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The ECB's core country taper

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Euro Rates: ECB is buying less core country bonds than implied by the capital key - From the ECB's QE purchasing data over the month of June, we calculate that national central banks (NCBs) continue to buy less core public sector bonds than implied by the capital key. According to the most recent data, the respective Eurosystem central banks have undershot their targets for 6 months running for Finnish bonds, 3 months for German bonds and 2 months for Dutch bonds. The under buying is a strong signal that the respective NCBs are running out of room in these countries' bond markets, most likely because they are moving closer to the 33% issue(r) limit. As a result, the recent data reveals that ECB is forced to de facto taper its core country buys even before the QE programme's potential deadline of December 2017. In the meantime, the gaps are filled by over-buying (relative to the capital key) of Austrian, Belgian, French and Italian bonds. Due to the flexible approach of the QE programme, the ECB is therefore still managing to buy more than the prescribed monthly amount of EUR 60bn, although the constraints are becoming more visible and will intensify. In addition, the bond buying constraints have also been noticeable in the recent monthly weighted average maturity (WAM) of purchases. In contrast to previous months, in which the German monthly WAM dipped to record low levels, the German WAM over the month of June increased slightly from 3.98 to 5.3. The increase in the monthly WAM could be supply driven, as the German Treasury auctioned EUR 4bn of 10 and 30y bonds in June. For Finnish and Dutch bonds, it looks like that the ECB is being unceasingly required to buy shorter dated bonds to be even close to its target. For these countries (Finland from 13.6 to 4.6 and the Netherlands from 10 to 5.1) the monthly WAM dropped to the lowest since the start of the programme in March 2015. The constraints are the key reason we think the ECB will start to taper asset purchases despite weak underlying inflationary pressures (see below). (Kim Liu)

ECB View: Super dove Praet may have been left behind by GC – ECB Chief Economist Peter Praet warned against an early exit from the ECB's QE programme in remarks in Rome on Tuesday. He said that the ECB needs to 'be patient, because inflation convergence needs more time' as well as 'persistent, because the baseline scenario for future inflation remains crucially contingent on very easy financing conditions which, to a large extent, depend on the current accommodative monetary policy stance'. Adding that the ECB's mission 'is not yet accomplished'. Mr Praet is perhaps the most dovish member of the Governing Council and other members, including President Mario Draghi, have been shifting their tone recently. Overall, the ECB as a whole seems to be trying to prepare markets for a very slow tapering of asset purchases from early next year onwards. Indeed, a Reuters report late on Monday suggested that the Governing Council was considering dropping (part of) the QE easing bias from its forward guidance in July. We think this is too soon, and expect a change in September, but the direction of travel is clear. (Nick Kounis)