Focus

At the beginning of May, the German Constitutional Court (BVG) challenged the bond buying programme introduced in 2015 by the European Central Bank (ECB). The ruling states that parts of the programme can be considered illegal. The court ordered the ECB to carry out a “proportionality assessment”. If this is not done within three months, the German Bundesbank (BBk) will no longer be allowed to participate in the purchase programme.

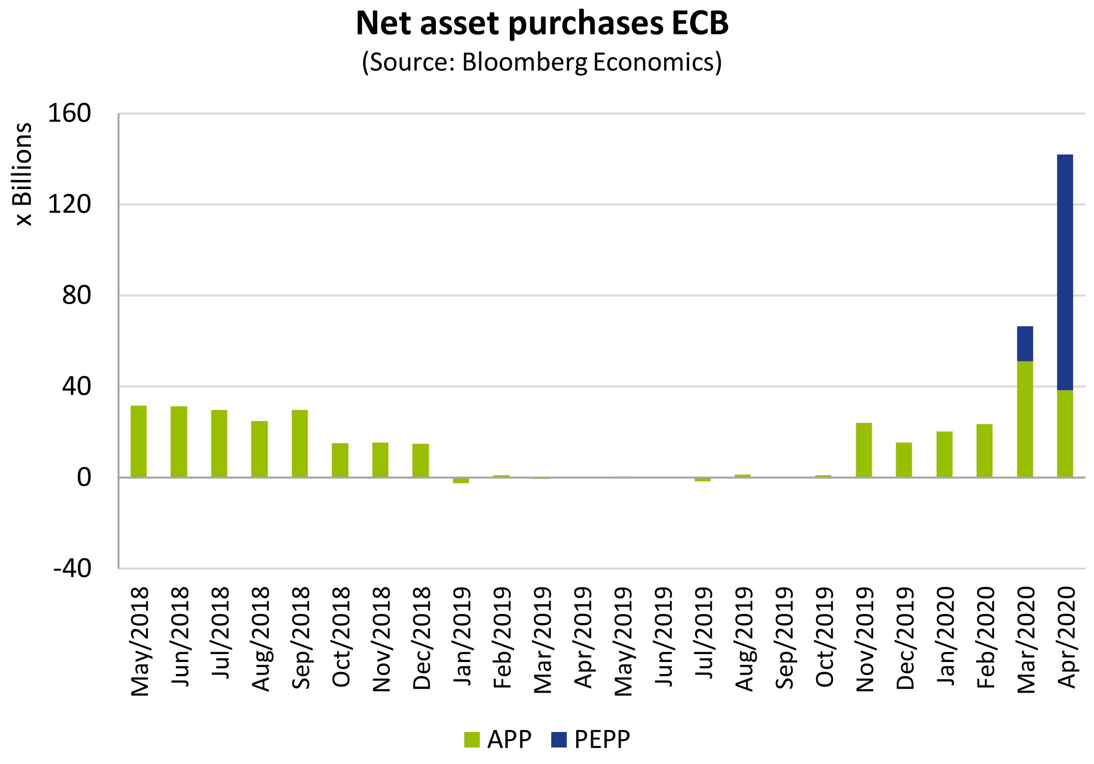
The ECB's asset purchase programme, also known as quantitative easing (QE), was initiated in 2015 to help the euro area through the effects of the 2008 economic crisis and increase confidence in the euro. The actual purchasing was and is done by the ECB and national central banks such as the Bundesbank. Due to this the ECB's balance sheet, and that of national central banks, has been increasing at record speed. This raises questions about the limits of the programme.

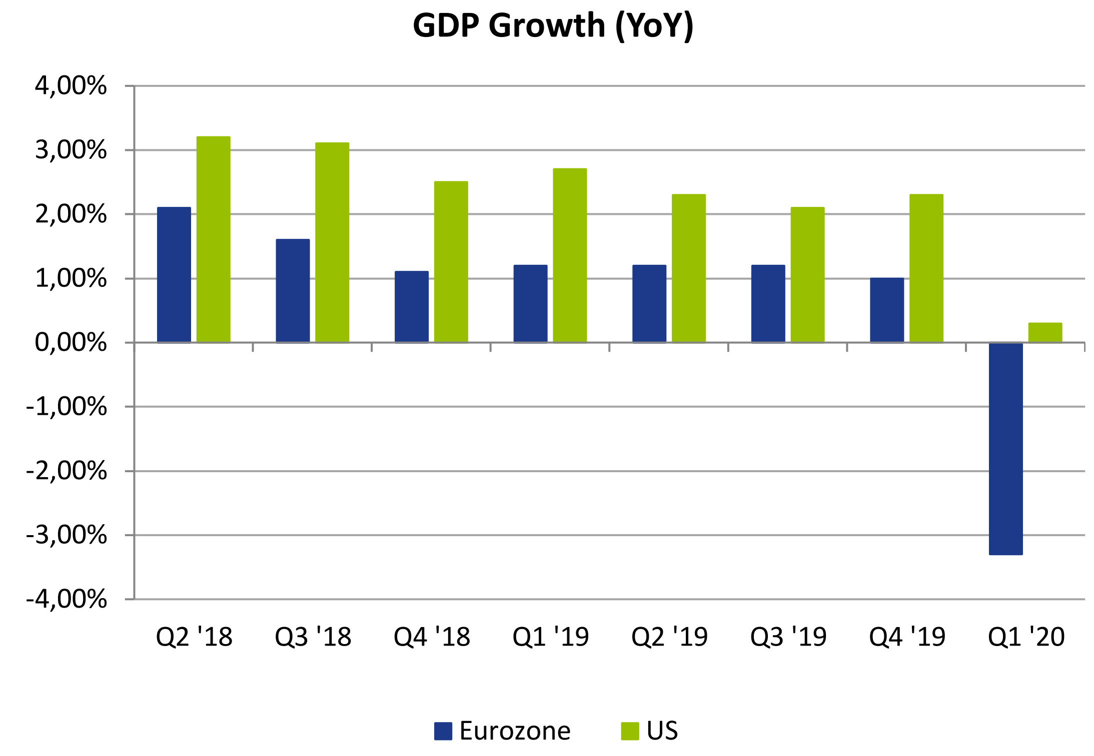
With the BVG's ruling, unlimited buying could no longer be possible, and the Bundesbank might even have to sell purchased assets. However, the impact of the ruling still needs to be assessed on European level and there are legal discussions about the verdict and its implications.

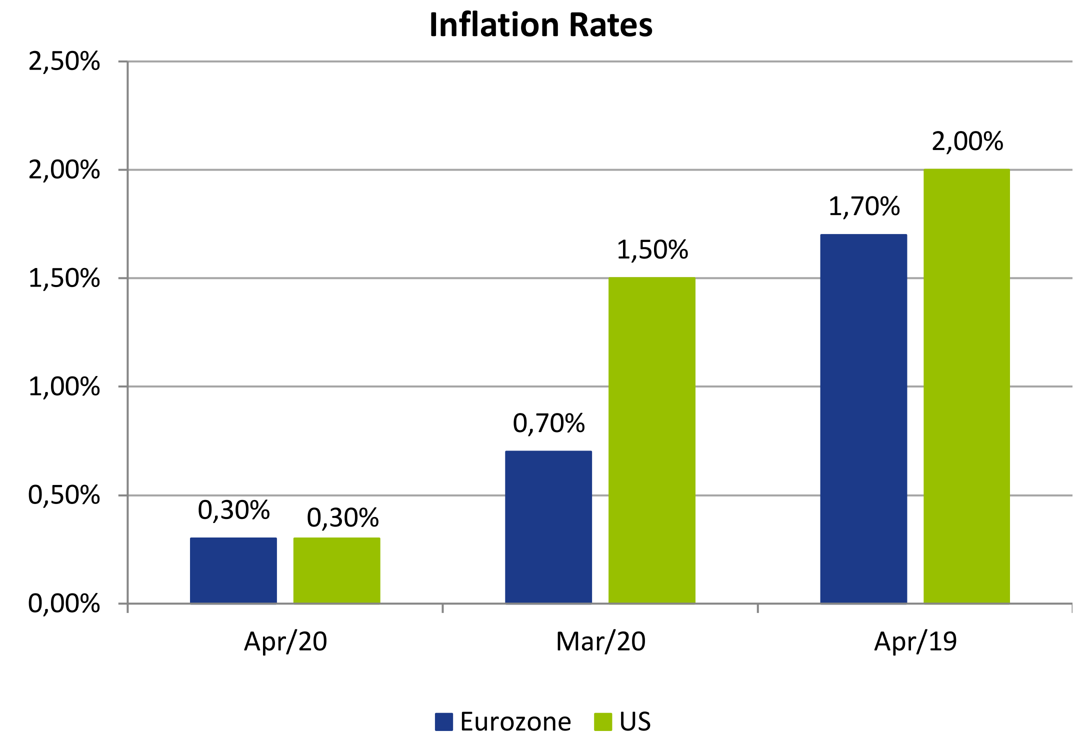
The ECB reacted to the ruling by stating that it will do everything necessary to achieve price stability and push monetary stimulus in the eurozone. In addition, the ECB argues it is an independent institution and therefore does not have to justify its actions to the German court.

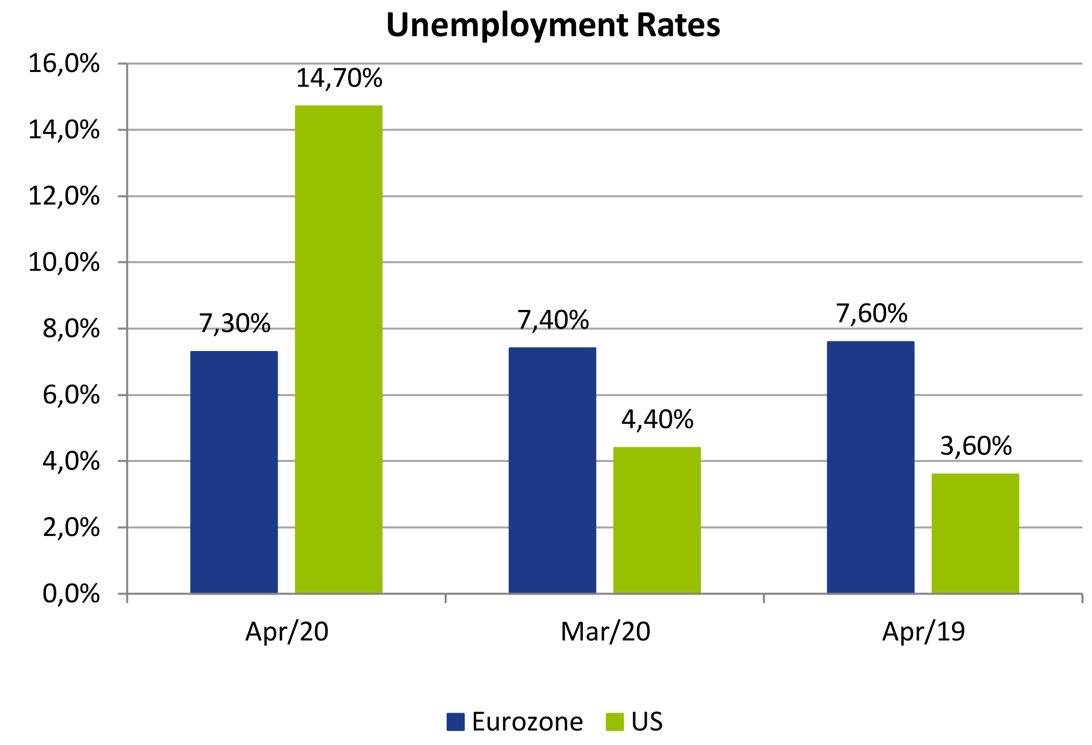
The ruling mainly focuses on the old purchase programme from 2015, which expired less than a year ago. However, it might also affect new programmes, like the one started in March when the first economic consequences of the corona outbreak became visible. In response the ECB announced to increase its asset purchase programme (APP) by EUR 150 billion until the end of the year and to set up an additional purchase programme (Pandemic Emergency Purchase Programme, PEPP) to help reduce the economic consequences of the corona crisis, with a value of EUR 750 billion. This programme will run at least until the end of 2020 and may be extended if necessary. Within the programme, different central banks in Europe may purchase both corporate and government bonds.

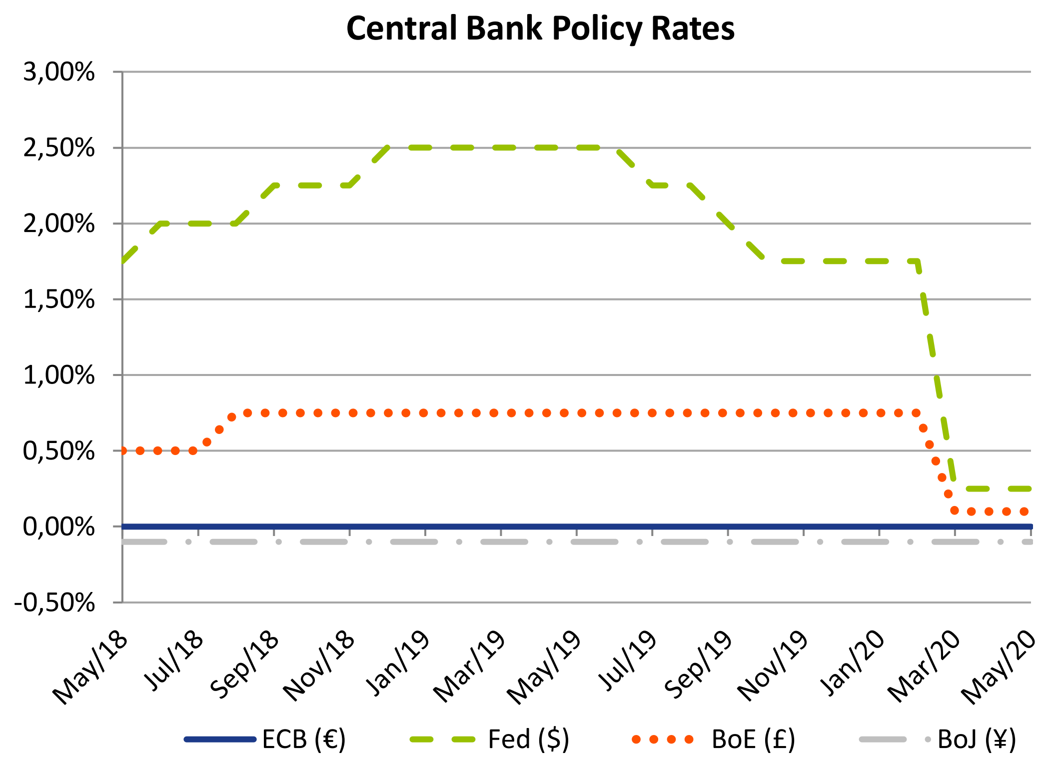
The short- and long-term effects of the ruling remain to be seen. Despite the uncertain impact of the ruling, the ECB is already preparing for the worst. In the last week of May, press agency Reuters reported, based on anonymous sources, that the ECB is already working on a plan to purchase government bonds without the BBk participating in it.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review

The European Commission has proposed a fund worth EUR 750 billion to help member states of the European Union to recover from the impact of the COVID-19 pandemic. The fund would consist of EUR 500 billion in grants and EUR 250 billion in loans. It will be financed via loans borrowed by the EU. Especially heavily inflicted countries like Italy and Spain can expect a large part of the funds. The plan must be accepted unanimously by all 27 EU members. The first negotiations are expected to the start in June. Primarily the Netherlands, Austria, Sweden and Denmark are against providing grants compared to loans.

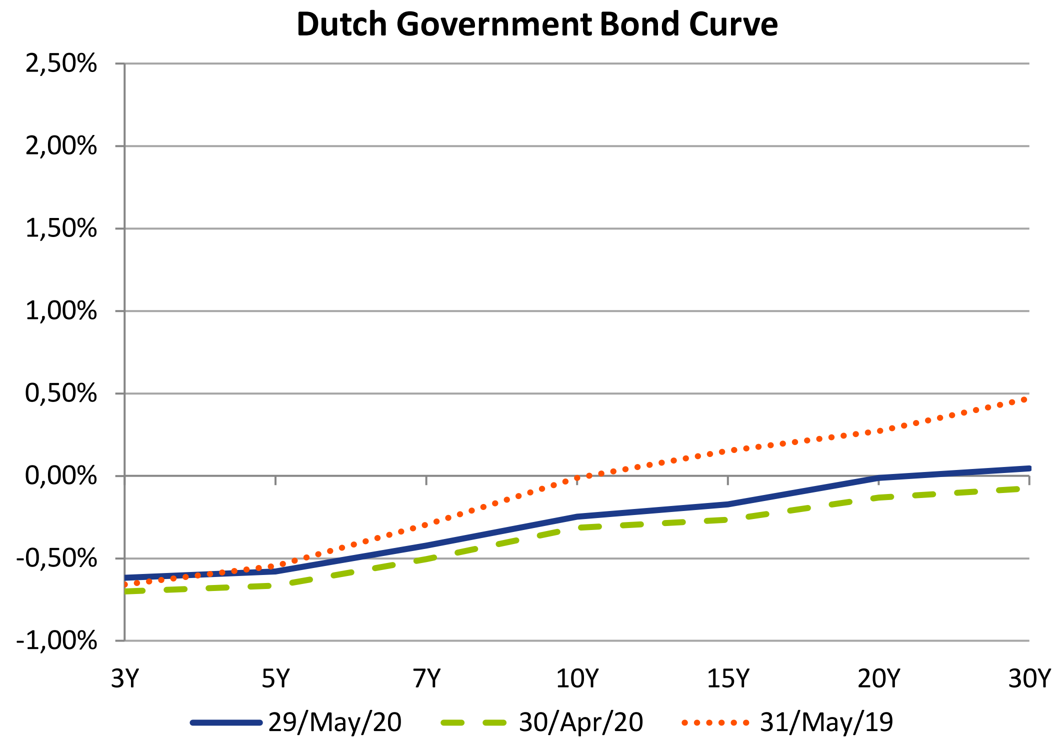
The increase in economic activity of the Chinese manufacturing sector has slowed down in May compared to the previous month. The Purchasing Managers Index reached a value of 50.6, compared to 50.8 in April. A figure of 50 or more indicates growth. Chinese factories are not operating on full capacity due to lower demand from countries stricken by the corona virus. The situation has improved significantly compared to the low point in February, when the index dropped to 35.7.

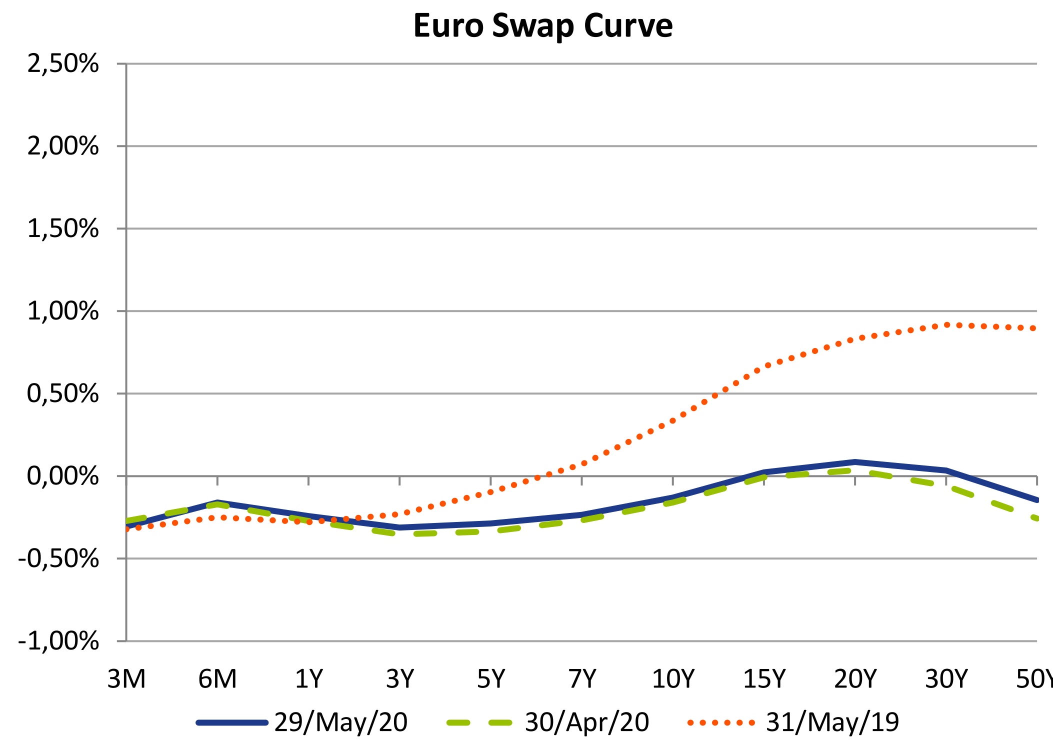
Preview

According to president of the European Central Bank Christine Lagarde, the economy of the eurozone will contract more in 2020 than previously expected. Due to the COVID-19 pandemic, the ECB now expects a contraction of 8.7%, instead of the previously forecast 7.7%. The ECB expects the economy to rebound in the coming years, with growth figures of 5.2% in 2021 and 3.3% in 2022. Earlier last month, Lagarde stated the ECB expects a “medium” to “severe” scenario. Despite the extra debt various countries have taken on, these countries will be able to manage due to low interest rates. According to Lagarde, the shape of these countries after the crisis will depend primarily on their fiscal headroom and their exposure to the hardest hit sectors.

The Netherlands Bureau for Economic Policy Analysis (CPB) states that a persisting recession can result in a new euro crisis. Rising debt of private companies, financial institutions and governments would be more difficult to control when this happens. Despite the fact that the Dutch banks are more resilient than in 2008, the magnitude of the shock can cause significant financial problems for companies and households and will ultimately have consequences for financial institutions. Initial stress tests on the financial buffers of Dutch small and medium-sized enterprises show that these companies will need extra liquidity, additional to the existing government support, when turnover remains lower than before the crisis in the coming six months.

9 June:	GDP figures eurozone
10 June:	Core inflation China
10 June:	Interest rate decision Fed
10 June:	Core inflation US
12 June:	GDP figures UK
16 June:	Interest rate decision BoJ
17 June:	Core inflation UK
18 June:	Interest rate decision BoE
25 June:	GDP figures US
30 June:	Core inflation eurozone





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A

Currencies	29/May/20	30/Apr/20	31/May/19
EUR/USD	1,110	1,096	1,117
EUR/GBP	0,899	0,870	0,884
EUR/CHF	1,067	1,058	1,118
EUR/JPY	119,770	117,425	120,960
EUR/DKK	7,457	7,462	7,468
EUR/SEK	10,473	10,690	10,606
EUR/CAD	1,530	1,528	1,509
EUR/AUD	1,667	1,682	1,610
EUR/CNY	7,924	7,735	7,713