

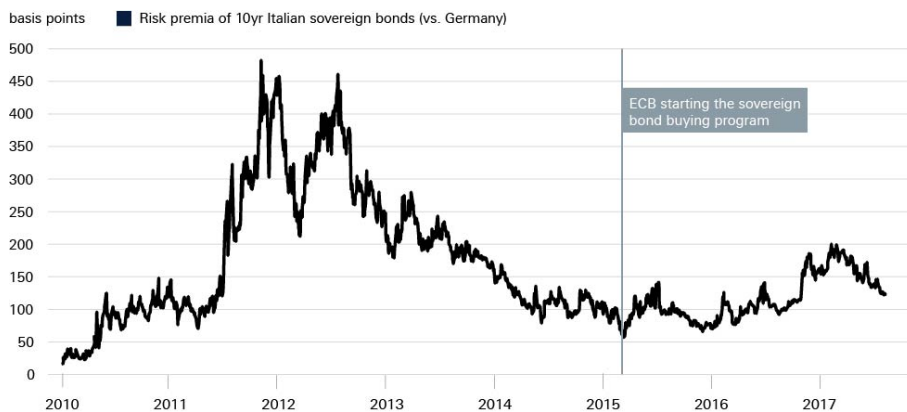


Chart of the week

Who is afraid of the ECB?

Financial markets have started to guess how long the European Central Bank (ECB) might continue with its asset purchases. It is becoming increasingly clear that the central bank will phase out its buying program, probably in 2018. Such a move might have implications for several asset classes. For one, it seems to have contributed to the recent strengthening of the euro exchange rate. Another aspect is the likely impact on risk "premia" or "spreads" of bonds issued by countries of the so-called euro periphery, such as Italy.

Once the ECB steps back from buying, we would expect yield levels to increase. Looking at historical evidence, however, we are not convinced that spreads will have to rise, too: taking Italian sovereign bonds as an example, it turns out that spreads have actually decreased well before the ECB started its purchasing program, while they have moved sideways or even increased since the central bank began to buy. President Draghi's words from 2012 ("whatever it takes") seem to have had more influence on risk premia than the central bank's monthly purchases. Unless the ECB were to completely dismantle its whole set of measures, domestic factors, like fiscal and economic policy or the stability of the banking sector, will be more important for the future path of risk premia.



Sources: Eurostat, Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 8/9/17

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Glossary

European Central Bank (ECB)

The **European Central Bank (ECB)** is the central bank for the Eurozone.

Periphery

Periphery countries are less developed than the core countries of a specific region. In the Eurozone, the euro periphery consists of the economically weaker countries such as Greece, Portugal, Italy, Spain and Ireland.

Spread

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

Yield

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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