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Welcome to E-QE

The ECB has just invented the Emergency QE: a bond buying programme performed by the national central banks at their own risks, just as the ELA is designed to fund banks in cases of emergency and with risks not being shared by the Eurozone members.

Here's our take on the announcement:

Size

Size is higher than expected at 60bn a month starting in March. More importantly, it will continue until Sept 2016 (so at least a trillion) and until inflation goes up again, in accordance with ECB targets. Since we do not believe QE will make inflation go up, this could end up being a massive QE. Very bullish for risky assets.

Technicalities

Technicalities are much less important than size but some points deserve analysis.

The purchases will be done following the ECB capital key. This is not a surprise.

Regarding risks, 20% of the programme will be done on a risk sharing basis among central banks: 12% in European agencies bonds (EIB etc) and 8% taken by the ECB itself. The rest will not be shared.

Symbolically, this is very poor. It shows how fragmented the Eurozone still is. It also raises the question of future ECB policy: why should risks on bank funding, ie, Greek banks, still be shared (apart from ELA, Emergency Liquidiy Assistance)?

However if this is the price paid to have Germany on board it is a very cheap price. Indeed, if the symbol is poor, the financials are great:

- The risks are not shared nor are the coupons. Central banks will make a huge amount of money out of this and then governments will get the dividends. Effectively, this will serve as 0% financing for the periphery. Fantastic news.

- The risk issue is more cosmetic than real. Yes, the loss on bonds will not be shared in case of government default but in a stress scenario, the central bank would also probably default and there is no way this cannot be shared.

So it's basically a free lunch for the periphery.

And Greece?

The combination of OMT and QE has always been a bit tricky conceptually. The ECB solved the problem as follows: bonds will have to be rated investment grade so no Greece or Cyprus. But there's a catch: if a programme is successfully being implemented bonds will become eligible again. That's a very simple and effective bait for Mr Tsipras. If you want the free Euros, talk to the Troika. We can't imagine anything more effective to get him on board.

Last but not least, the ECB has announced a reduction in the rate of the LTRO which will boost marginally banks' net interest income, especially in the periphery

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