



EUROPEAN CENTRAL BANK

EUROSYSTEM

Annette Kamps
Justine Feliu

ECB
Directorate Market Operations
Money Market and Liquidity Division

What is driving money market activity?

Findings from the Euro Money Market Survey

ECB and IMF Workshop

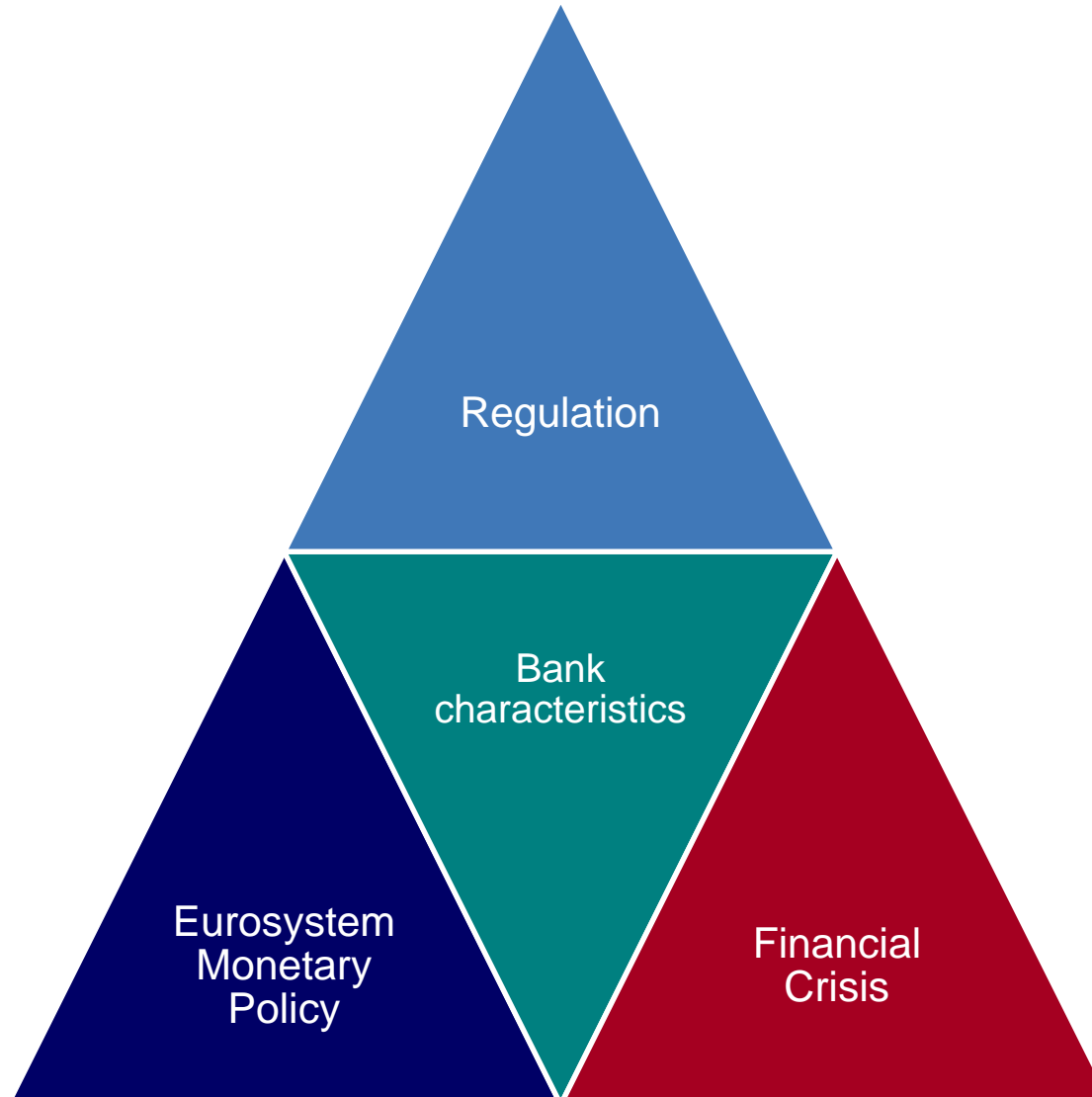
Money Markets, Monetary Policy
Implementation and Market Infrastructure

Frankfurt 25 October

Note: The presentation should not be reported as representing the views of the European Central Bank (ECB). The views expressed are those of the authors and do not necessarily reflect those of the ECB.

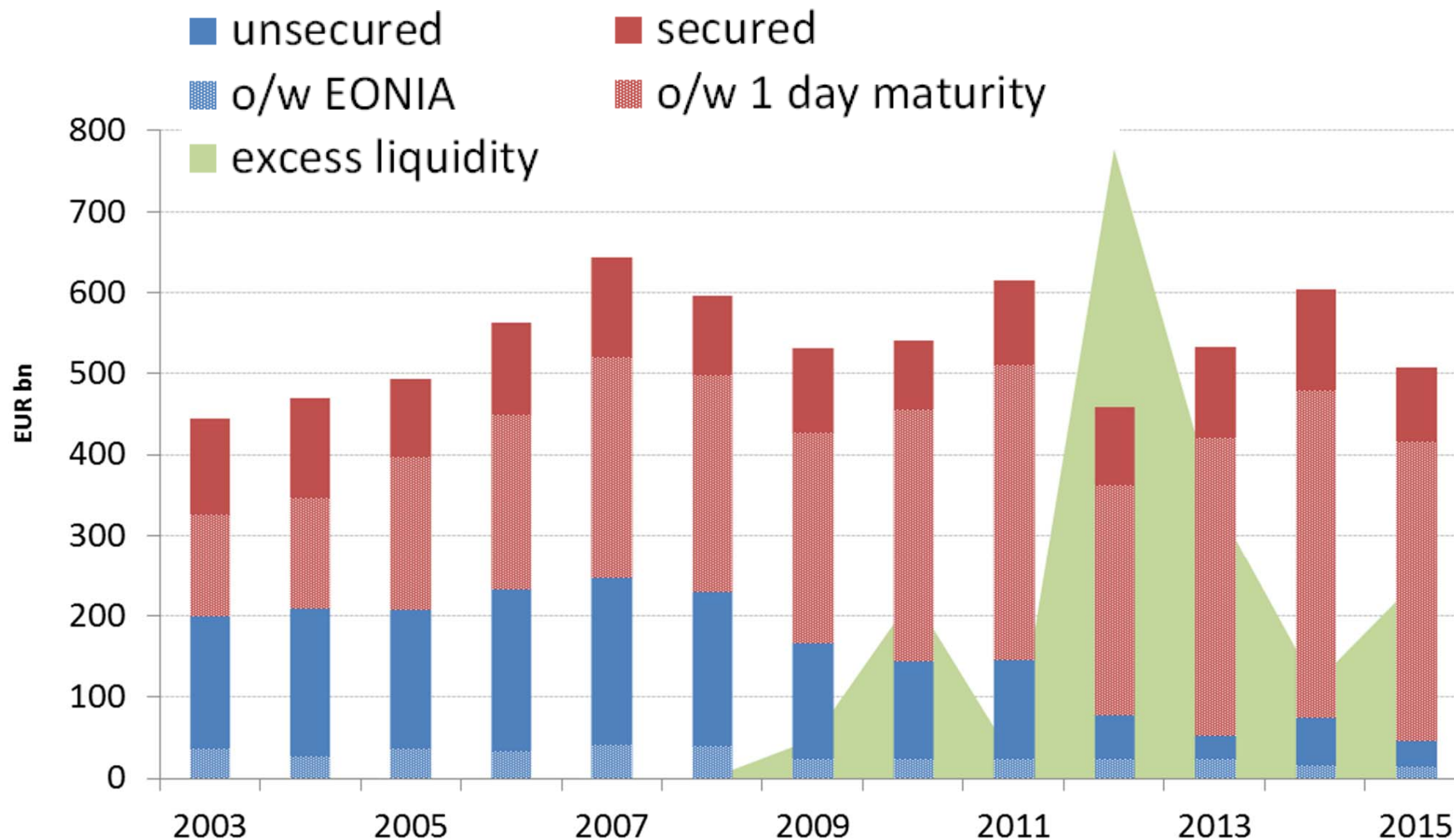
Motivation

What is driving money market activity?



Development of unsecured and secured turnover

Shorter maturities and less unsecured over time



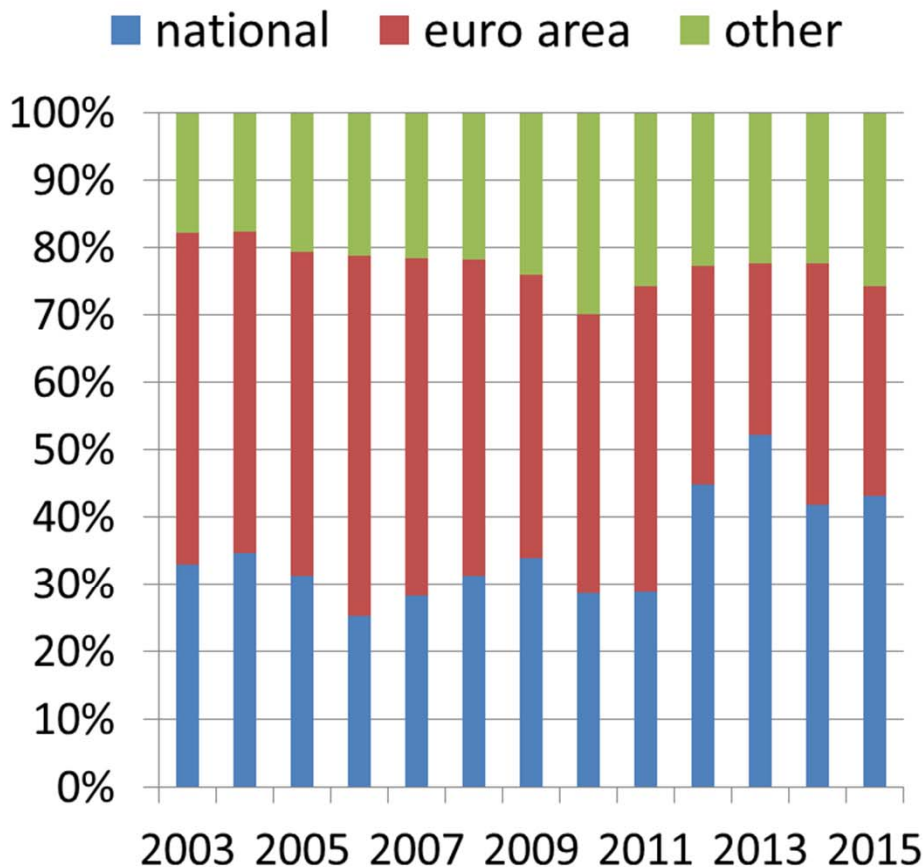
Note: Average daily turnover and outstanding amounts of Eurosystem excess liquidity.
Source: ECB Money Market Survey.

Market structure – change in counterparty location

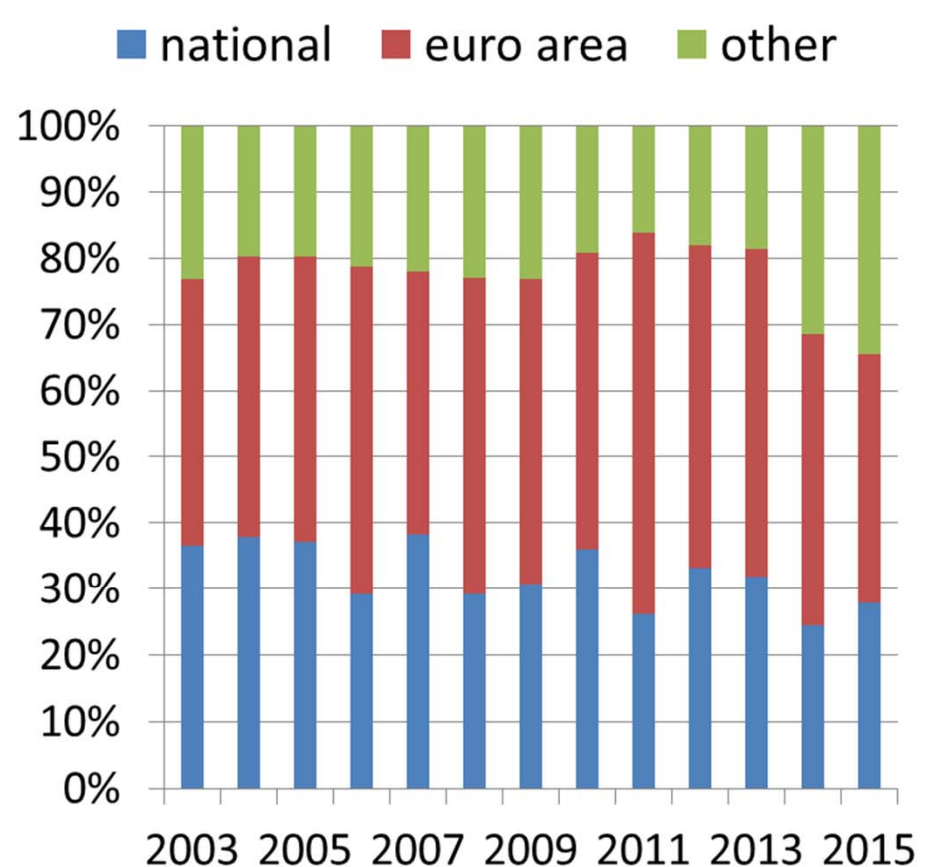
Move to domestic trade – but only for unsecured

Unsecured counterparty location

Secured counterparty location



Source: ECB Money Market Survey.



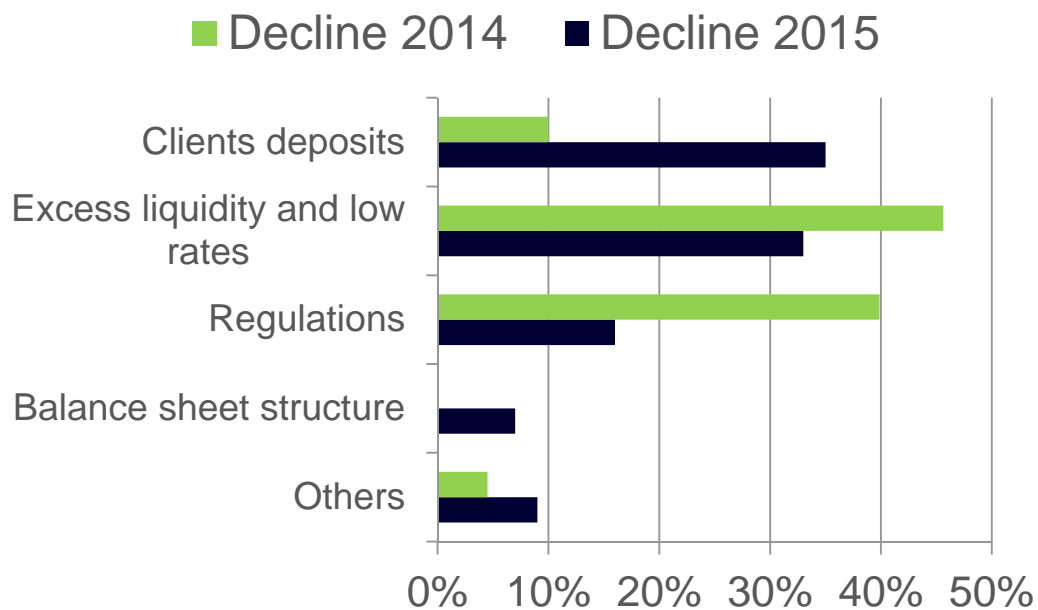
Source: ECB Money Market Survey.

Qualitative feedback from the Money Market Survey

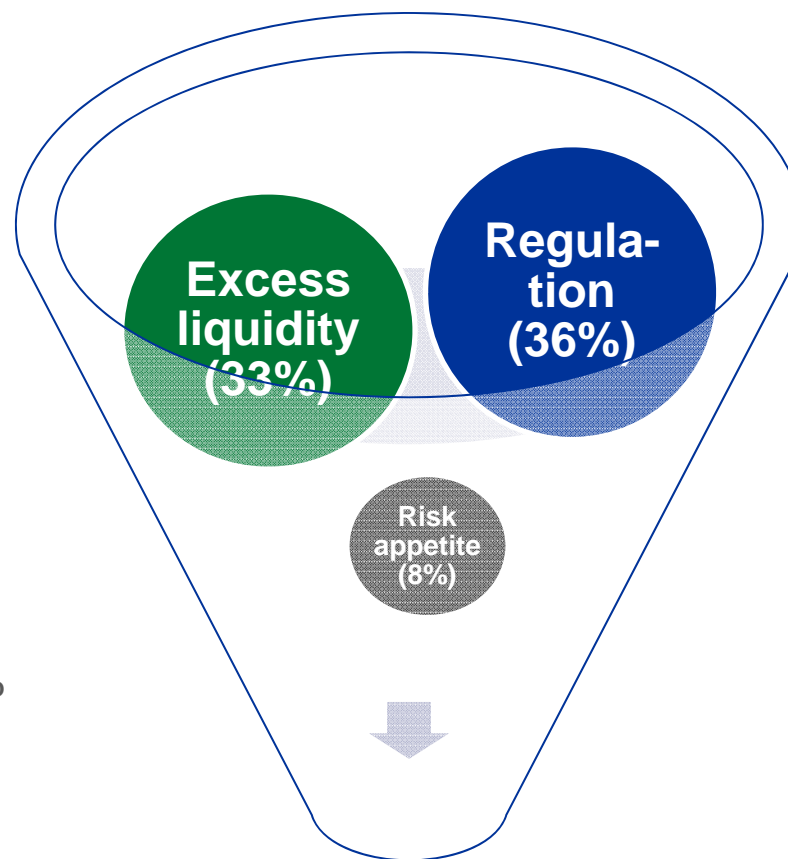
Market feedback suggests excess liquidity, regulation and bank specific factors play a role

Unsecured borrowing decline

Secured borrowing decline



Source: ECB Money Market Survey.



Source: ECB Money Market Survey.

Estimation overview

Panel estimations on Euro Money Market Survey

- data is bank-by-bank for 98 banks
- volumes for Q2 of 2006 to 2015

Dependent variables

- volumes on unsecured, secured and FX swaps
- allocation to market segments (share of segment in total)
- maturity structure (share of O/N, T/N, S/N in all maturities)
- counterparty location
- share of secured CCP trading

Explanatory variables

- bank specific operational, balance sheet and credit details
- fragmentation and monetary policy details

Estimation results

Financial crisis and risk aversion

Aggregate indicators of fragmentation

- some reduced market activity
 - less turnover with higher money market spreads (Euribor/OIS)
 - move from unsecured to FX swap with higher spreads and sovereign yields
 - shorter maturities for unsecured

Individual credit risk

- lower credit rating
 - borrow secured rather than unsecured
 - more domestic borrowing compared to euro area and international
 - shorter maturities for unsecured, but longer for secured

Estimation results

Eurosystem monetary policy

Excess liquidity

- some crowding out but mostly only unsecured
 - aggregate excess liquidity reduces unsecured (shift to secured)
 - LTROs negatively impact borrowing, Eurosystem portfolios impact lending
 - secured lending not significantly affected by aggregate excess liquidity
 - excess liquidity position at bank level almost never significant

Negative rates

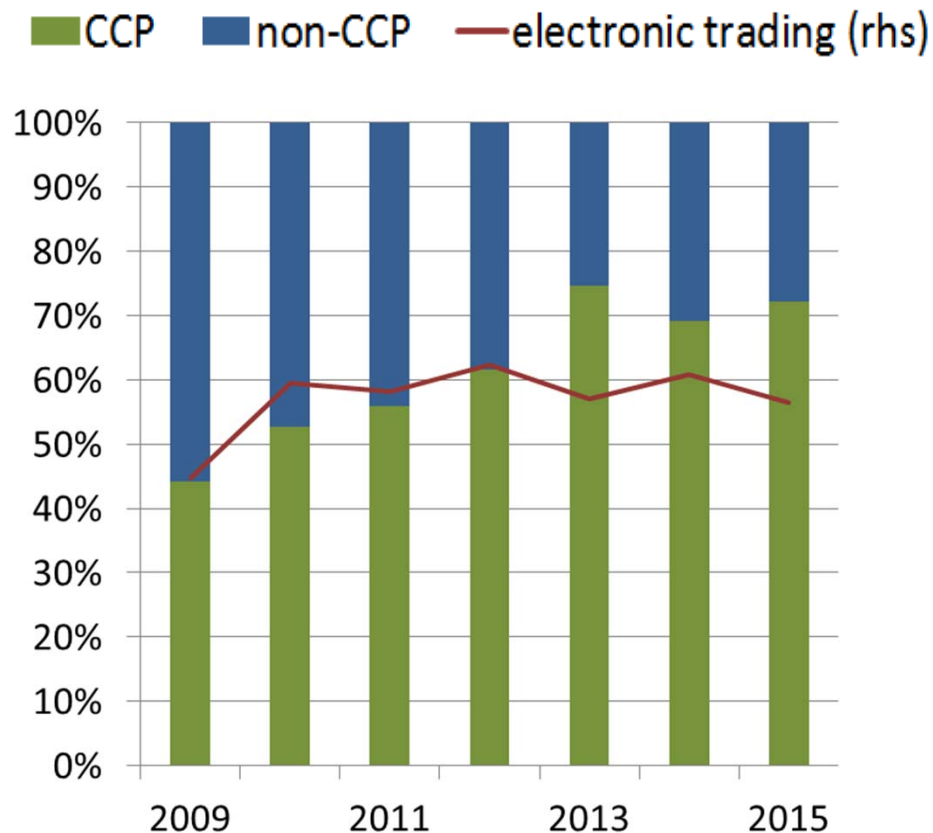
- tentative findings that search for yield increases
 - higher share of unsecured turnover
 - Modest lengthening of maturities and more non-domestic trade

Money market structure and central counterparties (CCP)

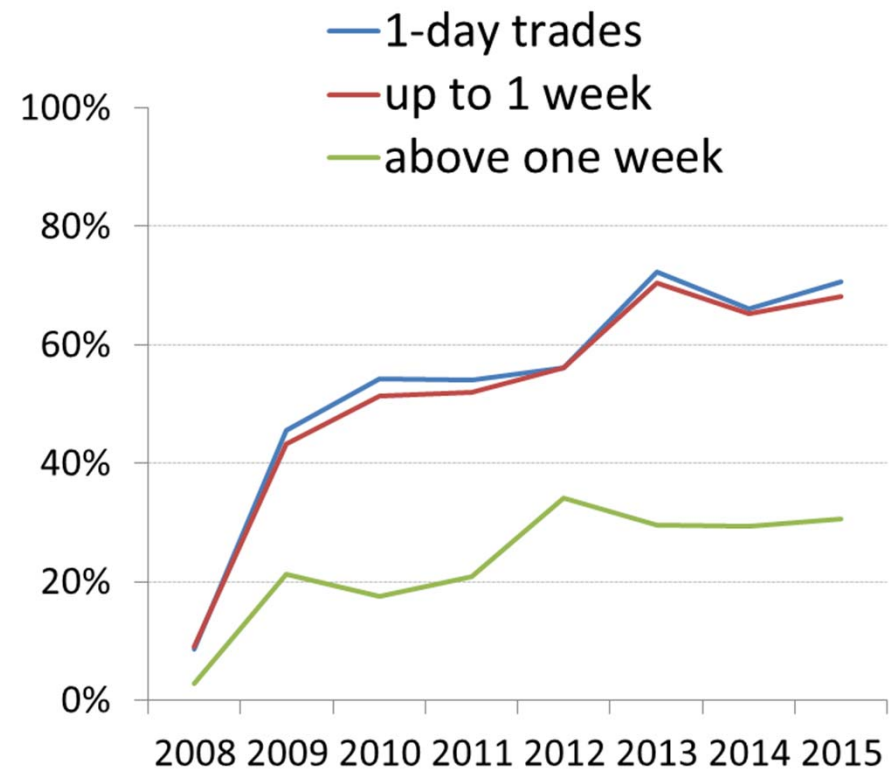
Increasing share of CCP trading

...amid higher electronic trading

...in particular for shorter maturities



Source: ECB Money Market Survey.



Source: ECB Money Market Survey.

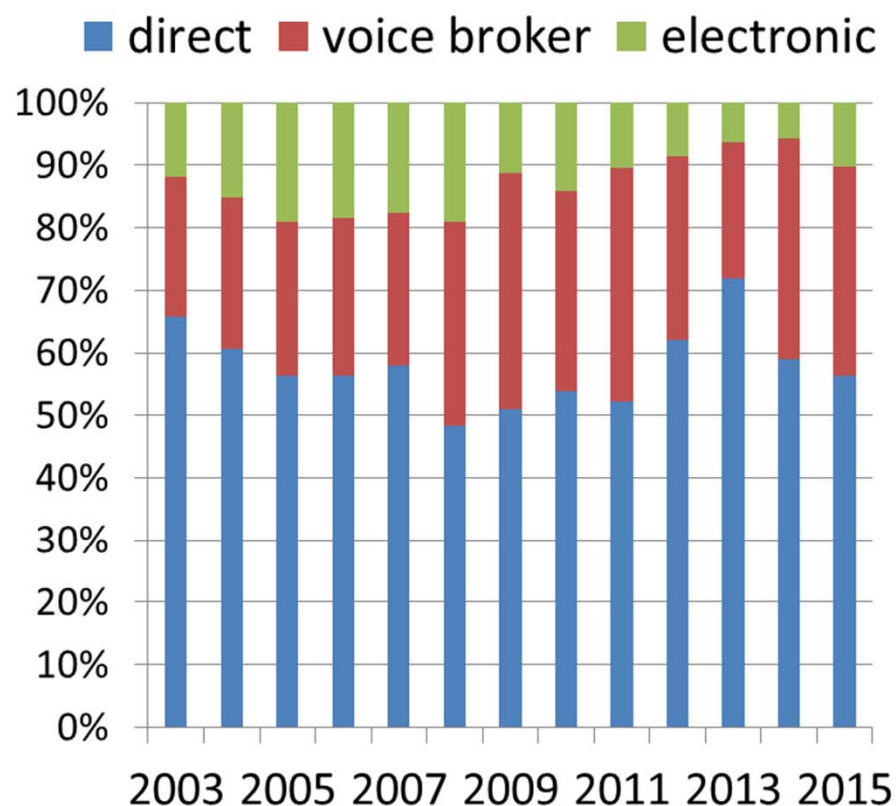
Note: The share of above 1-week trades in all CCP is only around 2.5 %.

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Market structure – means of trading

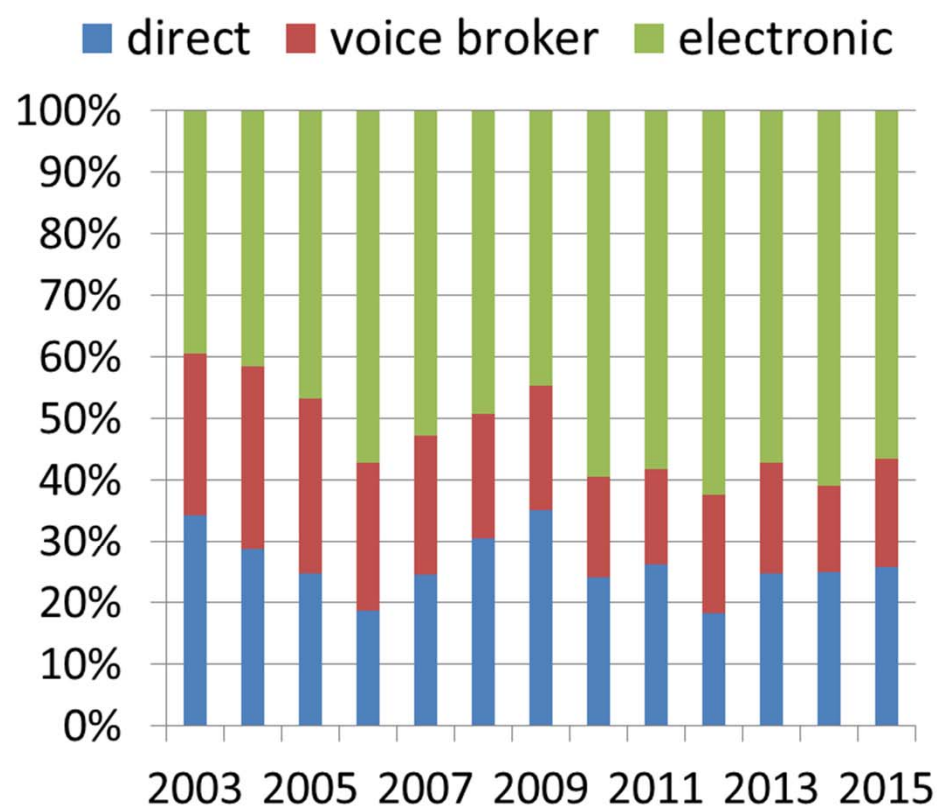
Changes in money market structures

Unsecured means of trading



Source: ECB Money Market Survey.

Secured means of trading



Source: ECB Money Market Survey.

Estimation results

The share of central counterparty trade in secured

- higher CCP share for:
 - higher levels of aggregate excess liquidity
 - Individual bank's lower loan to deposit ratio for lending
 - banks with higher credit rating
 - banks with lower amounts in 3-year LTROs
- banks with higher CCP share:
 - have higher secured lending volumes
 - shorter maturities

Main Findings

- Impact of increased risk related to financial crisis
 - shift away from unsecured
 - reduced market activity with more domestic trading
- Eurosystem policy impact on activity
 - signs of crowding out by excess liquidity mostly for unsecured
 - some signs of search for yield after negative rates introduction
- Regulation difficult to model
 - but estimation and market feedback indicate lower activity
- Market structure has changed
 - for secured more CCP and more electronic trading
 - unsecured remains largely domestic and over the counter