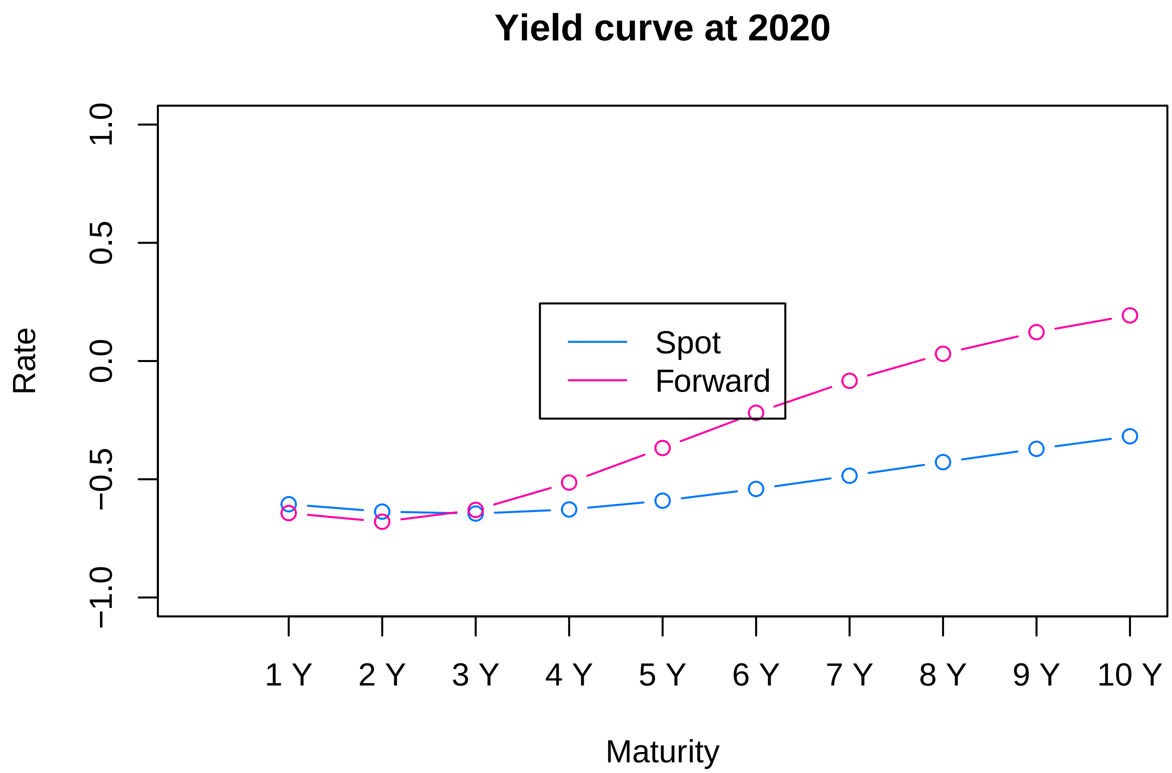
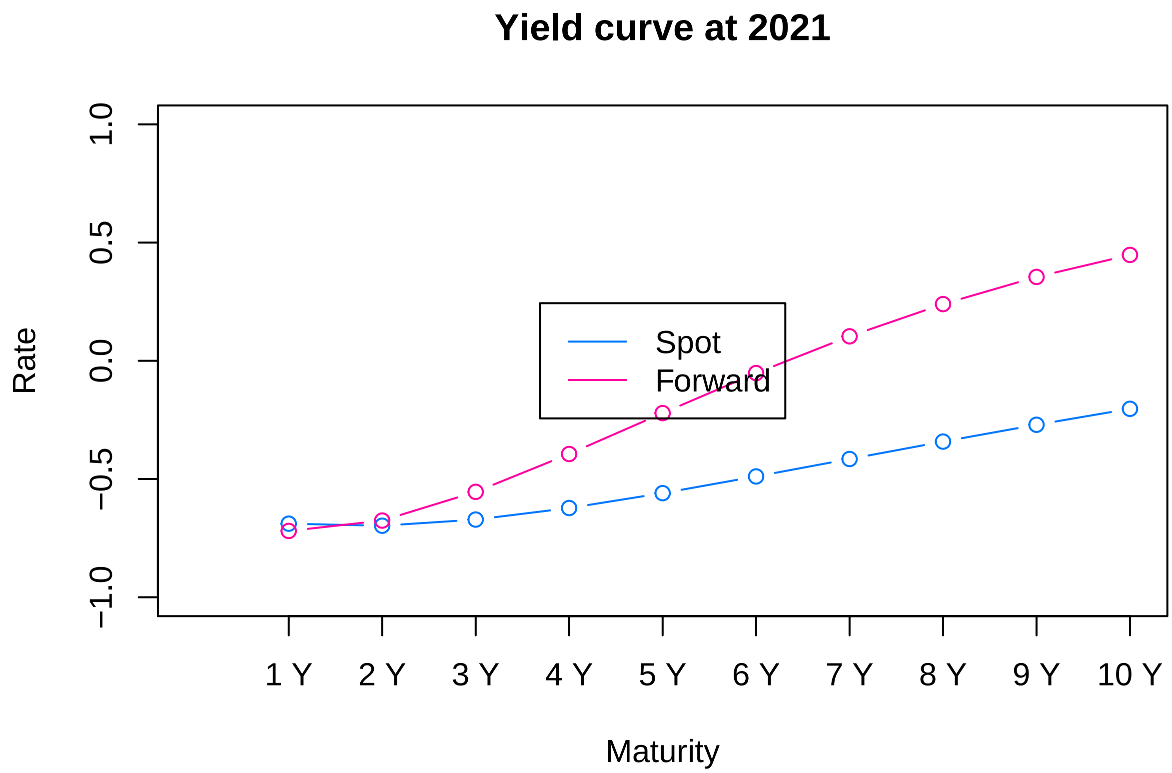
Yield

Plot



The plot above represents the spot and forward yield curve in July 2020. The spot yield is entirely in the negative area of interest rate due to the APP of the ECB. Even the forward curve is negative until the 8Y maturity. The curves are upward-sloping after 3Y, and the forward rate premium becomes higher as maturity increases. Because the agents were expecting the deepening of the recession of the covid and after they had expected a rise in economic acticity, the divergence between the two curves becomes wider as maturity increases. The forward rate is above the spot rate before 3Y maturity, suggesting that agents had expected a recession in the 3 years ahead. Indeed during a downturn, the agents expected that the central bank would lower the interest rates in the short term, while the opposite happened. The curves before the switch at 3Y maturity are downward sloping, suggesting an expected recession. It seems reasonable because the covid had already broken out in July, and the prices incorporated the expectation of future covid lockdowns. In addition, the ECB enlarged the APP program to face the pandemic in the EU countries, lowering the yield curve in the short maturity. # Plot 2


Yield curve at 2021
Rate
1.0
0.5
0.0
−0.5
−1.0
Spot
Forward
1 Y
2 Y
3 Y
4 Y
5 Y
6 Y
7 Y
8 Y
9 Y
10 Y
Maturity