

Market Overview



Update

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ECB Governing Council:

Today's ECB Governing Council (GC) meeting should be relatively straightforward, with targeted asset purchases set to see no changes following June's decision to increase the size of the Pandemic Emergency Purchase Programme (PEPP). The key ECB interest rates should also remain unchanged at -0.50% (Deposit rate), 0.0% (Main refinancing rate), +0.25% (Marginal Lending rate). Since the June GC, economic data has continued to point to April as being the peak in the economic hit from COVID-19. For example June's Composite PMI recovered further to 48.5, a significant rebound from the record low 13.6 witnessed in April. Official statistics have also begun to recover as lockdown rules have been eased, with May Euro area retail sales rising 17.8% (mom). Meanwhile industrial output figures from Germany showed a 7.8% rebound on the month. Figures such as these have led several members of the GC to express some confidence that the economy appears to be evolving in line with the baseline view expressed in the June macroeconomic projections.

Legarde to go green?

Given this more positive backdrop we see the ECB refraining from any policy action today, particularly given the ECB's June decision to increase the size of PEPP by €600bn to €1.35trn. This effectively provides the ECB with a current headroom of approximately €1trn for further purchases, given that its current purchases to date have totalled €355bn. With purchases currently running at about €100bn a month on average that easily takes the ECB into 2021 before nearing the programme's total. However the pace of purchase is likely to slow as the recovery takes hold and given that purchases are still being conducted at a pace of €20bn per month under the APP (Asset Purchase Programme) there is little argument for any changes to QE at this point. Added to this is the ECB's TLTRO-III operations. The fourth tranche of this was allotted on the 24 June and saw 742 banks borrow €1.3trn. This is a significant drawing, which should encourage credit growth given the particularly attractive borrowing rate of -1.00% should banks meet the 0% lending growth benchmark. Christine Lagarde may however be pressed on whether the ECB could direct some of its QE purchases towards so-called green bonds, given her recent comments that the ECB will examine all of its operations in order to fight climate change.

Watch and wait:

Taking into account the policy measures which are currently in play, we do not foresee any immediate policy action being needed to further combat the COVID-19 crisis. However we are mindful that even before the coronavirus outbreak inflation was subdued and projected to be below target in the medium term, which in itself argued for more policy action. As such we believe the ECB will likely need to ease policy again at some point in the future to address the anticipated undershoot of inflation. But for the time being we suspect it will watch and wait as the coronavirus situation evolves and hopefully passes before acting again.

Economic update:

Residential Sector – Property prices stable in May but reflect the ‘old’ normal

Residential property prices were close to unchanged in Ireland in May according to the CSO, although the impact of the pandemic on pricing will only become apparent over the remainder of the year. Prices were -0.1% m/m, matching the outturn in April, but the y/y change remained in positive territory at +0.3%. The data shows little differential between the performance of the market in Dublin and outside of Dublin with both price series showing a m/m change of -0.1% and y/y changes of 0.0% (Dublin) and +0.7% (ex. Dublin) respectively. However a degree of caution with the figures is warranted given that transaction volumes in May were only just above half of the volume in March. As much of the transactions themselves will have been based on prices that were agreed earlier in the year, it is unclear if the impact of COVID-19 is having any impact on prices as yet. Downward pressure will come from the huge fall in employment and lower household income, but we continue to expect that the ongoing new housing supply shortfall (which has been exacerbated by the pandemic) will act in the other direction and mitigate this pressure to some extent. Asking prices have shown some weakness in recent months but do not suggest a significant downturn in the market.

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