2%
SLOVAKIA	36.629	-154	247	1.610	-0,4%	0,7%	4,6%
Euro area	7.972.044	20.124	86.480	291.224	0,3%	1,1%	3,8%
Core	5.337.899	7.156	48.351	185.731	0,1%	0,9%	3,6%
Periferia	2.588.430	13.059	37.838	103.368	0,5%	1,5%	4,2%

Source: ECB and own calculations.

For the first time, since July 2009, the annual variation in peripheral countries (+4.2%) is higher than the Euro Area average (+3.8%) and the aggregate core (+3.6%)

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