



If the ECB does not have an appetite for mezzanine, the route to the success of ABS purchasing will be via the expansion of the ECB balance sheet and the impact of this on the EUR exchange rate. Our FX strategists reckon that of the roughly 4% decline of the euro trade-weighted index since March roughly a quarter of this was the negative deposit rate and the remainder implies an expectation of roughly E300bn of ECB balance sheet expansion. ABS purchasing will have to go beyond this to keep the EUR on a downward trajectory. Maybe this is what the ECB has most in mind. As Draghi said on Friday, outright ABS purchases "would meaningfully contribute to diversifying the channels for us to generate liquidity".

To summarise, recent data and Draghi's latest comments we think are enough to believe the ECB will supplement the TLTRO in the next few months. Our baseline is to expect this as soon as the next ECB meeting on 4 September, but this is a very close call. An announcement could wait -- but the markets will be unhappy to be told that inflation expectations are potentially dis-anchoring and the ECB announces no new policies to address this. But what we expect is not generic QE with government bond purchases, as other central banks have done. We believe the ECB will engage in private QE, that is ABS purchasing as a complement to TLTRO. If private QE does not emerge in September, we think it will follow shortly thereafter.