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Reactions: Stock exchanges fall but the spread goes down to its lowest level since July

"The stimulus is too little to restore optimism"

CASE STUDY

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The macroeconomic scenario has deteriorated sharply, making any interest rate rise by the ECB even more remote. And there is a "parachute" for the banking system, which will still have access to low-cost liquidity with the third TLTROs plan. This avoids the risks of having to refinance on the market in June, when TLTRO II expires.

But Draghi's announcements have received mixed reactions on the market. In particular, the stimulus plan seems to have disappointed market expectations, with the pan-European index of banking stocks down by more than 2%. And in Piazza Affari, Milan's stock exchange, it is precisely the banks that are weighing down the list, which closed down by 0.7% (Unicredit -3.02%, UBI -4.98%, Intesa -2.22%, Banco Bpm -3.97%, Bper-2.94%).

While the BTP-Bund spreads have narrowed on the bond market, falling to the lowest level since July 2018, the new TLTROs that will start in September 2019 are "less favourable and shorter than the previous TLTROs and the markets are a bit disappointed", says Esty Dwek, Senior Investment Strategist at Natixis Investment Managers.

Fabio Ianni of Moody's is more positive. He thinks the news "is positive for the banks and we expect the new programme to mitigate the risks for bank financing and support credit conditions in the Eurozone."

"The banks will have large refinancing needs in the coming years; the new TLTROs will help but won't solve the problem in the long term", according to Banor's Francesco Castelli, whose note to his clients was entitled "TLTROs: Too Little to Restore Optimism."

Marilyn Watson of Blackrock points out that TLTROs have been an important source of liquidity, especially for financial institutions on the periphery of the Eurozone. She adds that investors should position long on Italian, Spanish and French government bonds (buying) and short on German bonds (selling). Simon Wells and Fabio Balboni of HSBC underlined in a research note that defining the new TLTRO as a "stimulus" is "debatable", to say the least.

Despite the fact that many technical details are still lacking as to how the TLTROs will work (probably because the ECB decided to act quickly to give a strong signal in the face of the sharp slowdown of the continental economy), the details known so far do not make the new liquidity plan particularly attractive to banks.

In fact, the reference rate for liquidity will be the main refinancing rate, currently zero. While the TLTRO II was based on the deposit rate, currently at -0.4%, liquidity will now be more expensive for institutions, although there should be reconfirmation of the incentives for lending and avoiding the "carry trade", i.e. obtaining financing from the ECB to buy government bonds and thus make gains.

"The duration and the characteristics known so far don't make it worthwhile to set up this type of operation", explains one manager.

"The ECB measures are totally justified by the macro-economic context," explains Anna Stupnytska of Fidelity International. "In this climate, it is difficult to say that any of these headwinds will invert the route significantly. The Chinese economy shows no signs of recovery and it is still very uncertain whether the size of the stimuli already announced will be sufficient to bring about any recovery in the short-term. It is possible," she continues, "that the geopolitical uncertainty will continue to dominate investor sentiment, with Europe becoming the next 'target' of US trade protectionism."