

ECB Research

TLTRO – low take up, but ECB should not be concerned

- In the ECB's TLTRO3.1 operation (19 September) banks took only EUR3.4bn, while banks decided voluntarily to repay EUR32bn next week. Despite the low take up resulting in net liquidity drainage, the ECB and markets should not be concerned, with excess liquidity still above EUR1.7trn. Only 28 banks participated in the operation.
- TLTRO operations will run quarterly until March 2021, so banks will have plenty of opportunities to take liquidity. The ECB should not be concerned with low take up.

Take up surprisingly low

Euro area banks decided to take EUR3.4bn in TLTRO3.1 operations today. This was markedly lower than expected (also lower than our below-market consensus of EUR20-30bn), however it will not impact the loose liquidity standards.

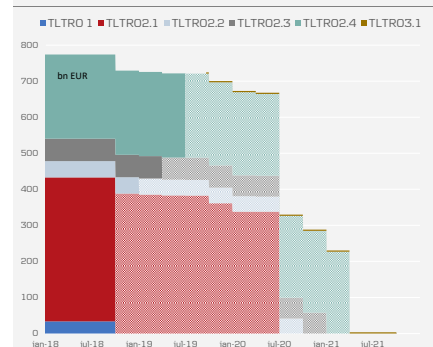
The low liquidity take up needs to be seen in the context of changed terms last week where the ECB decided that the quarterly operations running until March 2021 should be each of 3-year maturity but also sweetened the rate by 10bp (now from MRO to deposit rate).

Today's operation cannot be rolled into the 7th and last operation in March 2021, as the early repayment optionality in today's operation only falls in September 2021. That may also have been a reason for the low take up. However, we expect the ECB to extend the TLTROs as we believe it is an underappreciated and uncontroversial tool.

Space in core, but not expected to take much

The maximum potential take up of 30% of eligible lending leaves more space in core countries than in peripheral countries. We estimate that on a banking system level, German banks would be able to take up to EUR368bn over the 7 operations. Similarly, Italian and Spanish banks could take up to EUR43bn and EUR44bn respectively.

TLTRO maturity profile



Note: shaded area indicates potential early repayment.

Source: ECB, Danske Bank

TLTRO maturity profile

(bn EUR)	Maturity	Original amount (bn EUR)	Outstanding amount	Voluntary early repayment
TLTRO2.1	Jun-20	399.3	334.8	61.2
TLTRO2.2	Sep-20	45.3	42.5	2.8
TLTRO2.3	Dec-20	62.2	57.8	4.3
TLTRO2.4	Mar-21	233.5	222.4	6.5
TLTRO3.1	Sep-22	3.4	3.4	0

Source: ECB, Danske Bank

Potential take up over all 7 operations

(bn EUR)	Eligible loan stock (Feb.19)	Max eligible take-up (30% of eligible loan stock)	Currently outstanding LTRO by country (Aug.19)	Potential max new take up	Pot max new take up % of GDP
Germany	1511	453	85	368	11
Netherlands	403	121	28	93	13
Austria	235	71	18	53	14
France	1329	399	110	289	13
Finland	122	37	7	30	13
Luxembourg	89	27	5	22	39
Belgium	168	51	23	28	6
Spain	642	193	149	44	4
Italy	936	281	238	43	3
Portugal	93	28	19	9	5
Ireland	78	23	2	21	7
Greece	108	32	8	25	14
Other	95	29	3	26	
Euro area	5887	1766	TLTRO 692	1024	9

Source: ECB, Danske Bank

Senior ECB / Euro Area Analyst

Piet P. H. Christiansen
+45 45 13 20 21
phai@danskebank.dk

Senior Analyst

Aila Mihr
+45 45 12 85 35
amih@danskebank.dk

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Piet P. H. Christiansen, Senior Analyst, and Aila Mihr, Senior Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Ad hoc

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 19 September 2019, 14:32 CEST

Report first disseminated: 19 September 2019, 15:25 CEST