An update on the ECBs latest QE.

The ECB's moves were largely expected except for the inclusion of corporate debt on the shopping list. This should at least put a floor under the Euro IG market. The details, however, have not been released so we don't know what the total or country allocations might be.

The ECB's best policy has always been its LTRO. Its first incarnation, a 3 year unconstrained program, turned the ECB effectively into a pawnshop. It achieved a number of things:

1. Banks bought government debt when the ECB could not. The ECB had co-opted the banks into its QE. Call it, proxy QE.
2. National banks bought their respective national debt thus unwinding current account deficits very rapidly.
3. Coupled with a rate cut, the ECB provided banks with a profitable business, good for 3 years, consuming no capital. The profits would recapitalize the banks to some degree.
4. Governments' borrowing costs fell.

The subsequent TLTROs were less effective. Why?

1. Private enterprise is unwilling to borrow. That's it. The TLTROs were extendable only if the banks were seen to be pivoting their loan books to SMEs and private obligors. These LTROs were not meant for government bond purchases.
2. As one hand of the ECB provided liquidity to fund private loan growth, the other hand increased capital requirements. This placed banks in an untenable position.

What about the latest TLTROs?

The details are still patch but basically, the repo rates are zero with a discount available for compliant banks, banks with a willingness to engage in more active private lending. At a fully discounted rate of -0.4%, the ECB is basically paying the banks to lend. In effect, it is co-opting the banks to grow their loan books. Will it work? Basel III and TLAC rules still hold which will continue to constrain the banks. Assets tendered in repo are not a true sale. And for all these technicalities, demand for credit is simply weak.