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ECB launches “Pandemic Emergency Purchase Programme”

Late
on Wednesday, the European Central Bank announced an emergency €750bn bond-buying spree in a second attempt to ease the impact of the coronavirus pandemic.

Until
the end of 2020, under this scheme, it will buy not only government and company debt across the Eurozone, but also non-financial

commercial paper. It has also eased collateral standards in order that banks can raise money against more of their assets, including corporate finance claims. The latest purchase intentions mean that the ECB will buy more than €1tn of bonds in the next nine months — its highest ever pace of purchases.

However, to calm the storm in bond markets, some analysts believe that the ECB will have to relax its capital key requirements which dictate that:

- It cannot buy more than one third of the eligible sovereign bonds of any individual country.
- It should purchase sovereign bonds in proportion to the weight of each country's investment in its capital.

Recent comments could suggest that the bank is mulling this over internally. The bank said: "To the extent that some self-imposed limits might hamper action that the ECB is required to take in order to fulfil its mandate, the governing council will consider revising them to the extent necessary to make its action proportionate to the risks that we face."

The Chair, Christine Lagarde, tweeted "there are no limits" to the central bank's commitment to the euro. The move comes only six days after the ECB ramped up its TLTRO programme and set aside an "envelope" of €120bn for purchasing assets; a play which underwhelmed markets.

Europe's old world economy, which was just starting to show signs of recovery, looks particularly vulnerable to the unexpected blow from the pandemic. Already, Maarten Vervey, the European Commission's director-general for economic and financial affairs, admitted that the growth forecast is "deteriorating very rapidly".

Taking into account the economic shock from the virus and the containment measures, Vervey said that “it is very likely indeed that growth for the euro area, and EU as a whole, will fall below 0% and potentially even considerably below 0%”.

In such an uncertain environment, traders have switched to a “cash is king” mentality and this week, even government bonds and other safe haven assets started to sell off. The ECB’s move, as with other packages already announced by central banks around the globe, offered little salve to ailing sentiment. It seems that the only glint of hope will come from a falling infection rate and/or substantial fiscal stimulus.

On this front, there was some encouraging news on Thursday from China, which reported no new local infections for the previous day, a first in the country’s costly battle with the outbreak. Meanwhile, across the Atlantic, real fiscal action is coming to fruition. The White House yesterday spelled out the first facets of a $1 trillion economic package, requesting that Congress provides $500 billion for direct payments to taxpayers and $500 billion in loans for businesses. President Trump invoked a wartime law that allows the government to push domestic industries to ramp up the production of medical supplies. He is also sending two military hospital ships to New York and California. Can and will Europe’s governments follow with such measures of their own, that’s the question...

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