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Recent developments in euro area Repo Markets

MMCG December 4 , 2017



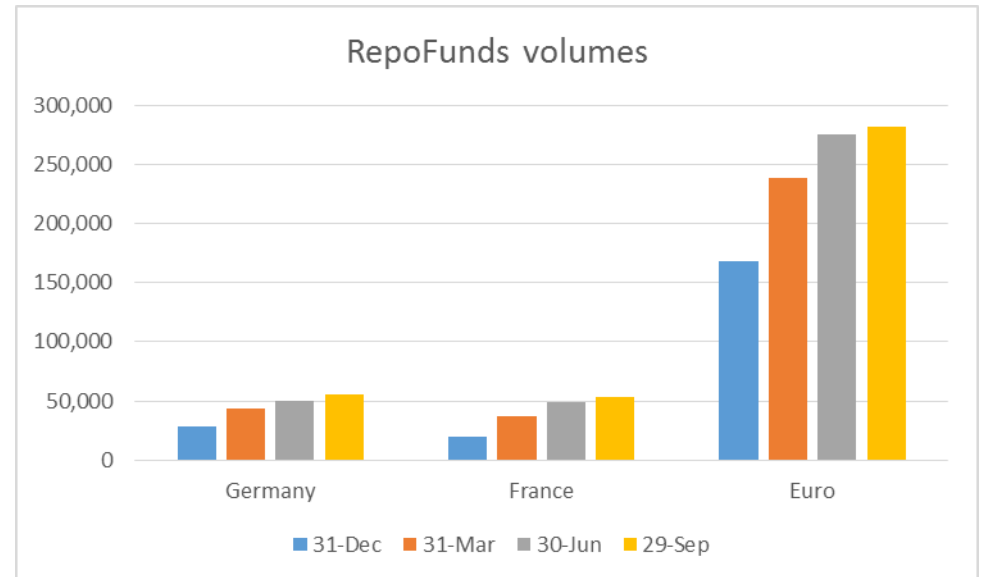
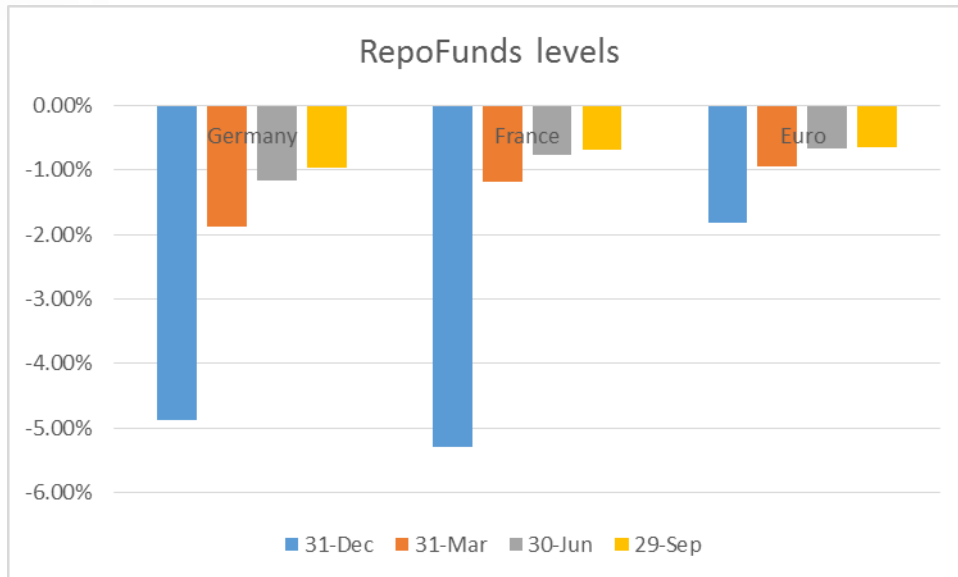
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Markets are adapting trading approach

Repo funds quarter end

(Dec. 2016 to Sept. 2017)

RepoFunds						
	Germany	Volume	France	Volume	Euro	Volume
31-Dec	-4.88%	28,586	-5.29%	19,653	-1.82%	167,885
31-Mar	-1.87%	43,961	-1.18%	37,142	-0.95%	239,122
30-Jun	-1.16%	50,418	-0.76%	49,006	-0.68%	275,996
29-Sep	-0.97%	55,416	-0.68%	52,999	-0.64%	281,847



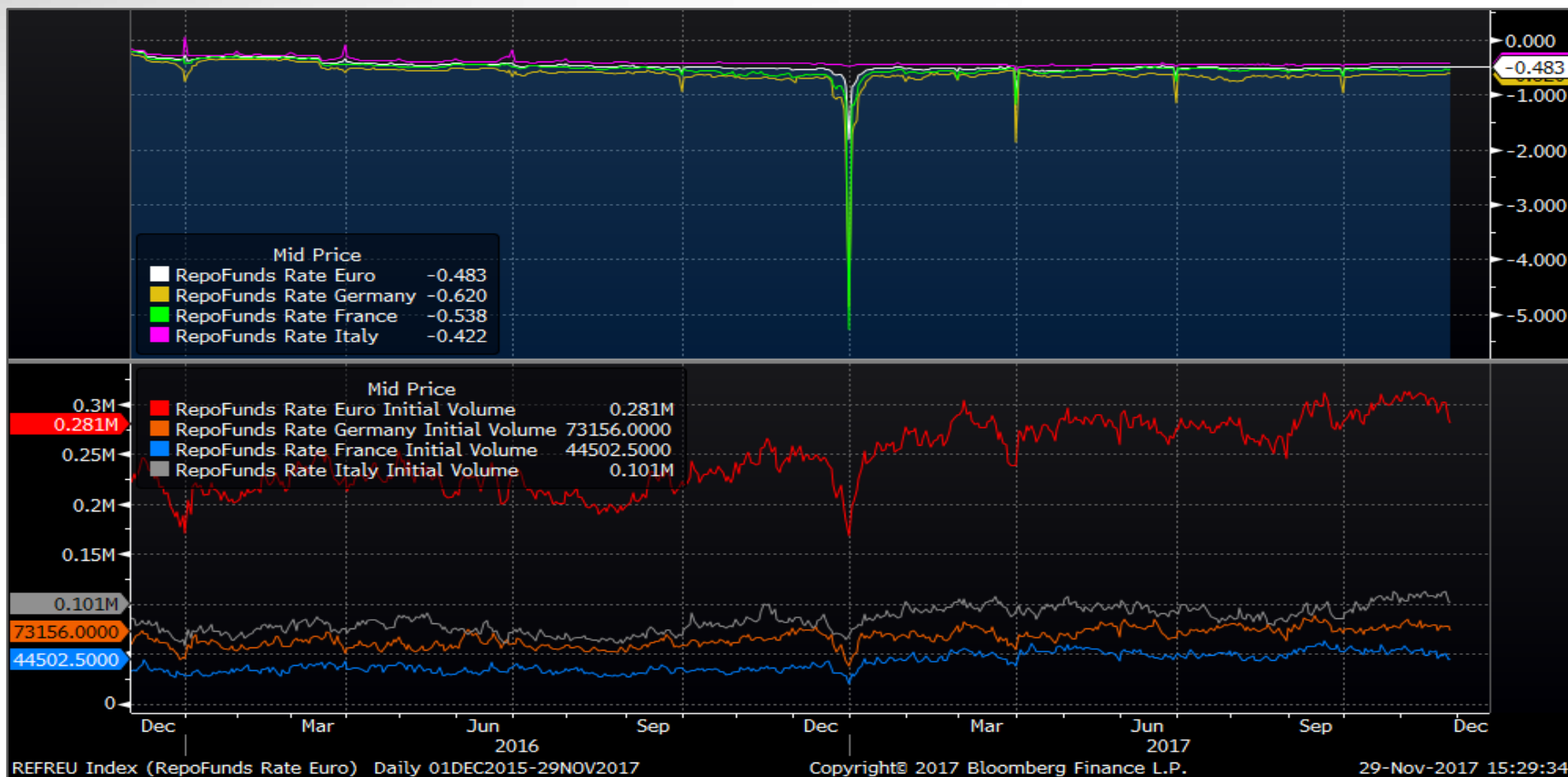


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Repo markets volumes rising and dealing strategies adapting to new environment

Repo funds

(Dec. 2015 to Nov. 2017)

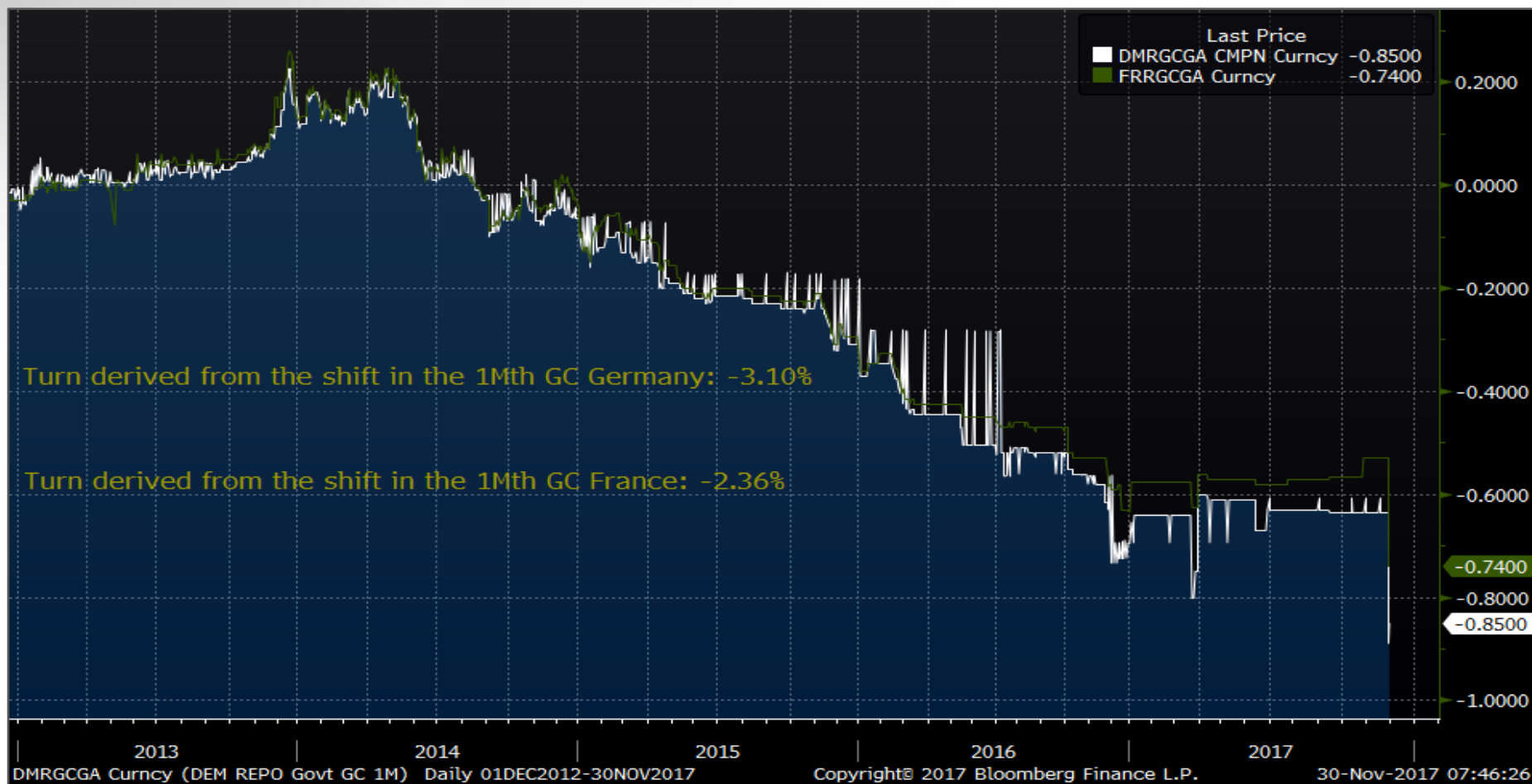




End of year pricing

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Repo maturing 2018





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PSPP cash collateral facility contributed to relieving scarcity pressure

Share of German collateral trading special (percentage points)



Source: ECB staff calculations, BrokerTec, MTS.

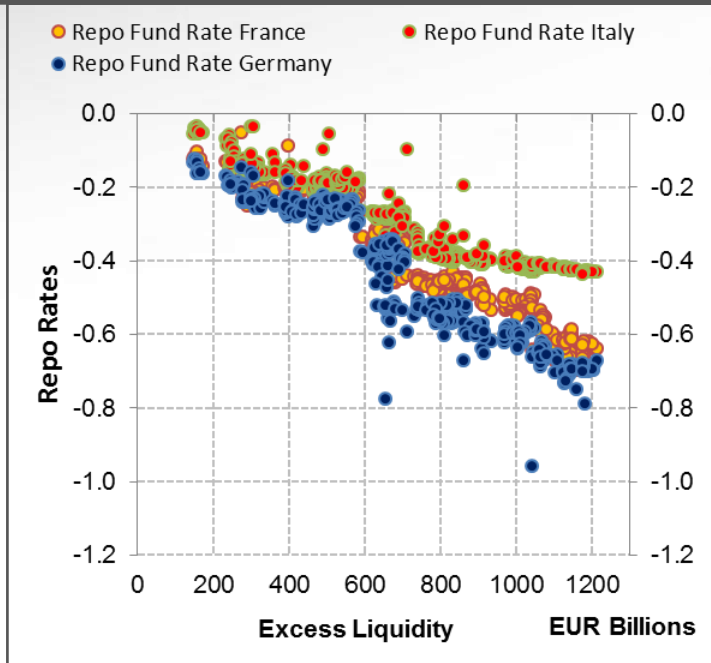
Notes: Volume trading 25bps below GC rate as a share of total volume on any given day. As of 15 December 2016, the Eurosystem introduced the possibility to also accept cash as collateral in its PSPP securities lending facilities.



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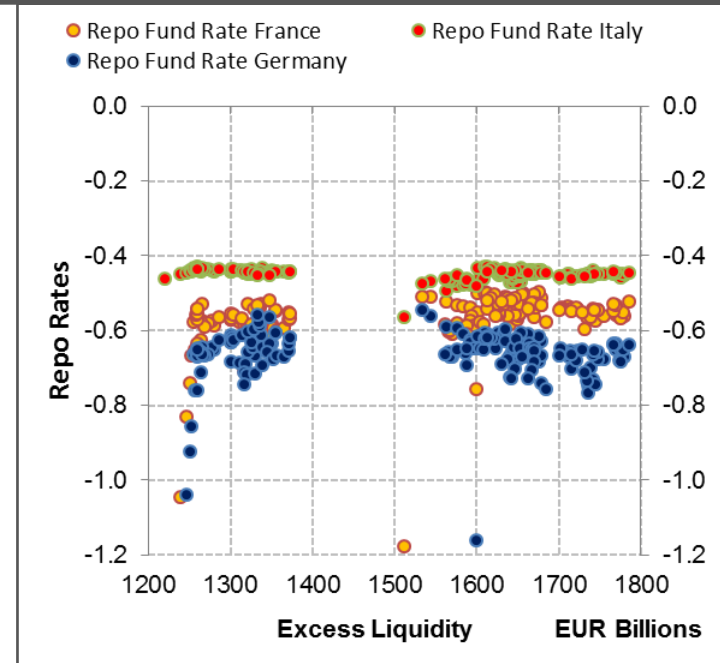
Correlation between repo rates and excess liquidity broke down in 2017

Pre-PSPP cash SecLen phase



Source: Bloomberg and ECB.
 Notes: The evolution of excess liquidity covers the period starting from the introduction of the APP in March 2015 until December 2016.

Post-PSPP cash SecLen phase



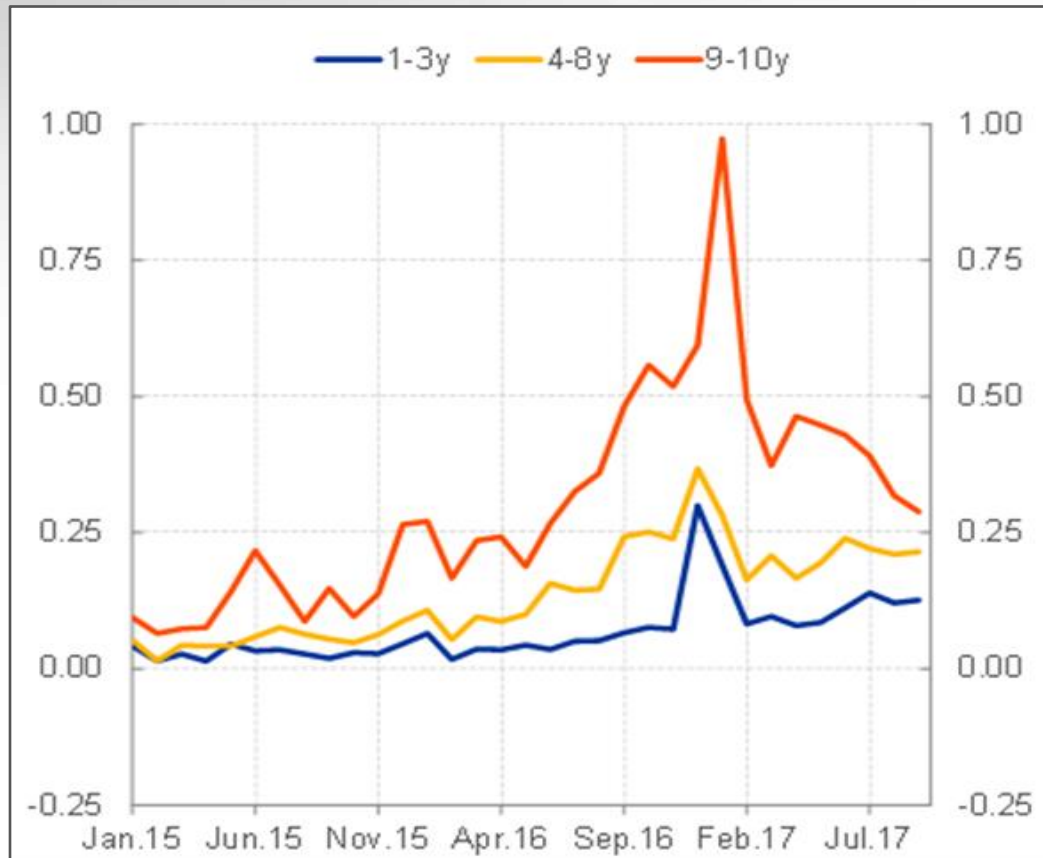
Source: Bloomberg and ECB.
 Notes: The evolution of excess liquidity covers the period starting in January 2017 until September 2017. The gap in excess liquidity evolution corresponds to the settlement of the TLTRO II.4 on 29 March 2017.



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Specialness premia for long-term bonds fell with acceptance of cash as collateral

Specialness premia by bond maturity bucket for German bonds (percentage points)



Source: ECB, BrokerTec, MTS.

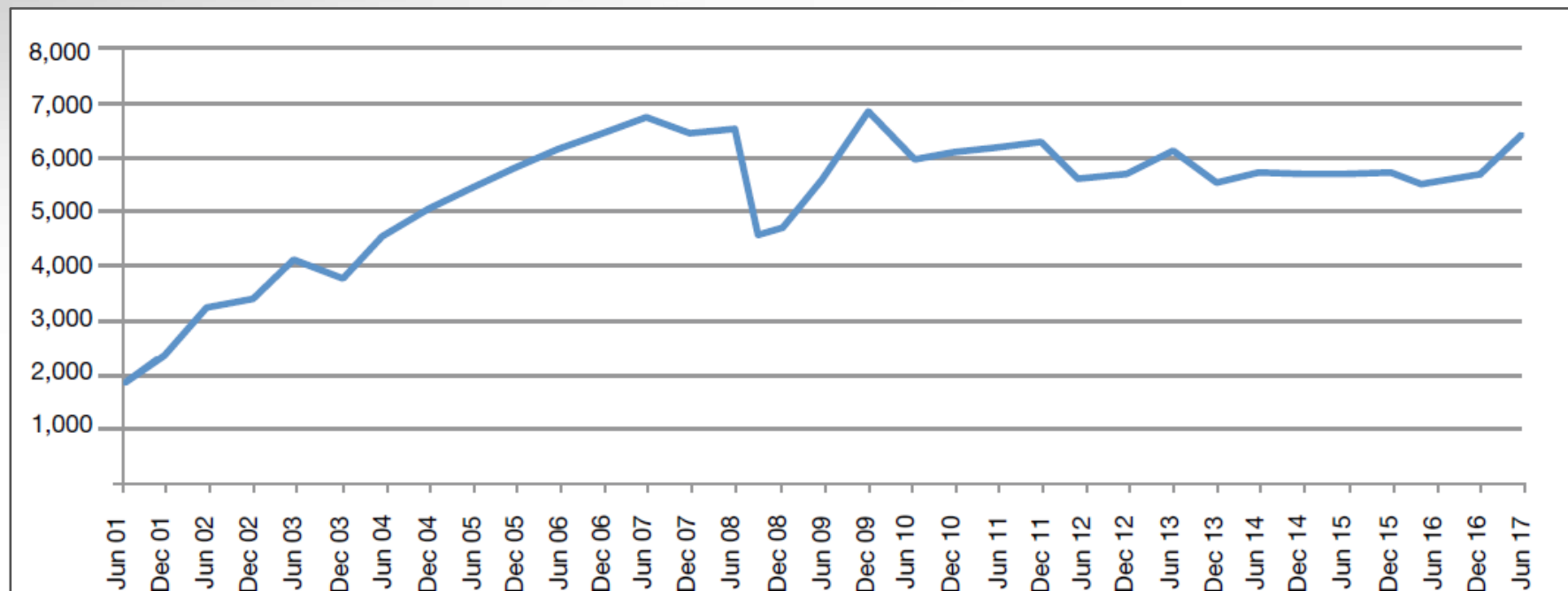
Notes: Specialness premia are computed as difference between GC rates and special rates. They correspond to monthly volume-weighted averages within each maturity bucket. The maturity buckets refer to the remaining maturity. Last observation: October 2017.



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European Repo Market survey conducted June 2017

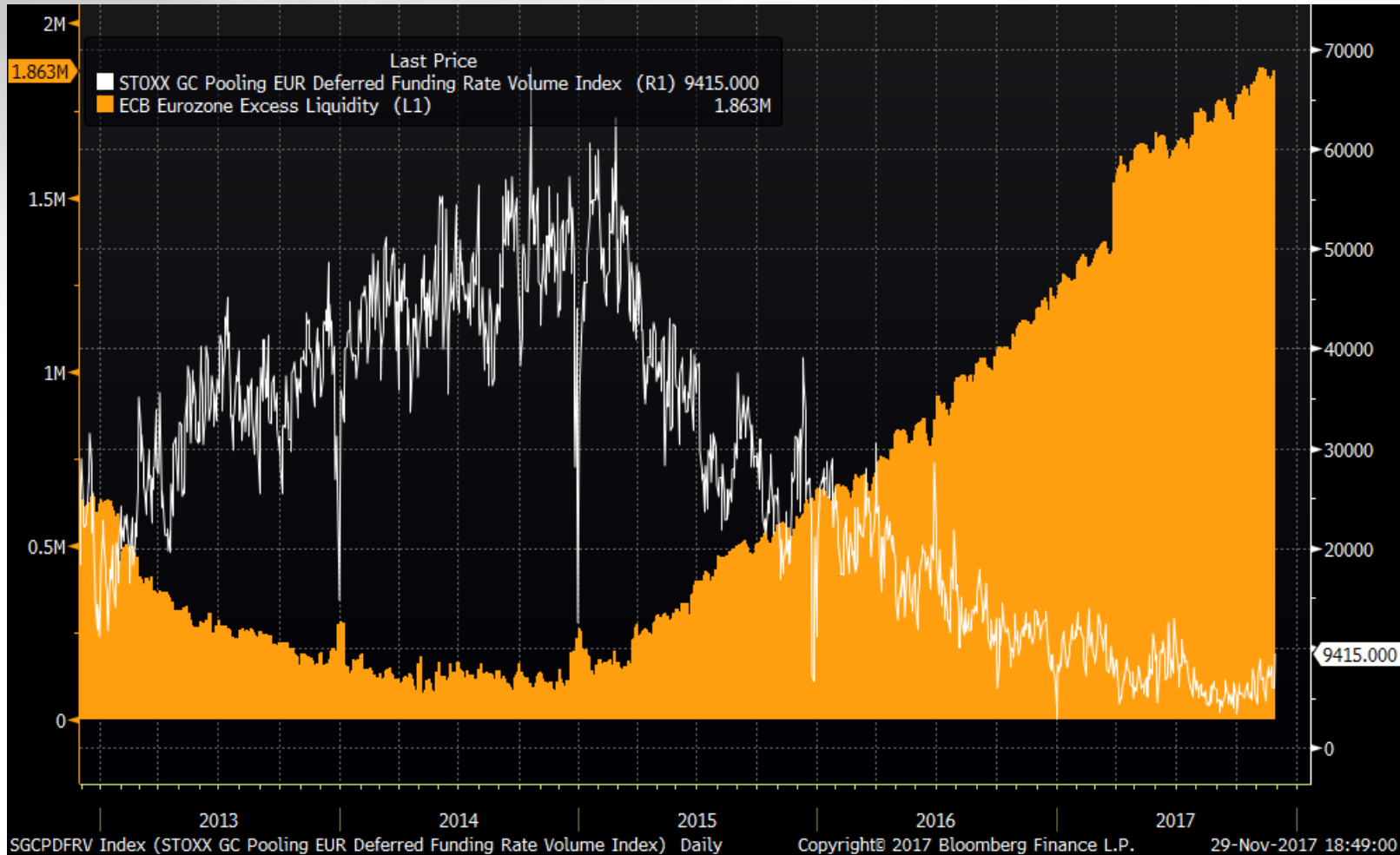
Total value at close of business on a specific date in June and December





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Excess liquidity weighing on funding driven repo markets

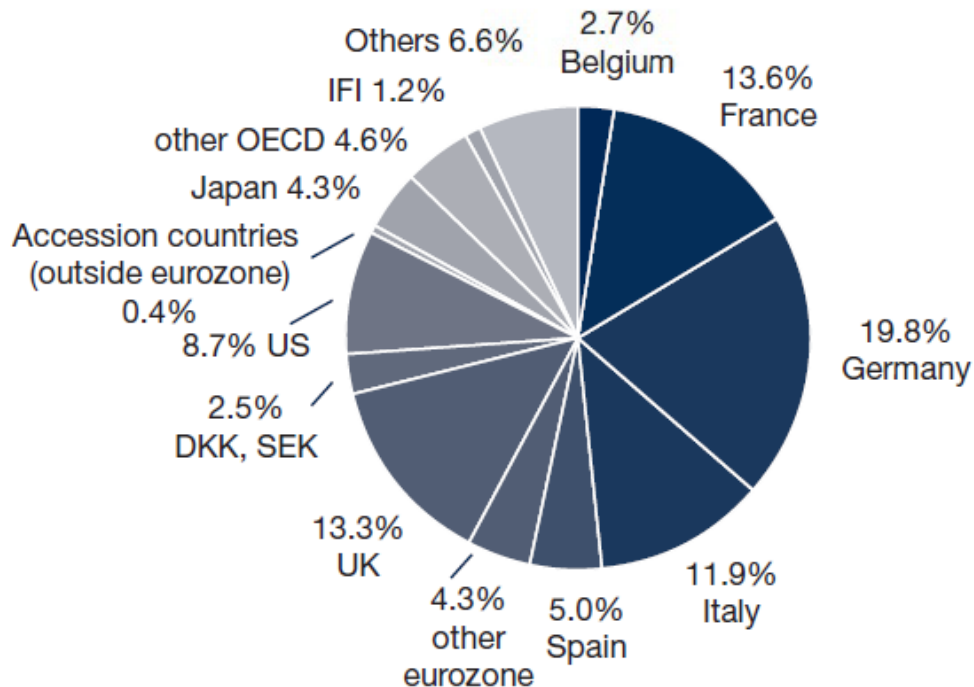




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Repo markets volumes rising – collateral driven (1/3)

- **Demand for HLQA remains the main driver of repo business**, given the continuing growth in the already large share of government bonds



- **The share of government bonds within the pool of EU-originated fixed-income collateral continued to grow**, reaching a 13-year high of 87.6%



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Repo markets volumes rising –collateral driven(2/3)

- **Additional demand for securities.....**

- Increase of Initial margin at CCP:

IM held

	Q1 2017	Q1 2016	change
LCH Ltd	144,988	91,881	57.8%
LCH SA	27,274	20,930	30.3%
ECAG	57,977	54,191	7.0%
ICE	46,268	44,204	4.7%

- CSDR regulation
- New regulation margin requirements for non-centrally cleared derivatives (September 2016)
- Initial margin Pledge Structure proposal for repo activity & lending (to further compress credit needs more and more people are looking into segregated margin)



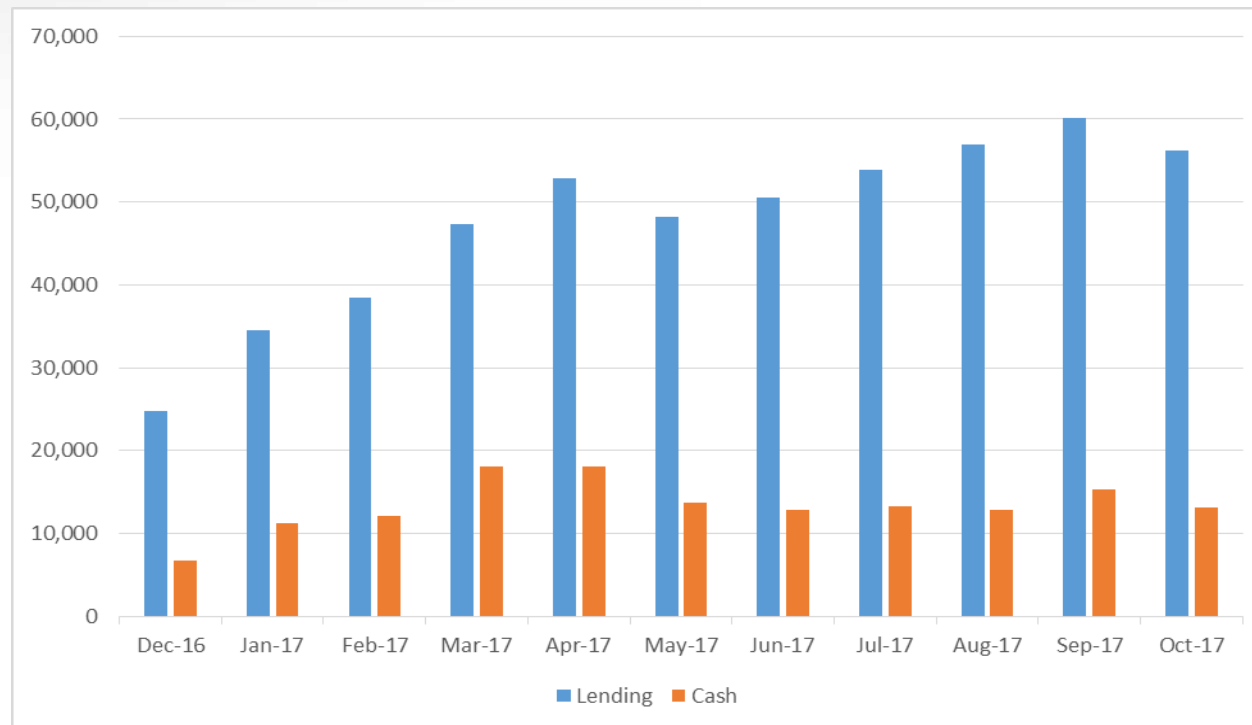
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Repo markets volumes rising-collateral driven (3/3)

- **Less securities available due to QE**
 - ECB lending program working better, more integrated in business models

ECB PSPP lending

(Dec. 2016 to Oct. 2017)





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European Repo Market survey conducted June 2017

Currency comparison

	main survey	ATS	tri-party	WMBA
EUR	61.9%	94.8%	49.9%	55.9%
GBP	12.2%	4.4%	6.0%	20.1%
USD	16.9%	0.7%	40.8%	12.4%
DKK, SEK	2.7%	0.0%	1.2%	0.0%
JPY	4.5%	0.0%	1.5%	2.5%
CHF	0.0%	0.0%	0.2%	0.0%
other APAC	0.7%			
etc	1.0%	0.1%	0.5%	9.2%
cross-currency	2.4%		17.2%	



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European Repo Market survey conducted June 2017

Trading analysis

	June 2017		December 2016		June 2016	
	share	users	share	users	share	users
direct	62.4%	64	60.6%	65	60.6%	65
<i>of which tri-party</i>	7.8%	43	12.0%	44	12.0%	40
voice-brokers	11.0%	45	10.5%	48	10.5%	53
ATS	26.6%	48	28.9%	51	28.9%	52



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European Repo Market survey conducted June 2017

Geographical analysis

	June 2017		December 2016		June 2016	
	share	users	share	users	share	users
domestic	23.7%		23.2%		23.1%	
cross-border to (other) eurozone	16.9%		17.5%		18.2%	
cross-border to (other) non-eurozone	39.7%		38.6%		33.8%	
anonymous	19.7%	42	20.7%	42	24.9%	47

	main survey	ATS	tri-party	WMBA
domestic	23.7% (23.2%)	29.3% (32.4%)	30.9% (33.2%)	32.2% (28.5%)
cross-border	56.6% (56.1%)	68.7% (67.6%)	69.1% (66.8%)	67.8% (71.5%)
anonymous	19.7% (20.7%)			

June 2017(December 2016)