

European Rates Comment

ECB QE: Analysis of securities bought in PSPP

Interest Rates

Europe including UK

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Monthly purchases of €85bn in January

The ECB has [released a breakdown](#) of securities acquired in January as part of the QE programme. Purchases under the APP over the past month amounted to €85bn, which is above the €80bn monthly target after lower purchases during December (Figure 1). Corporate bond purchases were €8.4bn in January (total CSPP holdings €59.5bn).

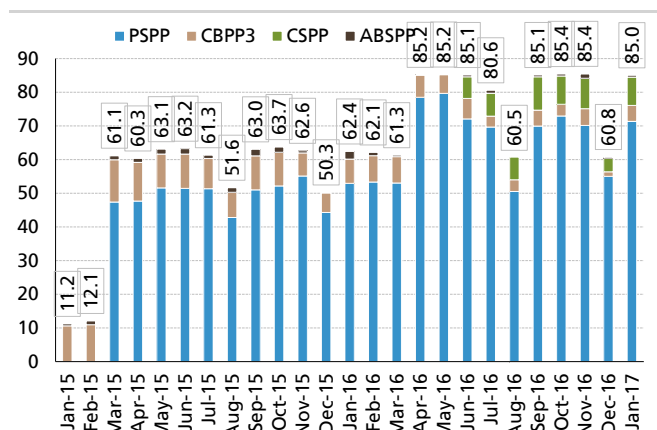
Maturity of purchases: Sub deposit rate purchases start to show timidly

The PSPP data for January is the first gauge of how national central banks are moving to sub depo purchases. After the volume weighted average maturity (VWAM) of bonds held under the PSPP has seen a continuous increase for core countries (first and foremost for German paper), the VWAM of respective German PSPP holdings dropped very slightly during the last month to 8.15yrs from 8.16yrs in December (Figure 2). We estimate the average maturity of German debt purchased under the PSPP in January was 9.41yrs compared to 12.08yrs in December and 9.9yrs on average during 2016 (Figure 3). January technically entails sub depo purchases only as of 13 January (see [Legal Act](#)), but the monthly VWAM is likely to be lower going forward. On aggregate German PSPP purchases will be focused on shorter maturities going forward, which supports our [steepening view in 5s30s Bunds](#). However, we doubt that Bundesbank purchases will be very drastically skewed to the front-end of the German curve as today's data underlines. Therefore, while front-end German swap spreads should remain supported on the curve (current market pricing suggests a decent expectations of a duration shift already), 2y Schatz swaps spreads should not re-widen against 5y Bobl spreads as it was the case into the [ECB meeting in December last year](#). The 2s5s ASW (vs Eonia) box has moved some 5bp from flat levels with 2y cash outperforming over the past few days. We would use further Schatz strength in the ASW box to counter this development.

Purchases of Portuguese debt remain below the implied capital key

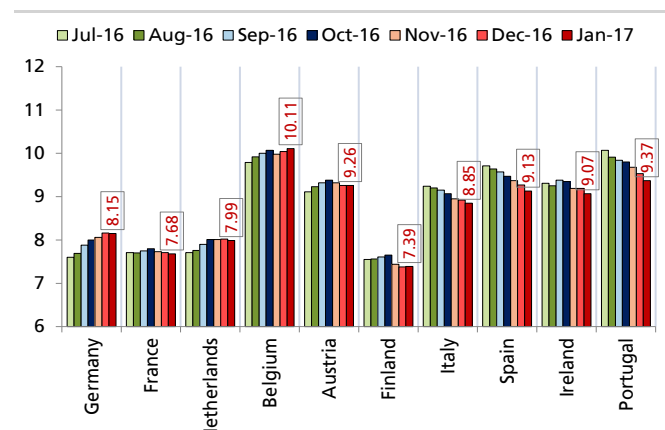
Portuguese debt purchases in January were (58ppt) below the share implied by the ECB's capital key and are now 17ppt below the amount implied by the capital key since the programme started (Figure 4).

Figure 1: Monthly purchases under the expanded asset purchase programme (dates are on a settlement basis)



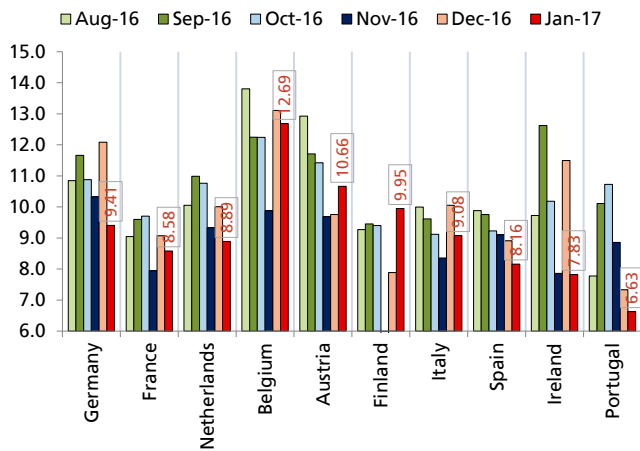
Source: UBS Research, ECB, Bloomberg Valued at amortized cost.

Figure 2: Weighted average maturity of PSPP holdings in each of the last seven months (in years)



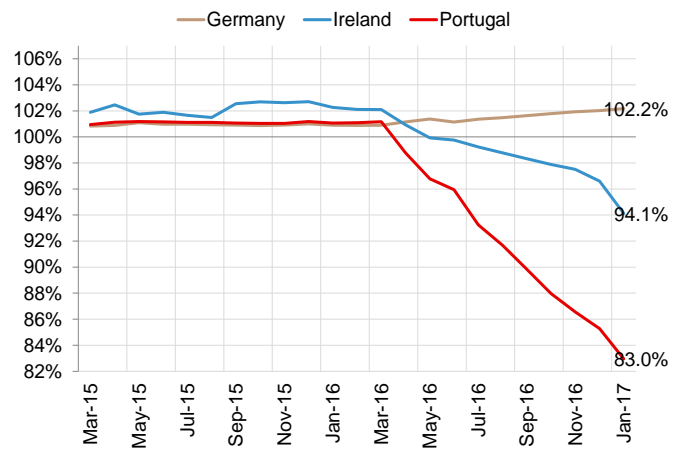
Source: UBS Research, ECB, Bloomberg

Figure 3: Estimated weighted average maturity of monthly PSPP purchases over the last six months (in years)



Source: UBS Research, ECB

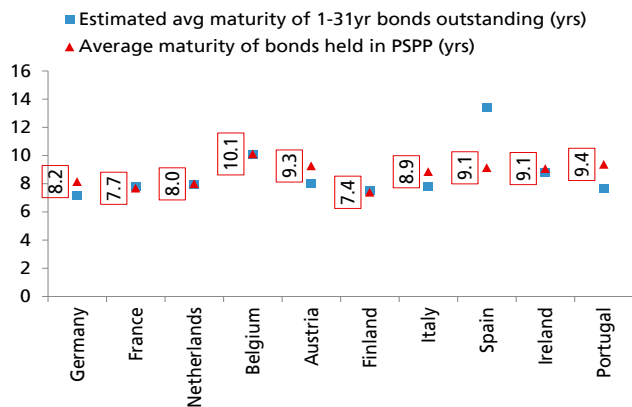
Figure 4: Rebased cumulative monthly purchases vs capital key share. Purchases of Portugal are further below the amount implied by the capital key (17ppt below target)



Source: UBS Research, ECB, Bloomberg

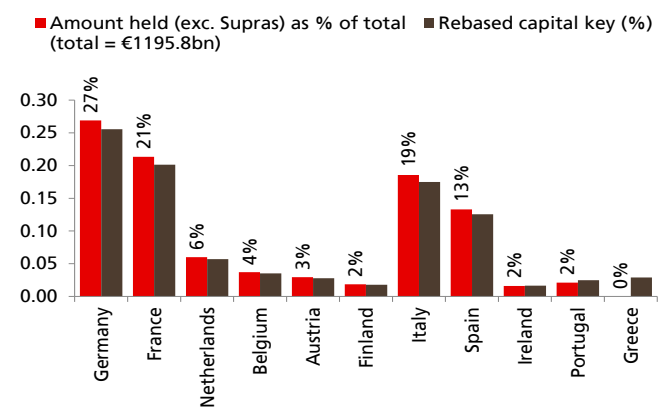
Dates are on a settlement basis

Figure 5: Weighted average maturity of PSPP holdings vs weighted average maturity of eligible bonds outstanding



Source: UBS Research, ECB, Bloomberg

Figure 6: PSPP: assets held by country as a % of total are largely in line with the ECB capital key (as intended)



Source: UBS Research, ECB, Bloomberg

Valued at amortised cost

Figure 7: Summary of assets held by jurisdiction up to 31 January 2017

	A	B	C	D = A / Total of C	B - D	E	F	E - F
	ECB capital key	Rebased capital key (%)	Amount held (amortised cost)	Amount held (exc. Supras) as % of total (total = €1195.8bn)	Theoretical shortfall/surplus	Estimated avg maturity of 1-31yr bonds outstanding (yrs)	Average maturity of bonds held in PSPP (yrs)	Maturity difference (yrs)
Group 1: Largest sovereigns (not in SMP portfolio)								
Germany	18.0%	25.57%	321.7	26.9%	1.33%	7.2	8.2	1.0
France	14.2%	20.14%	255.1	21.3%	1.19%	7.8	7.7	-0.2
Netherlands	4.0%	5.69%	71.8	6.0%	0.32%	7.9	8.0	0.1
Belgium	2.5%	3.52%	44.3	3.7%	0.19%	10.1	10.1	0.0
Austria	2.0%	2.79%	35.2	2.9%	0.15%	8.0	9.3	1.2
Finland	1.3%	1.78%	22.1	1.8%	0.06%	7.5	7.4	-0.1
Group 2: Sovereigns in SMP portfolio								
Italy	12.3%	17.49%	221.9	18.6%	1.07%	7.8	8.9	1.0
Spain	8.8%	12.56%	159.1	13.3%	0.75%	13.4	9.1	-4.3
Ireland	1.2%	1.65%	19.1	1.6%	-0.05%	8.8	9.1	0.3
Portugal	1.7%	2.48%	25.3	2.1%	-0.36%	7.7	9.4	1.7
Greece	2.0%	2.89%	0.0%	0.0%	-2.89%			
Group 3: Smallest markets (outside of SMP portfolio)								
Slovakia	0.8%	1.10%	8.5	0.7%	-0.39%		7.9	
Lithuania	0.4%	0.59%	2.3	0.2%	-0.39%		6.7	
Slovenia	0.3%	0.49%	5.1	0.4%	-0.06%		8.9	
Latvia	0.3%	0.40%	1.4	0.1%	-0.29%		7.5	
Luxembourg	0.2%	0.29%	1.8	0.1%	-0.14%		5.4	
Estonia	0.2%	0.27%	0.1	0.0%	-0.27%		1.5	
Cyprus	0.2%	0.21%	0.2	0.0%	-0.19%		4.8	
Malta	0.1%	0.09%	0.8	0.1%	-0.02%		11.5	
Supranationals			148.4				7.3	
Total			1344.2				8.3	
Total excluding Supras			1195.8					

Source: UBS Research, ECB, Bloomberg

Valuation Method and Risk Statement

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