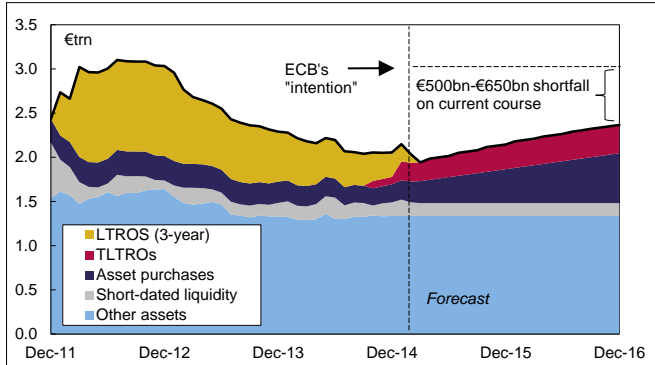


ECB QE: Background charts

ECB might well consider €500bn of new purchases adequate to hit €3trn balance sheet

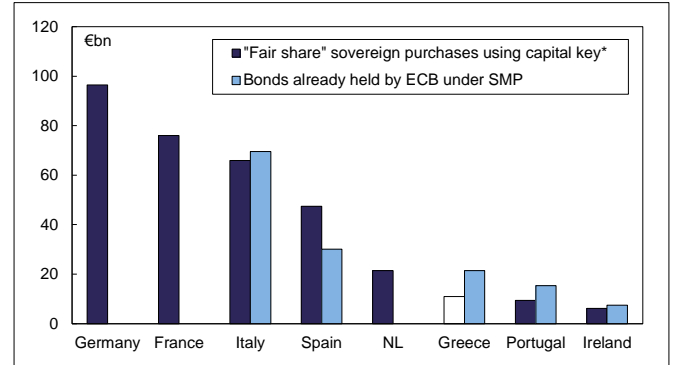
ECB balance sheet (assets)*



*At current ABS & covered bond purchase rate + €100bn cumulative TLTRO loans in tenders 3-8. Source: ECB and Daiwa Capital Markets Europe Ltd.

The ECB's capital key dictates likely country allocation, despite sizeable SMP holdings

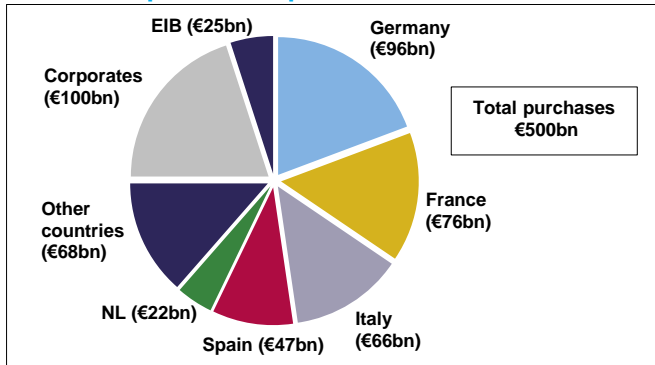
Sovereign bond buying vs. current SMP holdings*



*Assumed €500bn QE package of which 75% sovereign bonds, 20% corporates, 5% EIB. Greek bonds likely ineligible. Source: ECB and Daiwa Capital Markets Europe Ltd.

Capital key links purchase volumes to GDP but national central banks might have to retain risk

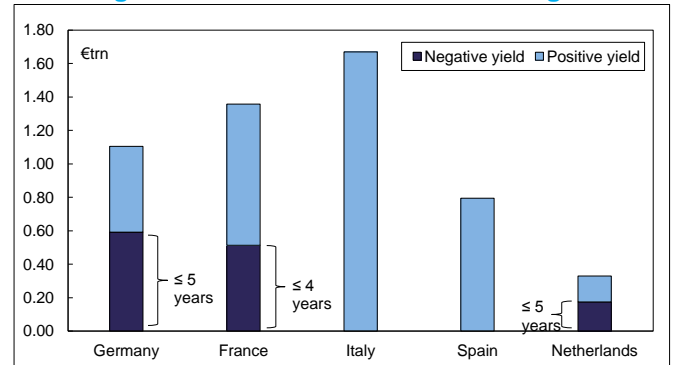
Illustrative purchase split



Source: ECB and Daiwa Capital Markets Europe Ltd.

ECB set to avoid negative-yielding sovereign bonds, concentrated within the core

Central government bond debt outstanding



Yield data as at opening on 19 Jan. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Better credit risk and negative yields require longer-dated purchases in core countries

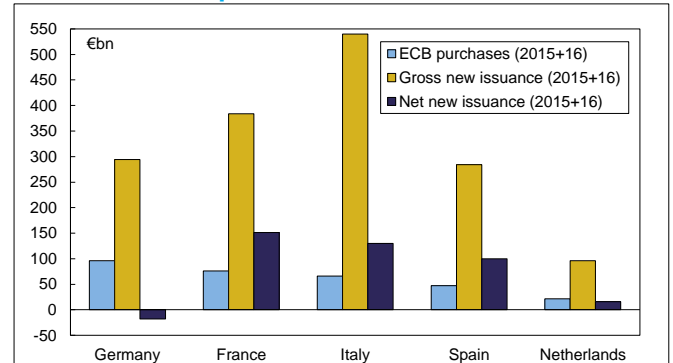
Illustrative purchases under €500bn programme*

	Net purchases (€bn)	1-4Y	5-10Y	>10Y
Germany	96	0	75	21
France	76	0	70	6
Italy	66	20	46	0
Spain	47	15	32	0
Netherlands	21	0	18	3
Belgium	13	0	13	0
Austria	11	0	8	3
Portugal	9	3	6	0
Finland	7	0	6	1
Ireland	6	2	4	0
Others	22	5	17	0
Corporate bonds	100			
EIB	25			
Total	500	45	295	34

*Red cells indicate (predominantly) negative-yielding buckets. Sums may differ due to rounding. Source: Daiwa Capital Markets Europe Ltd.

When ECB buys, core country bonds will see very high demand relative to supply

Illustrative ECB purchases & new issuance*



*Daiwa forecast for new issuance based on 2015 plans by debt management offices. Source: National sources and Daiwa Capital Markets Europe Ltd.

