# Outlook of fiscal policies and their impact on the euro area bond markets, changes in issuance patterns and strategy of DMOs

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Zoeb Sachee Head of Euro Linear Rates Trading zoeb.sachee@citi.com +44 20 7986 9340



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# (1) Fiscal outlook – net issuance set to decline, but only slowly

The fiscal outlook remains highly uncertain. As it stands, EMU-11 gross issuance in 2021 (Citi forecast €1.255trn) is likely to be very close to 2020 (€1.218trn).

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		2020	)					
	2019	Pre-Covid forecast	Final	2021	2022	2023	2024	2025
Germany	1.2	0.4	-4.8	-6.1	-3.3	-2.1	-1.9	-1.8
France	-3.0	-2.3	-9.6	-6.7	-4.3	-3.1	-2.4	-2.0
Italy	-2.2	-2.3	-10.0	-9.0	-6.3	-4.9	-3.9	-3.6
Spain	-2.2	-2.4	-10.7	-8.4	-5.4	-4.0	-3.3	-3.1
Greece	1.1	0.7	-8.1	-6.0	-3.7	-2.1	-0.7	0.4
Portugal	-0.1	0.0	-7.3	-5.3	-3.5	-2.8	-2.2	-1.1
Netherlands	1.3	0.3	-7.1	-5.3	-3.5	-2.4	-1.7	-2.1
Belgium	-1.2	-1.3	-10.2	-7.2	-5.8	-4.0	-3.1	-3.5
Euro Area	-0.8	-1.0	-7.7	-6.6	-4.4	-3.2	-2.6	-2.4

Fiscal deficit likely to decline, but only slowly (Citi forecasts)

EU issuance set for rapid growth...



#### ...but it is unlikely to provide a major offset for EGB issuance (table shows Citi forecasts for 2021)

	Government deficit	SURE	Next Generation EU	Net market	Estimate	d share	Bond	2021 gross bond
		support	program (Recovery Fund), Citi estimates	funding* (Citi estimate)	Bonds	Bills	redemptions	supply (Citi estimate)
Germany	217		1.6	180	88	92	152	240
France	173		2.4	161	142	20	143	285
Italy	152	10.9	9.0	132	122	10	222	340
Spain	107	11.3	6.8	89	79	10	94	173
Belgium	28	4.2	0.4	23	23	0	15	36
Austria	23		0.2	23	22	1	18	40
Finland	12		0.2	12	11	1	7	16
Ireland	18		0.1	18	20	-2	0	20
Portugal	14	2.9	3.3	4	4	0	11	15
EMU-11	789	30	26	684	551	134	680	1,225

\*excludes funding sources like German refugee fund withdrawal/French correspondents' deposits





# (2) Bond market impact – issuance vs QE

Heavy DV01 of issuance in early 2021 (given combination of high funding needs, front-loading and issuing longer) has met with a slower pace of PEPP, perhaps contributing to bear-steepening.

The supply burden in early 2021 has risen with the front-loading of issuance vs slowing QE.



The Net Cash Requirement (gross supply – free float coupons – redemptions – net QE) for 2021 looks very different depending on PEPP pace (€60bn/mth would mean second highest NCR since 2015).

								2021				
	2014	2015	2016	2017	2018	2019	2020	Monthly PEPP at €50bn	Monthly PEPP at €60bn	Monthly PEPP at €75bn*		
Germany	-1	-120	-193	-136	-82	-10	-56	-2	-15	-34		
France	25	-47	-109	-80	8	38	-54	-0	-18	-44		
Italy	19	-71	-83	-121	-36	-16	-79	-26	-41	-63		
Spain	54	-30	-80	-51	1	-6	-23	-13	-23	-40		
Netherlands	13	-19	-42	-39	-30	-13	-4	17	15	12		
Belgium	1	-11	-22	-22	-3	1	-6	-4	-6	-9		
Austria	-9	-13	-13	-15	-12	-11	-1	2	-0	-4		
Finland	2	-6	-10	-8	-0	2	-4	4	3	1		
Ireland	5	-1	-14	-0	1	-2	-7	12	10	8		
Portugal	-0	-2	-9	-2	-0	1	-2	-10	-12	-14		
EMU-11	114	-321	-575	-474	-152	-10	-241	-22	-91	-195		
*Full utilisati	ion by N	larch-20	22									

# Higher net supply, near historic yield lows, may have been one catalyst for €curve bear-steepening.

Source: Citi Research, DMOs, ECB





# (3) Changes in issuance patterns and strategy

#### (1) 15yr+ EGB supply continues to rise. (2) Greater reliance on bills, but this may reverse.



# Issuers looking to term out issuance following the supply shock in 2020

Source: Citi Research, DMOs



- 1. Performance of new issues scale and type of demand, market impact (see Appendix 1)
- 2. Cross country comparison of Euro Area fiscal policy how does EA compare to other countries? (see Appendix 2)
- 3. Should monetary policy continue to support fiscal policy?



#### New issue concessions have been fairly contained and books well oversubscribed

#### EGB Syndicated Issuance 2021YTD

Pricing	Name	Green	Cur	Amt. (mn)	Maturity	Initial Price Thoughts	Re-offer (RO)	IPT to RO	Now	Change vs RO	NIC* (bp)	Books (mn)	Subs.
16-Feb-21	Italy		EUR	10,000	Aug-31	BTP (04/31)+8A	4	-4	4	Flat	1	65,500	6.6x
16-Feb-21	Italy (inflation)		EUR	4,000	May-51	BTPei (09/41)+27A	22	-5	23	+1	0	16,600	4.2x
09-Feb-21	Spain		EUR	5,000	Oct-71	SPGB (07/66)+15A (+/- 2 wpir)	13	-2	10	(3)	2	65,000	13.0x
03-Feb-21	Portugal		EUR	3,000	Apr-52	ms+88A	85	-3	92	+7	2	40,000	13.3x
02-Feb-21	Finland		EUR	3,000	Apr-52	ms+5A	2	-3	8	+6	1	23,500	7.8x
02-Feb-21	Belgium		EUR	5,000	Jun-71	OLO (06/66)+9A	7	-2	6	(1)	2	53,000	10.6x
27-Jan-21	Greece		EUR	3,500	Jun-31	ms+110A	100	-10	101	+1	4	29,000	8.3x
27-Jan-21	Austria		EUR	4,000	Feb-31	ms-10A	-12	-2	-6	+6	1	32,000	8.0x
19-Jan-21	France		EUR	7,000	May-72	OAT (05/66)+9A	7	-2	6	(1)	1	75,000	10.7x
13-Jan-21	Spain		EUR	10,000	Apr-31	SPGB 10/30 (mid)+8A	4	-4	6	+2	0-1	55,000	5.5x
12-Jan-21	Belgium		EUR	6,000	Oct-31	ms-5A	-7	-2	-2	+5	3	42,000	7.0x
05-Jan-21	Ireland		EUR	5,500	Oct-31	ms+1A	-2	-3	2	+4	0-1	40,000	7.3x
05-Jan-21	Italy		EUR	10,000	Mar-37	BTP 03/36+13A	8	-5	6	(2)	0	105,000	10.5x

#### Selected EUR SSA Syndications 2021YTD

Pricing	Name	Green	Cur	Amt. (mn)	Maturity	Initial Price Thoughts	Re-offer (RO)	IPT to RO	Now	Change vs RO	NIC* (bp)	Books (mn)	Subs.
24-Jan-21	EIB		EUR	3,000	Mar-36	ms-4A	-6	-2	-6	Flat	2-3	21,800	7.2x
09-Feb-21	UNEDIC	Social	EUR	3,000	May-34	OAT (05/34)+18A	15	-3	8	(7)	1	8,000	2.7x
27-Jan-21	CADES	Social	EUR	4,000	May-31	OAT 05/31+18A	16	-2	11	(5)	0	10,000	2.5x
26-Jan-21	EU	Social	EUR	10,000	Jun-28	ms-13A	-16	-3	-13	+3	1-2	83,000	8.3x
26-Jan-21	EU	Social	EUR	4,000	Nov-50	ms+7A	5	-2	6	+1	1-2	49,000	12.3x
11-Jan-21	EFSF		EUR	3,000	Jan-31	ms-9A	-11	-2	-13	(2)	-1	39,000	3.0x
07-Jan-21	EIB		EUR	5,000	Jan-31	ms-9A	-11	-2	-14	(3)	1	48,800	9.8x
05-Jan-21	KfW		EUR	5,000	Jan-31	ms-7A	-9	-2	-14	(5)	2	19,500	3.9x

\*New Issue Concession (NIC) is the difference between Re-offer and Fair value spotted by the lead managers at Initial Price Thoughts stage



## Appendix 1b: Secondary Performance

**EUR SSA vs Swaps** 



French Agencies vs OATs



## Appendix 2: Deficit and Debt as % of GDP

Deficit/GDD forecasts (%)

	Deficit/GDP forecasts (%)								Dept/GDP forecasts (%)						
	2019	2020	2021	2022	2023	2024	2025	2019	2020	2021	2022	2023	2024	2025	
United States	-5.8	-16.9	-16.5	-6.7	-5.3	-5.5	-5.5	107	126	138	140	141	141	141	
Japan	-3.4	-18.0	-10.0	-4.0	-3.0	-2.5	-2.0	240	270	274	274	274	274	274	
United Kingdom	-2.6	-19.7	-6.8	-3.6	-3.0	-2.4	-2.0	81	101	105	103	103	102	101	
Euro Area	-0.6	-7.7	-6.6	-4.4	-3.2	-2.6	-2.4	86	101	102	104	103	102	102	
EA + est. EU	-0.6	-9.1	-10.6	-8.3	-7.6	-7.0	-4.8	86	103	108	113	116	120	121	
Germany	1.4	-4.8	-6.1	-3.3	-2.1	-1.9	-1.8	59	73	76	74	73	73	72	
France	-3.0	-9.6	-6.7	-4.3	-3.1	-2.4	-2.0	98	114	114	114	114	113	112	
Italy	-1.6	-10.0	-9.0	-6.3	-4.9	-3.9	-3.6	135	157	159	157	157	157	157	
Spain	-2.6	-10.7	-8.4	-5.4	-4.0	-3.3	-3.1	95	118	118	116	116	114	112	
Greece	1.5	-8.1	-6.0	-3.7	-2.1	-0.7	0.4	177	216	220	212	209	206	203	
Portugal	0.2	-7.3	-5.3	-3.5	-2.8	-2.2	-1.1	117	132	131	127	126	123	120	
Netherlands	1.7	-7.1	-5.3	-3.5	-2.4	-1.7	-2.1	49	57	59	61	61	62	64	
Belgium	-1.9	-10.2	-7.2	-5.8	-4.0	-3.1	-3.5	99	114	116	116	116	116	116	

Dobt/GDP forecasts (%)

#### Citi Forecast for EU Gross Issuance (EUR billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
EU	0	41	132	128	149	153	96	25	15



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