



EUR rates

Schatz spreads & the AQR/stress tests

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Schatz spreads on the tight side

- The ECB recently announced that the results of the AQR/stress tests will be published on October 26 (Sunday) at CET 12.00
- The results could be interpreted somewhat asymmetric, with few banks failing seen as a non-event, while a significant number of banks failing could stir renewed concern about the health of Euro area banks
- A cheap way to play such concern could be Schatz spread wideners
- While the Bund/BoBl spreads have followed the weaker risk sentiment (see *"On the radar"*), Schatz spreads have lagged this move (Fig 1 & 2)
- Worries about the interbank market in the Euro zone could put widening pressure on Euribor vs EONIA spreads, and thereby also on the Schatz spread

Fig 1. Schatz spreads have not followed Bund spreads wider

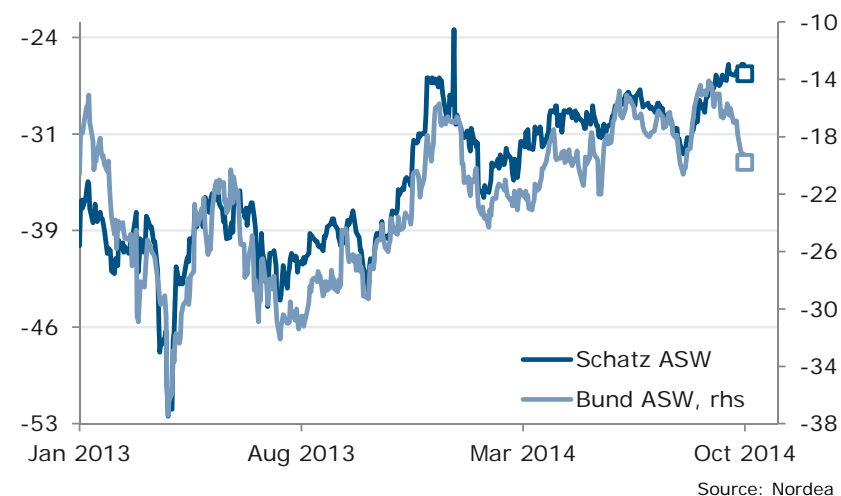
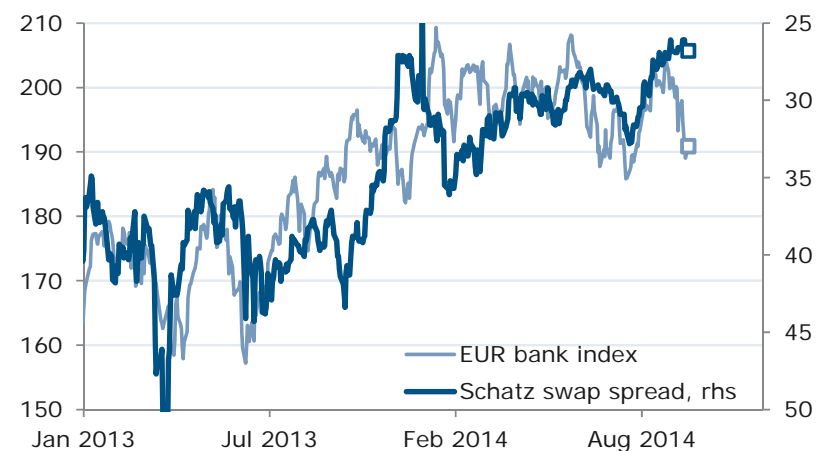


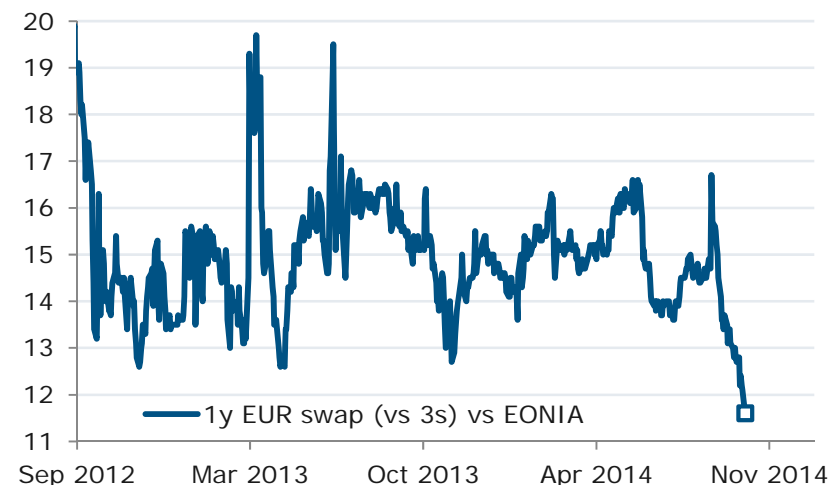
Fig 2. Schatz spreads stable given weaker equity trend



Elevated Eonias provide a clue

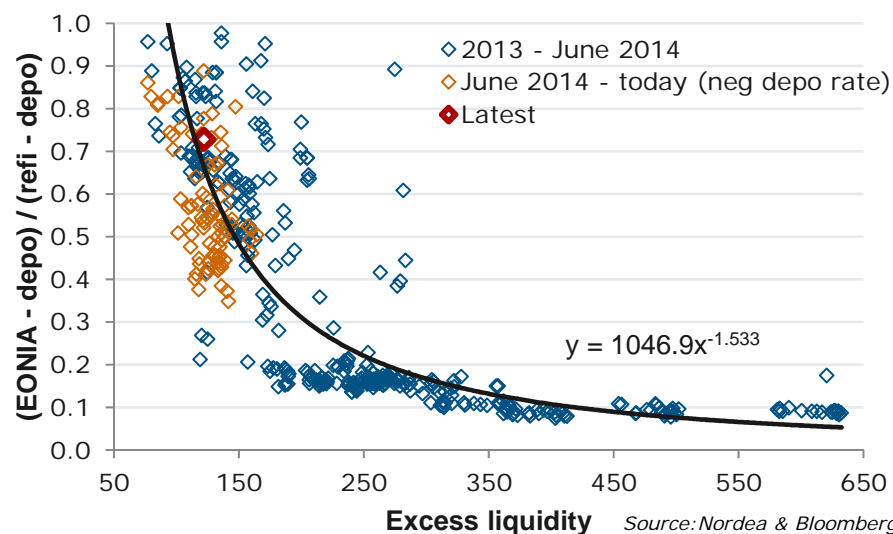
- One way to dissect the Schatz spread is to look at Euribor vs Eonia spreads (they tend to be fairly correlated), which have tightened since Sep (Fig 3)
- The somewhat high EONIA fixing is by itself not strange (Fig 4), but it's rather the term structure that appears somewhat elevated (and possibly exc. liq. expectations too low), considering Dec TLTRO, CBPP3 & ABSPP
- 1m Eonia fwds bottom around -4bps (a year from now). **That would roughly be equivalent to excess liquidity not breaching 150bn** for longer periods. That levels looks low to us (see *"A liquidity roadmap revisited"*), and should favor wider FRA/Ois & Schatz spreads (as the tightening has mostly come from higher Eonias, while Euribor has been somewhat sticky)
- The higher Eonias and tighter FRA/Ois spreads are likely part of the reason why the EURUSD basis has also tightened since early September (Fig 5)

Fig 3. 1y Euribor vs EONIA has tightened



Source: Nordea & Bloomberg

Fig 4. The somewhat elevated Eonia fixing looks "reasonable"



Source: Nordea & Bloomberg

Fig 5. Basis tightening partly driven by Eonia increase



Source: Nordea & Bloomberg

Italian banks in the AQR limelight?

- While it's difficult to have an idea of the AQR/stress test results, the ECB may be particularly keen on getting the results of Italian banks
- Lending rates to non-financial corporates in Italy have remained high (Fig 6), and lagged the downward trend seen in e.g. Spain (Fig 7)...
- ... and Italian banks were the largest takers of the Sep TLTRO (even if the uptake was skewed towards a few banks, Fig 8)
- This could cause concern about the transmission mechanism feeding through particularly bad in Italy

Fig 6. Italian lending rates to non-fin corps remain high

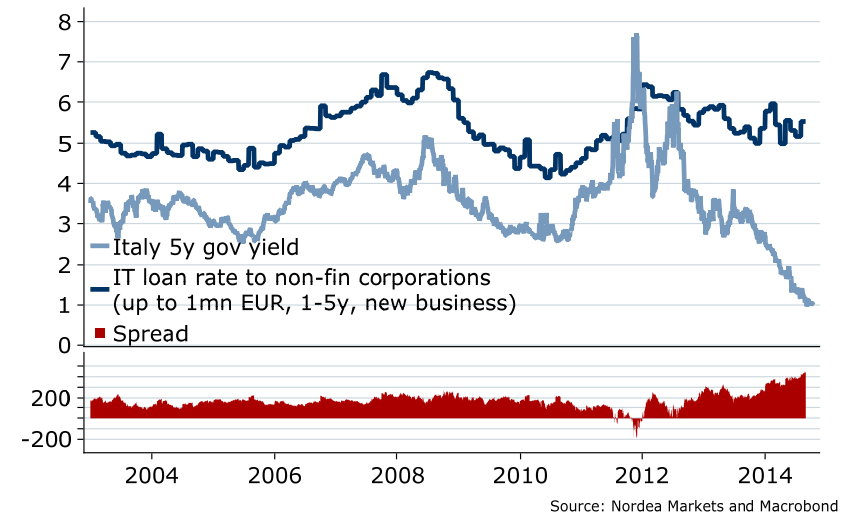


Fig 7. Lending rates in Italy decoupling from Spain

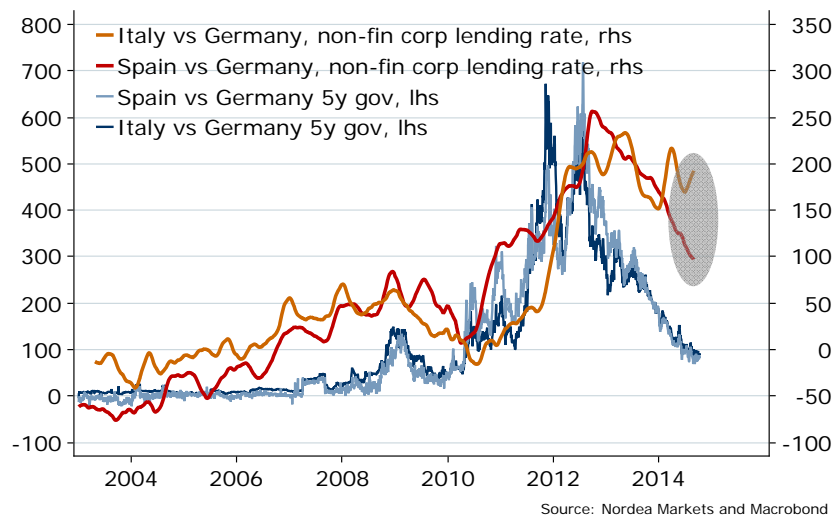
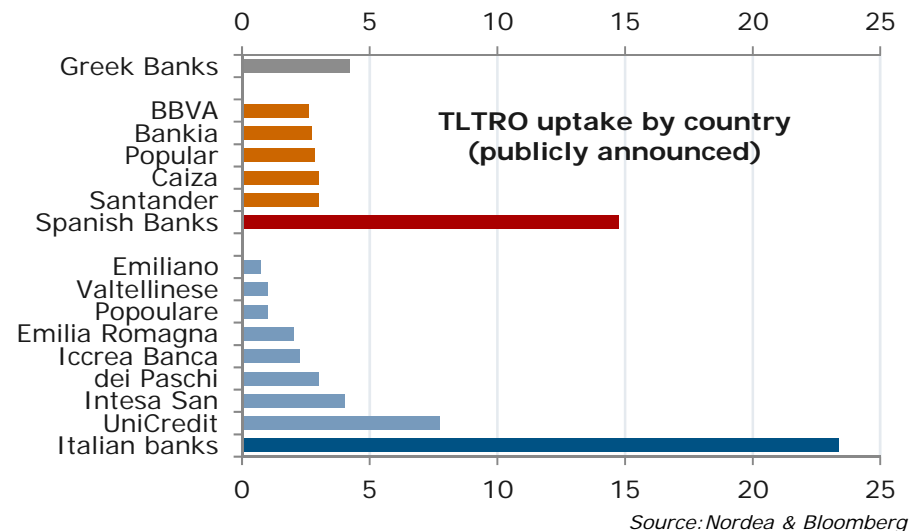


Fig 8. Italian banks major takers of the Sep TLTRO



Thank you!

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