



# CENTRAL BANKS TO THE RESCUE

## STRATEGY TEAM

- In an unscheduled meeting last night, the ECB announced a new emergency asset purchase program, for an amount of up to €750 billion.
- The Federal Reserve also announced a new scheme that will assist money mutual funds in meeting demands for redemptions. On top of that, it extended its dollar swap lines with additional central banks.
- Those measures should permit to fix the dislocation that money and bond markets are facing.

**ECB decision:** The ECB took three new decisions in an unscheduled meeting, only one week after its last committee during which it announced an increase of its bond purchase program:

- A new temporary asset purchase program (PEPP) of private and public sector securities. It will have an overall envelope of €750 billion, and purchases will be conducted in a flexible manner, until the end of the year;
- An expansion of the range of eligible assets under the purchase program to non-financial commercial papers;
- An easing of collateral standards, to include claims related to the financing of the corporate sector.

**Fed decision:** To help US money mutual funds to meet their redemptions, the Fed is launching a loan facility for US depository

institutions and US banks, secured by assets bought from money mutual funds. This will allow banks to provide liquidity to money mutual funds, while risks to the balance sheet of the Fed will be mitigated by the \$10 billion of credit protection the US department of Treasury will provide to the Fed.

**Our View:** The most recent central bank measures should help alleviating pressure on bond and money markets that are facing dislocation risks, as illustrated by the rise in bid-ask spreads in recent days. These decisions came in addition to broader measures announced in the past weeks, including purchase programs and several credit facilities (see table below). As of today, the ECB is putting on the table €870 billion—corresponding to about 7% of Eurozone GDP—while the Fed will buy \$700 billion of securities to counter risks posed by the virus outbreak and to mitigate financing disruptions.

**Asset Allocation Implication:** Despite these welcomed central bank measures, we remain prudent in our current tactical asset allocation. Risks to global activity are materializing as governments take quarantine measures. In the US, a major health crisis cannot be ruled out. The negative impact of the epidemic on US growth is likely to be more substantial than currently anticipated. This is why we had decided to further decrease our exposure in US equities.

## LATEST MEASURES TAKEN BY THE FED & THE ECB TO MITIGATE RISKS POSED BY THE COVID-19 VIRUS OUTBREAK

Central bank	Tools	Measures
FED	Fed Funds Target Rate	<ul style="list-style-type: none"> <li>• 03.03.2020: cut by 50 bps to [1.00% ; 1.25%]</li> <li>• 03.15.2020: cut by 100 bps to [0.00% ; 0.25%]</li> </ul>
	Other Rates	<ul style="list-style-type: none"> <li>• 03.03.2020: primary credit rate cut to 1,75%</li> <li>• 03.15.2020: primary credit rate cut to 0.25%</li> <li>• 03.15.2020: reserve requirement ratio cut to 0.00%</li> </ul>
	Purchase Program	<ul style="list-style-type: none"> <li>• 03.15.2020: \$500 billion of Treasury securities</li> <li>• 03.15.2020: \$200 billion of MBS</li> </ul>
	Loan Facility & Repo Operation	<ul style="list-style-type: none"> <li>• 03.12.2020: \$500 billion in one-month term repo and \$500 billion in three-month term repo each week</li> <li>• 03.17.2020: more flexibility in banks' capital rules</li> <li>• 03.17.2020: Commercial Paper Funding Facility (CPFF)</li> <li>• 03.17.2020: Primary Dealer Credit Facility (PDCF)</li> <li>• 03.18.2020: Money Market Mutual Fund Liquidity Facility (MMLF)</li> </ul>
	Others	<ul style="list-style-type: none"> <li>• 03.15.2020: agreement with foreign central banks of US dollar swap lines at greater volume and at a lower rate</li> <li>• 03.19.2020: new dollar swap lines with additional central banks</li> </ul>
ECB	Main Rate	<ul style="list-style-type: none"> <li>• No change</li> </ul>
	Purchase Program	<ul style="list-style-type: none"> <li>• 03.12.2020: additional net asset purchases of €120 billion</li> <li>• 03.18.2020: new temporary asset purchase program (PEPP) of €750 billion</li> </ul>
	Loan Facility	<ul style="list-style-type: none"> <li>• 03.12.2020: additional longer-term refinancing operations (LTROs)</li> <li>• 03.12.2020: considerably more favorable terms in TLTRO III (including rate cut)</li> </ul>
	Others	<ul style="list-style-type: none"> <li>• 03.12.2020: temporary capital and operation relief for banks</li> </ul>



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