

# The NewsLine

June 2, 2015

} MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

## EUROZONE

# ECB bond purchasing program pushes yields down by around $\frac{3}{4}$ of a percentage point

According to our estimates, the ECB's bond purchasing program has pushed German long-term yields down considerably. Looked at the other way round, an exit from the ultra-loose monetary policy threatens to trigger turbulence on the bond markets. In the medium term, in a scenario with moderate growth, we see yields on 10yr German government bonds at just under 2%. This means that real interest rates are set to remain extremely low.

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Our calculations show that, taken together, anticipation and implementation of the ECB's bond purchasing program pushed down yields on 10yr German government bonds (EMU benchmark) by a good 80 basis points. An end to bond purchases and a 50 basis point rate hike by the ECB would result in a 100 basis point rise in German long-term rates. In order to avoid major volatility on the bond markets, the ECB needs to employ an appropriate degree of tact when communicating to the markets the change of course likely in the not too distant future.

Apart from this sizeable kickback risk from today's very low yields, we expect long-term interest rates to remain relatively low in historical terms for some time to come. In an environment without an ebullient economy, but after the end of quantitative easing and the zero interest rate policy on both sides of the

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Atlantic, we see yields on 10yr German government bonds close to 2%. With inflation in our view set to come in at 1.5-2% in Germany and the eurozone in the medium term, this means that real interest rates would remain extremely low.

You can download the full Working Paper here:

[https://www.allianz.com/en/economic\\_research](https://www.allianz.com/en/economic_research)

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This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

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