

# ECB Money Market Contact Group

## Main Developments in the Money Markets since December 2021

Focus on:  
General risk sentiment, OIS and Unsecured

16<sup>th</sup> March 2022

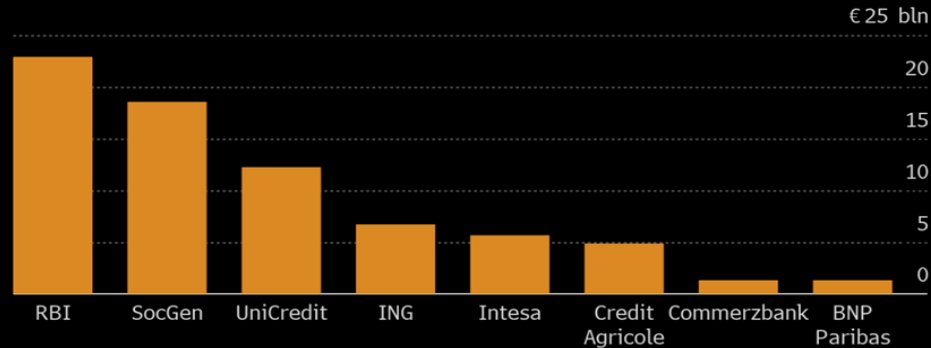
**Item 1.1:  
Evolution of Risk sentiment since  
February**

# Exposure of Euro Area counterparties to Russia

## Big in Russia

Three large European banks stand out as the most exposed to Russia

■ Measure of exposure disclosed by banks



Source: Company filings, Bloomberg News

Note: Measures aren't identical. RBI, SocGen, ING = 'exposure,' UniCredit = 'loan position' and 'exposure', Intesa = 'loans', CA = 'lending commitments', Commerz. = 'exposure at default' and BNP = 'gross exposures off and on balance sheet'

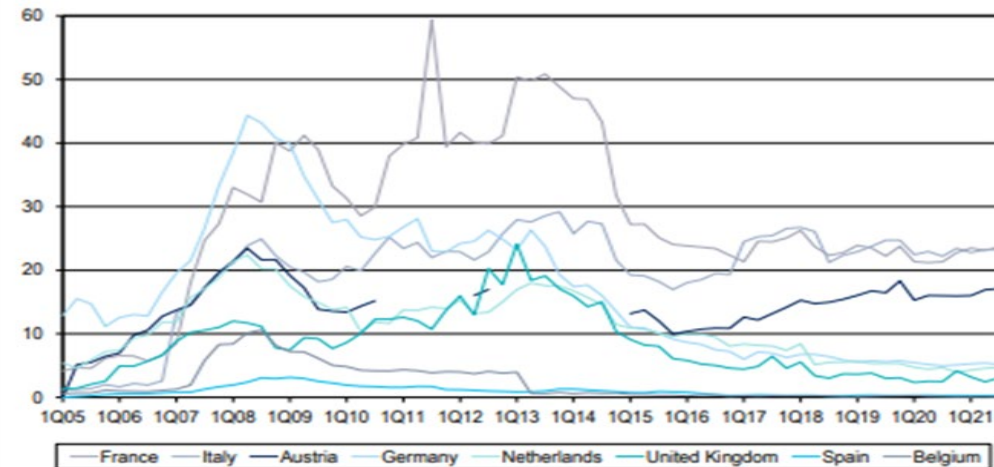
Bloomberg

According to BIS data EU banks with greatest counterparty exposure to Russia, include French banks (\$23.6bn), Italian banks (\$23.2bn) and Austrian banks (\$17.1bn). Other exposures are notably smaller as the Dutch banks, German banks and UK banks have all greatly reduced exposures since 2014

## ECB Vice President Luis de Guindos

“The conclusion is, Russia is important in terms of energy markets and commodity prices but in terms of European financial sector exposure, Russia is not very relevant. And simultaneously the size of the Russian economy is quite limited, **it's only 2% roughly of the world economy**. So the situation, in conclusion, the strains and the tensions that we have seen are not comparable at all to what happened at the beginning of the pandemic”  
(March 10th ECB press conference)

Figure 1. EU Banks Counterparty Exposure To Russia (US\$bn)



Source: BIS

Source: Bloomberg, BIS and CITI 9<sup>th</sup> March 2022

# Volatility in Commodity prices

VP De Guindos answered a question on financial stability and referred to commodity derivatives market therein.

Margin calls are being honoured and ECB are closely monitoring.

Underlying commodities are seeing extreme volatility. Nickel is a high profile example:

Nickel prices surged on the Russian invasion. It then spiked to \$100,000 a tonne, twice the previous record.

The London Metal Exchange suspended trading on Tuesday after a 250% spike in the price and cancelled several hours of trades.

The market has yet to reopen

The broader point-as articulated by Zoltan Pozsar of Credit Suisse is that every crisis is caused by one of either collateral losing value or funding being pulled.

Commodity producers who naturally have long physical commodities in transit will have short futures positions hedging

Commodities are equivalent to collateral

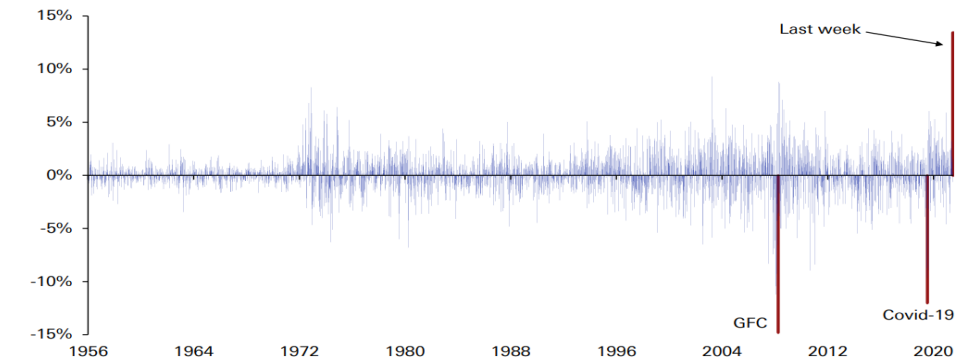
Many commodity players are Russian or Russia linked so their capacity to meet margin calls may well be compromised by sanctions

The concern is that disruption could proliferate into a larger systemic issue

Higher commodity prices feed directly into headline inflation and impact consumer sentiment and real incomes very quickly. The chart (right) of World Food prices shows the extent of the issue. Ukraine/Russia being the biggest wheat producers.

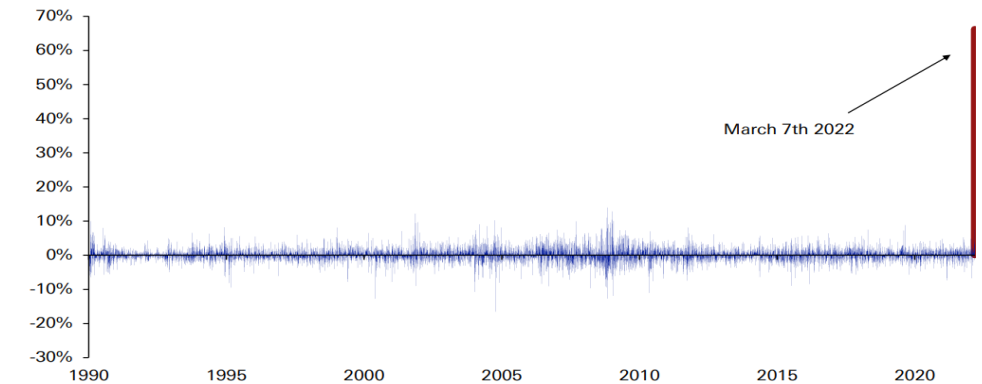
Second-order effects (Fertilizer producer Yara announced it was “temporarily curtailing production” at two of its European plants “as a consequence of record-high natural gas prices in Europe”). Could foster political instability akin to Arab Spring as a second order effect.

Weekly Movement in Thomson Reuters Core Commodity CRB Index

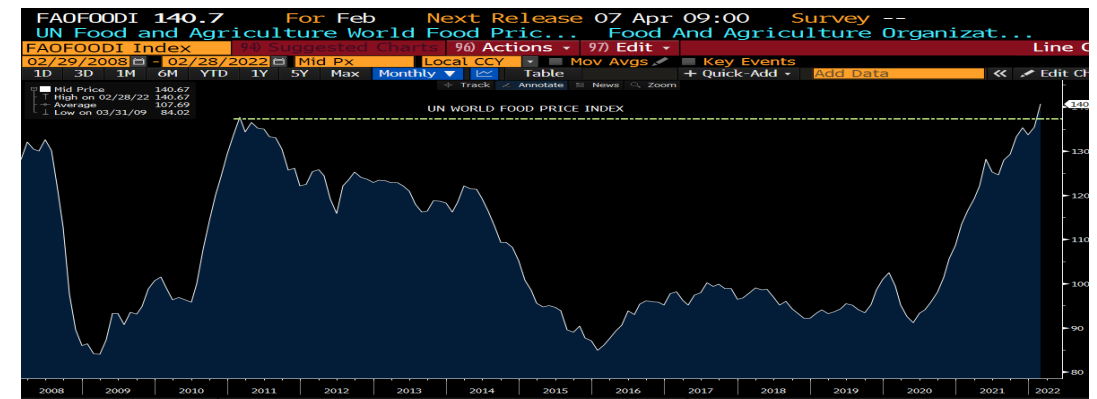


Source: GFD, Deutsche Bank

Daily move in Nickel prices on the London Metal Exchange



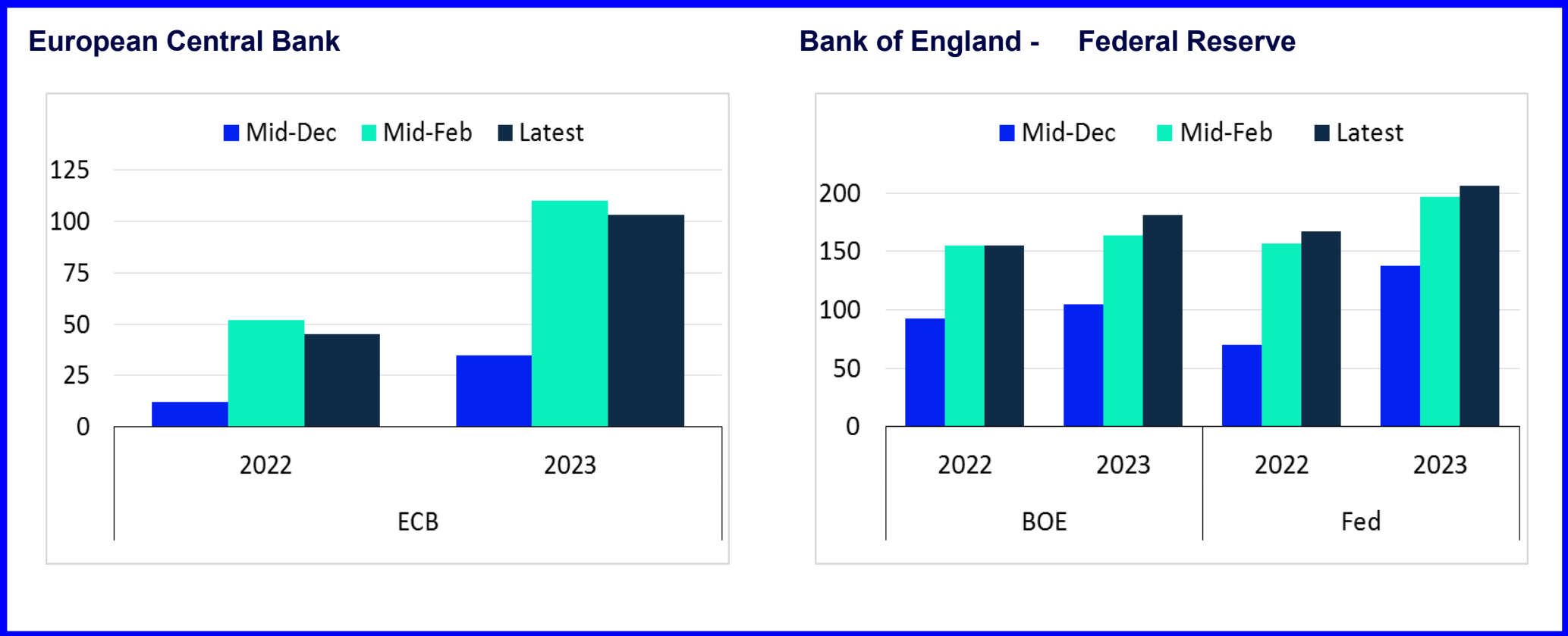
Source: Bloomberg Finance LP, Deutsche Bank



# Item 1.3: OIS segment

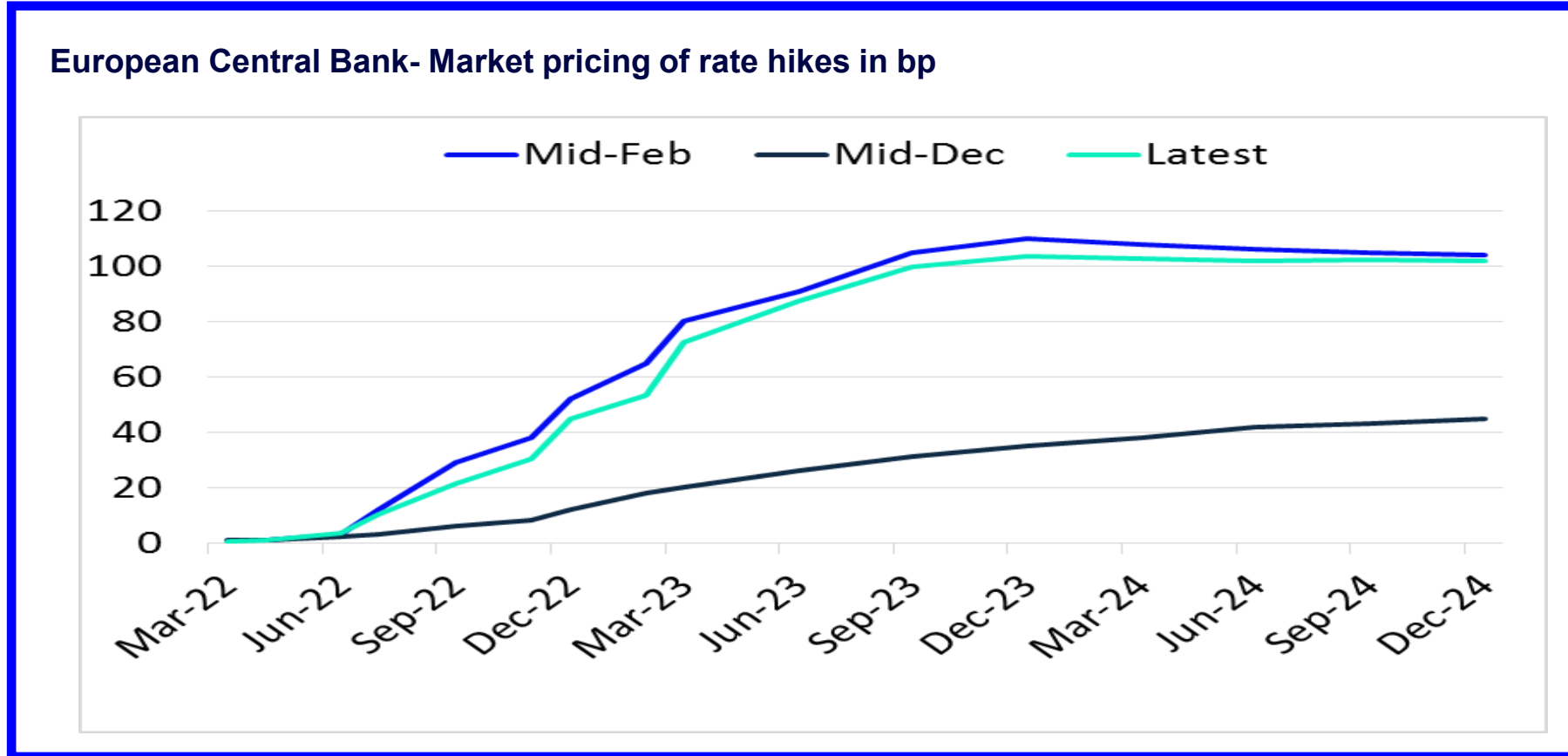
# Timing and magnitude of ECB DFR hikes (1)

## Cumulative rate hikes priced in bp (end of 2022 & 203)



Source: Bloomberg 10<sup>th</sup> March 2022

# Timing and magnitude of ECB DFR hikes (2)



Source: Bloomberg 9<sup>th</sup> March 2022

# Volatility



Source: Bloomberg 9<sup>th</sup> March 2022

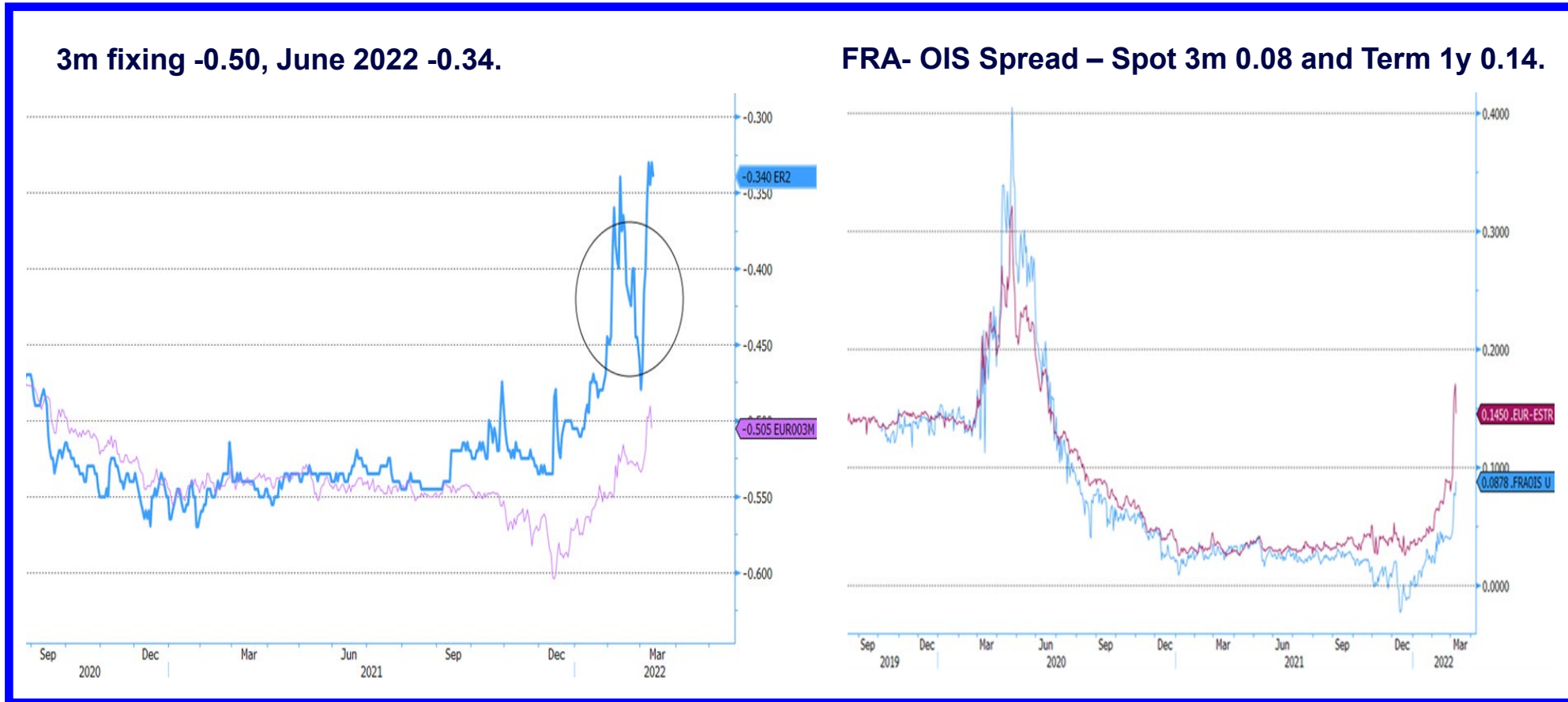
Item 1: (iii) OIS

Classified as Private (Amber)



# Item 1.4: Unsecured segment

# Euribor and FRA-OIS spread

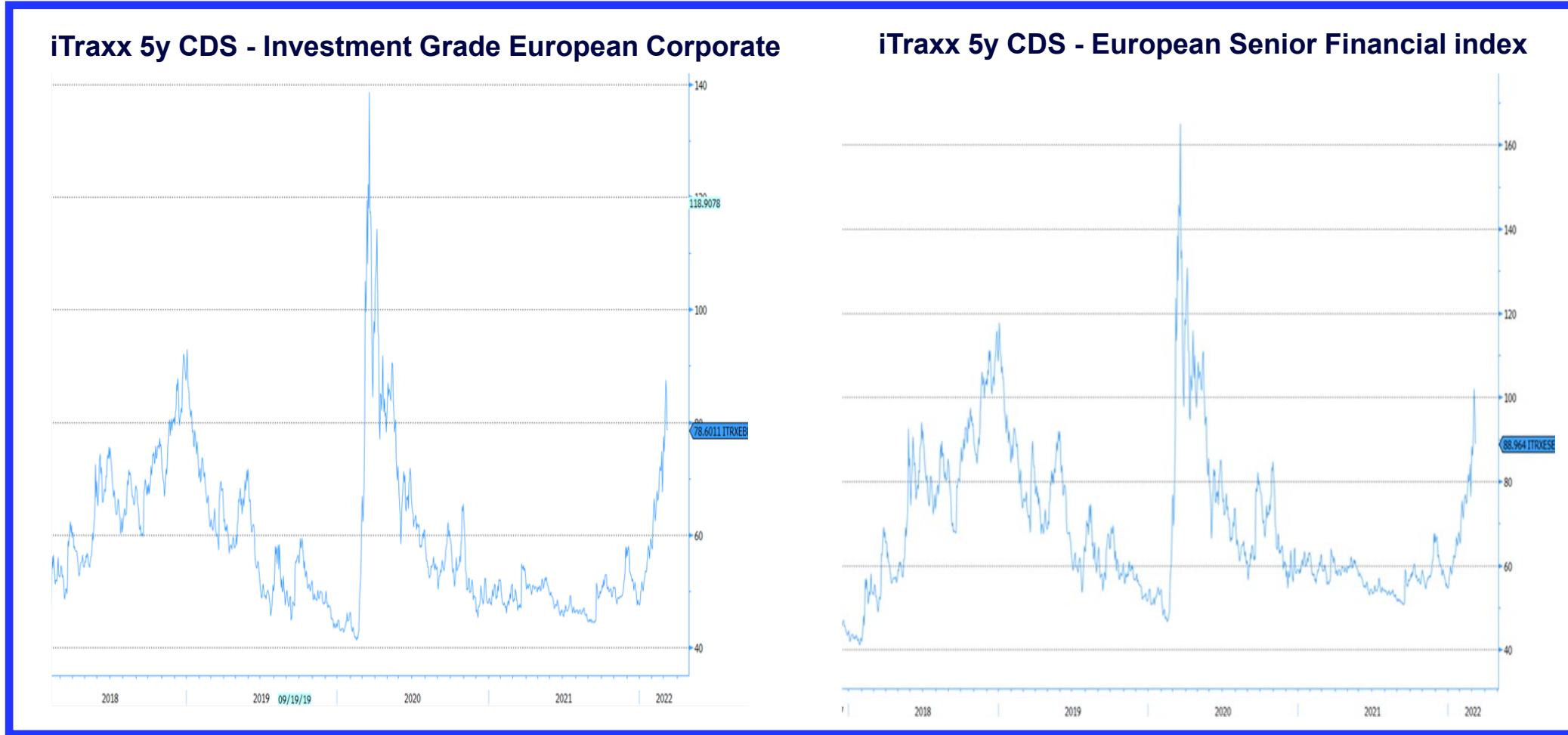


Source: Bloomberg 9<sup>th</sup> March 2022

Item 1: (iv) Unsecured segment

Classified as Private (Amber)

# Perceptions on Credit & Liquidity Risk

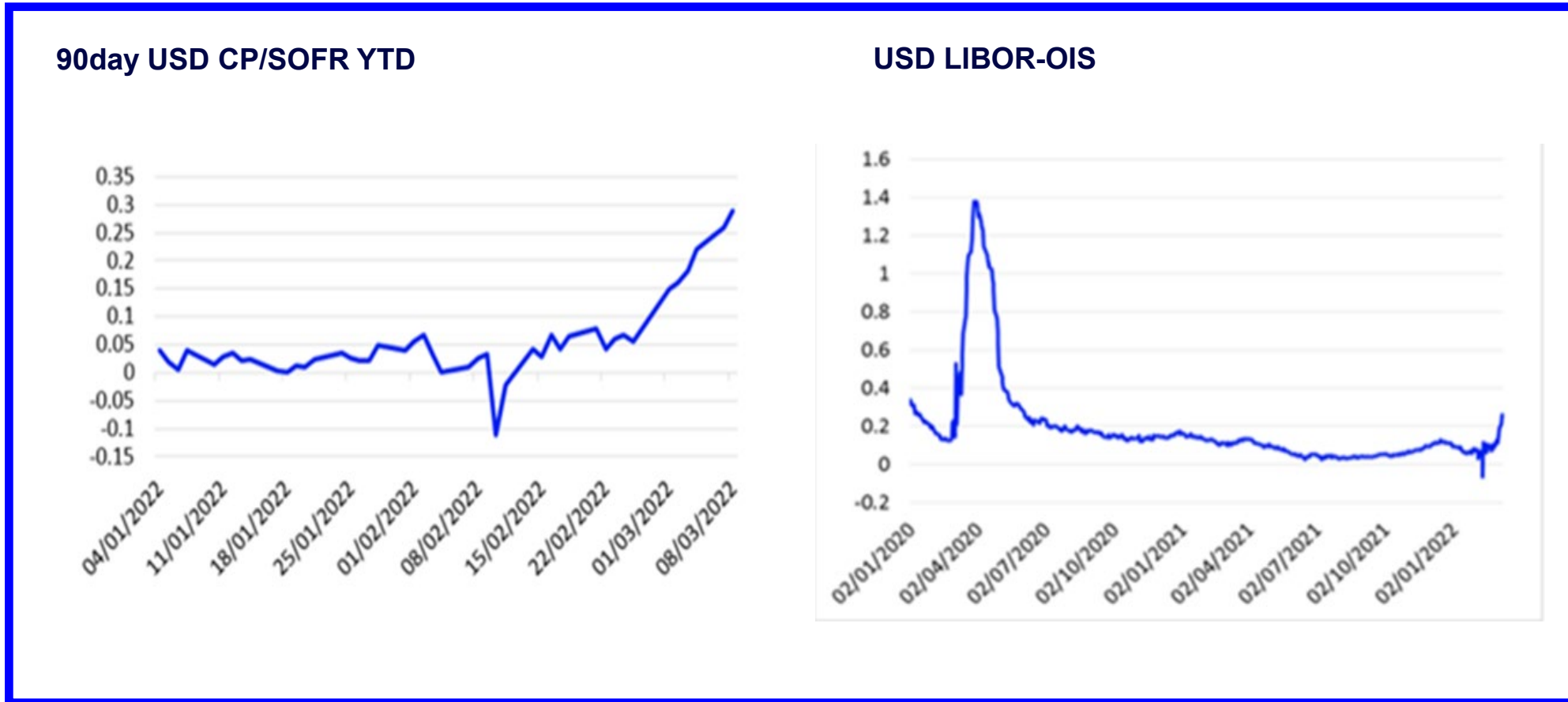


Source: Bloomberg 9<sup>th</sup> March 2022

Item 1: (iv) Unsecured segment

Classified as Private (Amber)

# Uneasiness about the US CP market



Source: Bloomberg 9<sup>th</sup> March 2022

Item 1: (iv) Unsecured segment

Classified as Private (Amber)

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