

Main developments in the EONIA OIS market

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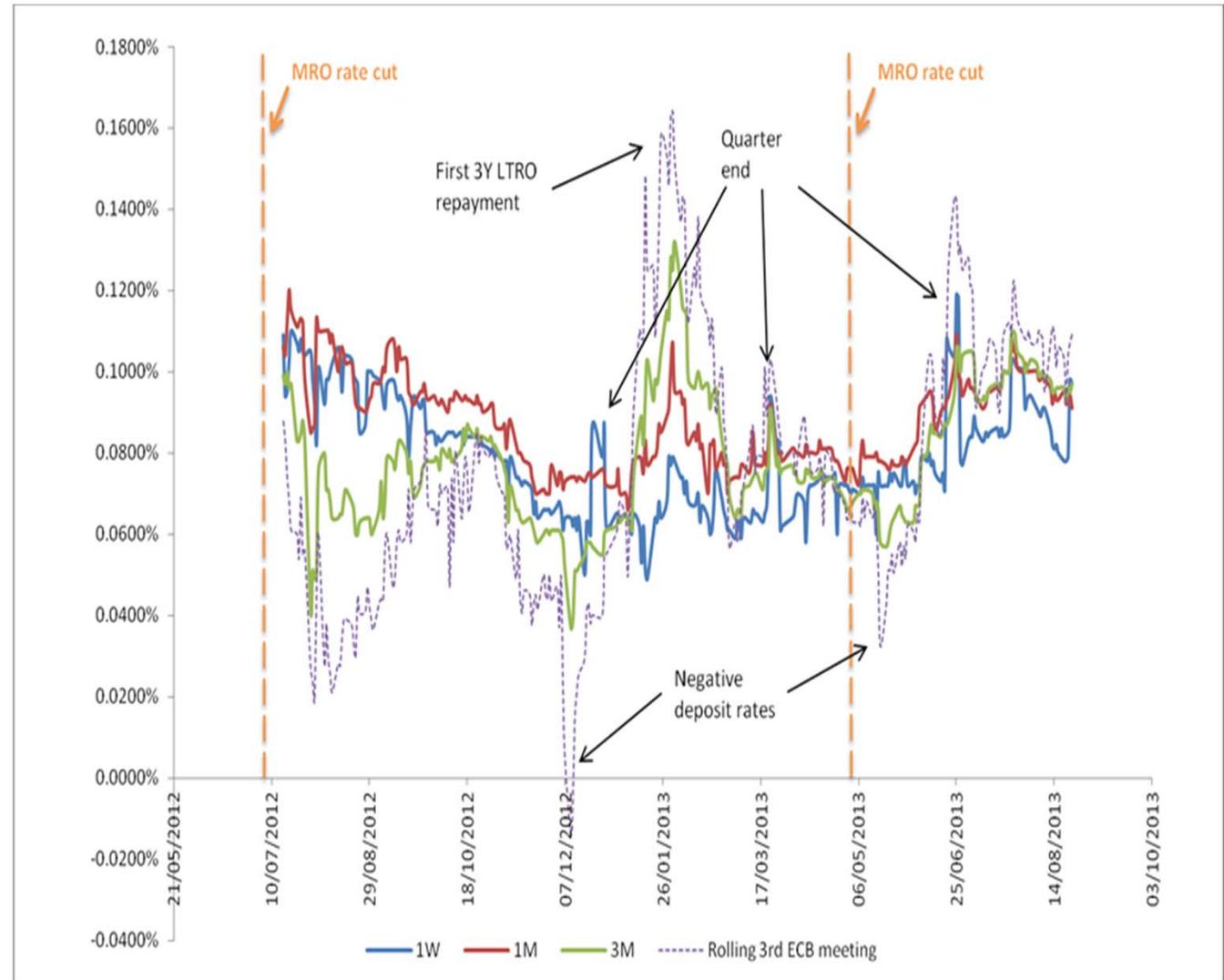
- **Eonia OIS levels in the Money Market segment**
- **Evolution of volumes**
- **Global market picture**



Evolution of Eonia OIS levels in the Money Market segment

■ « very » short term rates

- ▶ Volatility of the 1week bucket linked to liquidity and ratio constraints (quarter-end)
- ▶ ECB meetings Eonia OIS are a good proxy of ECB official rates anticipations : ECB meetings curve was inverted in May

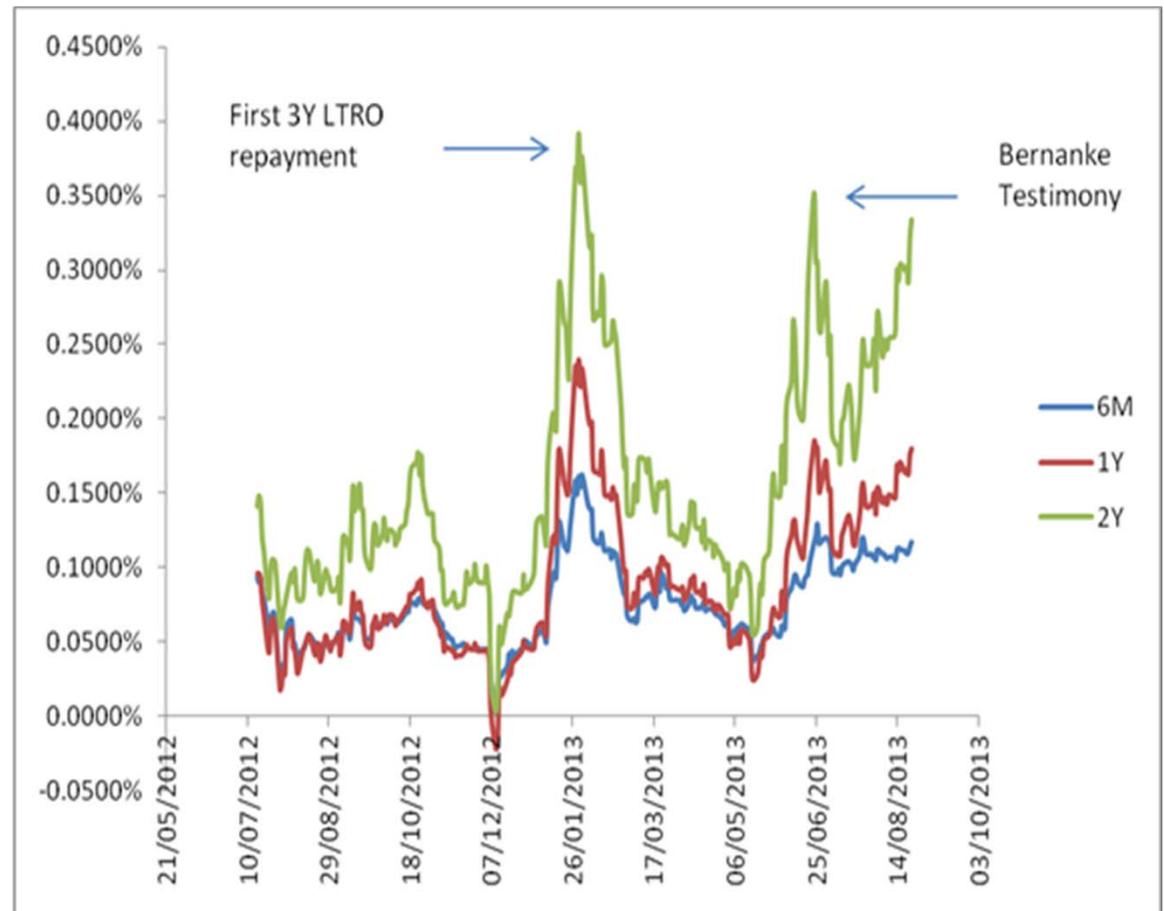




Evolution of Eonia OIS levels in the Money Market segment

« long end » of short term rates

- ▶ 3Y LTRO repayments were the main driver of Eonia OIS curve for the first quarter, whereas Bernanke Testimony shocked the Euro curve after ECB rate cut early may
- ▶ The cut in the MRO rate also contributed to a market slowdown in 3Y LTRO redemptions, so ample liquidity for longer period of time that prevented the Euro OIS rates from following US markets





Evolution of Eonia OIS Volumes

■ Global picture of the rates swap market

- ▶ swaps (vs LIB/EIB) and OIS : Global

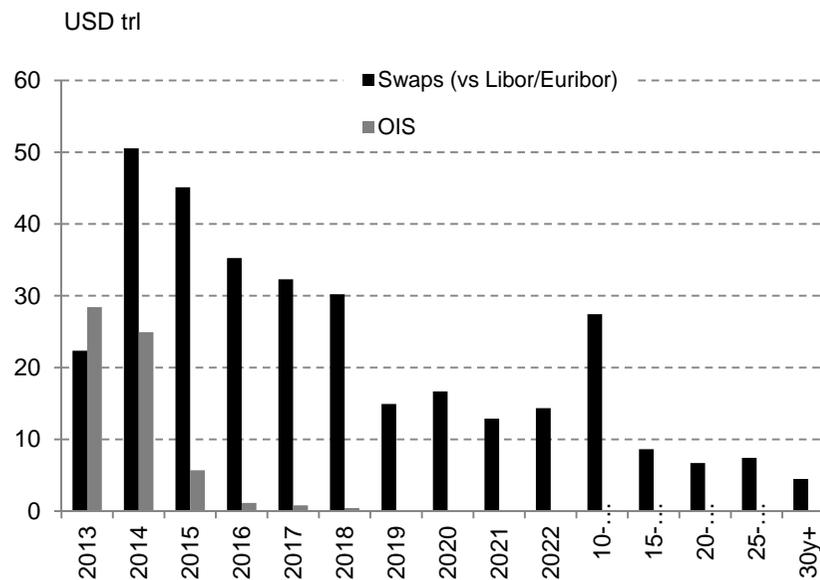


Figure as of DTCC for August 2013

- ▶ All interest rate trades by scheduled term year and product type (provides the total notional value of all Interest Rate trades in the GTR broken down by year of maturity and by product type)



Evolution of Eonia OIS Volumes

- **Swaps (LIB/EIB) and OIS in EURO market**
 - ▶ Main part of OIS market is short term (< 2Y), but long term Eonia swaps market is growing because of CSA hedging purpose
 - ▶ Long term Eonia OIS market is more a basis market (Eonia + IRS)

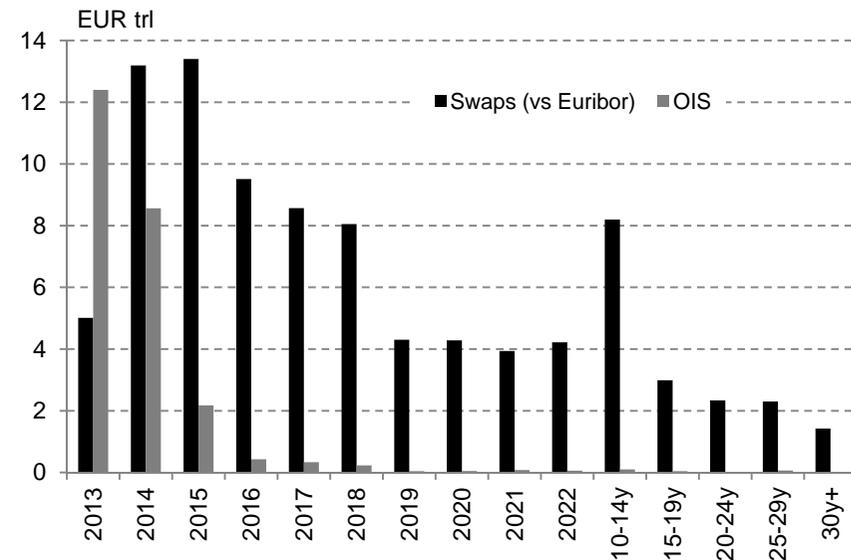


Figure as of DTCC for August 2013



Evolution of Eonia OIS Volumes

■ Split of OIS market by currency

- ▶ Most active in Euro
- ▶ Fed Fund Futures have for long been used as the main instrument to position for changes in US monetary policy, that probably explains a relatively lower activity at the very front-end of the USD OIS market as compared to EUR

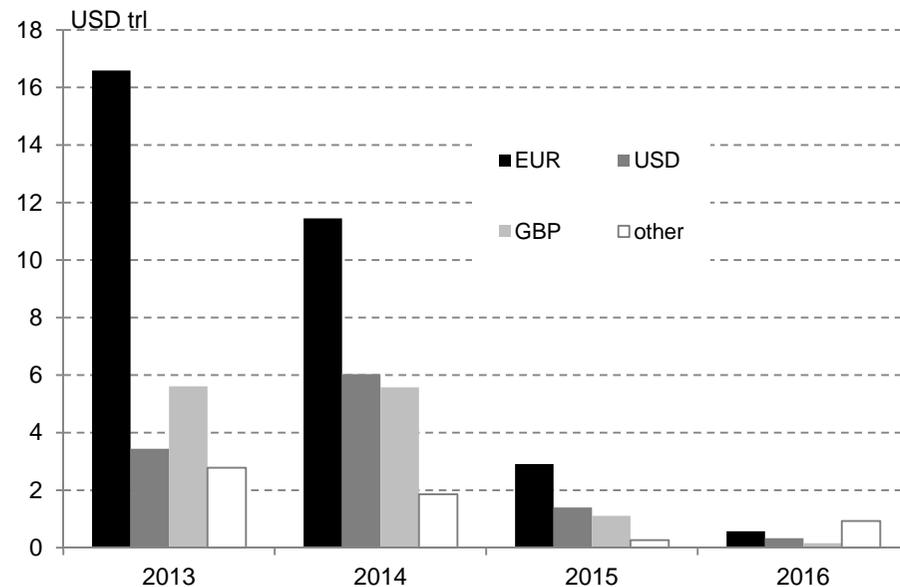
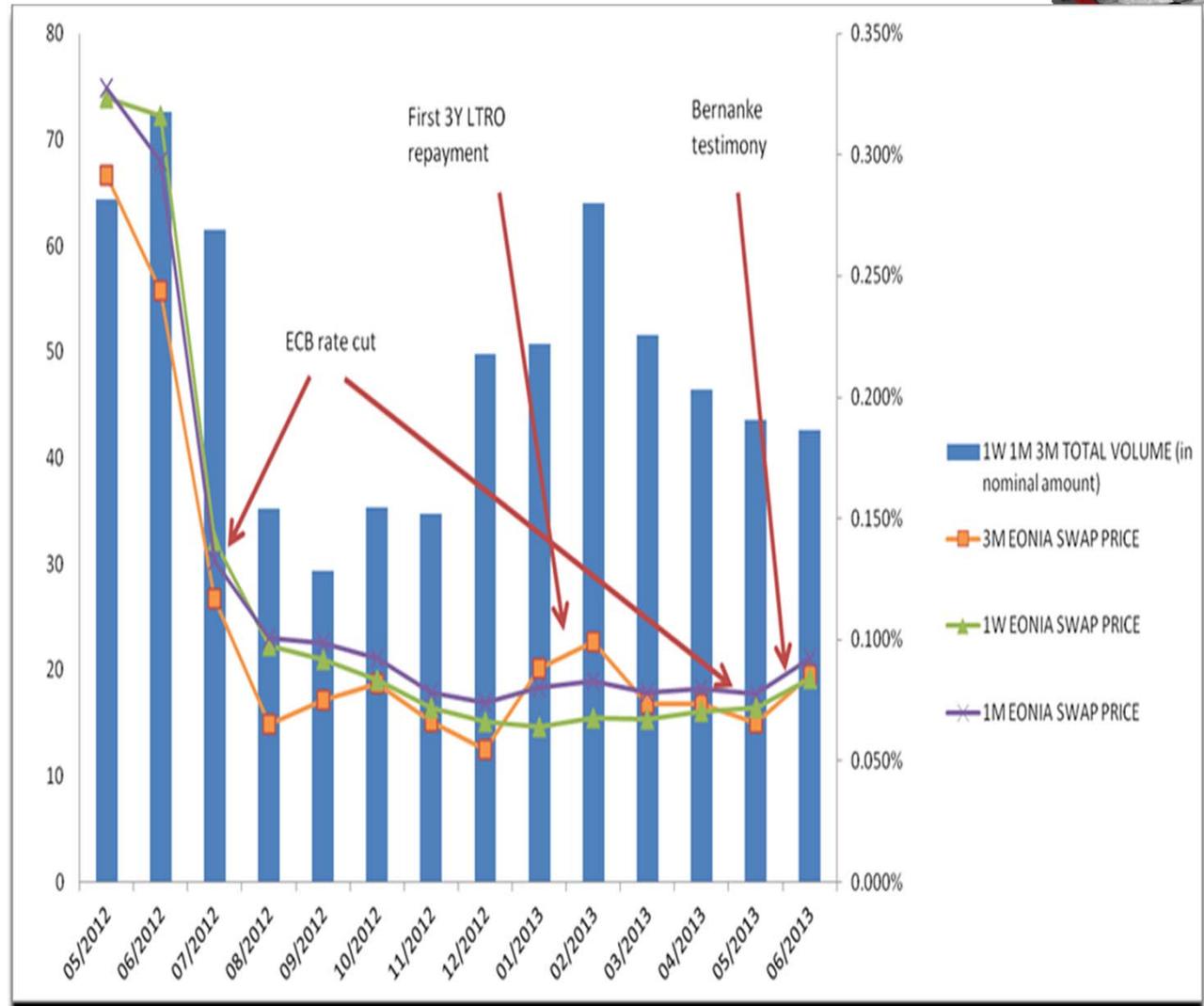


Figure adapted from DTCC for the week ending 23, August 2013



Evolution of Eonia OIS Volumes

- **Based on market participants data (brokers)**
 - ▶ 2013 volumes in very short term bucket (1-week – 1 month) decreased as volatility in Eonia fixings is very much reduced
 - ▶ 3-month volumes are stable as still the main bucket requested for coupon's hedging

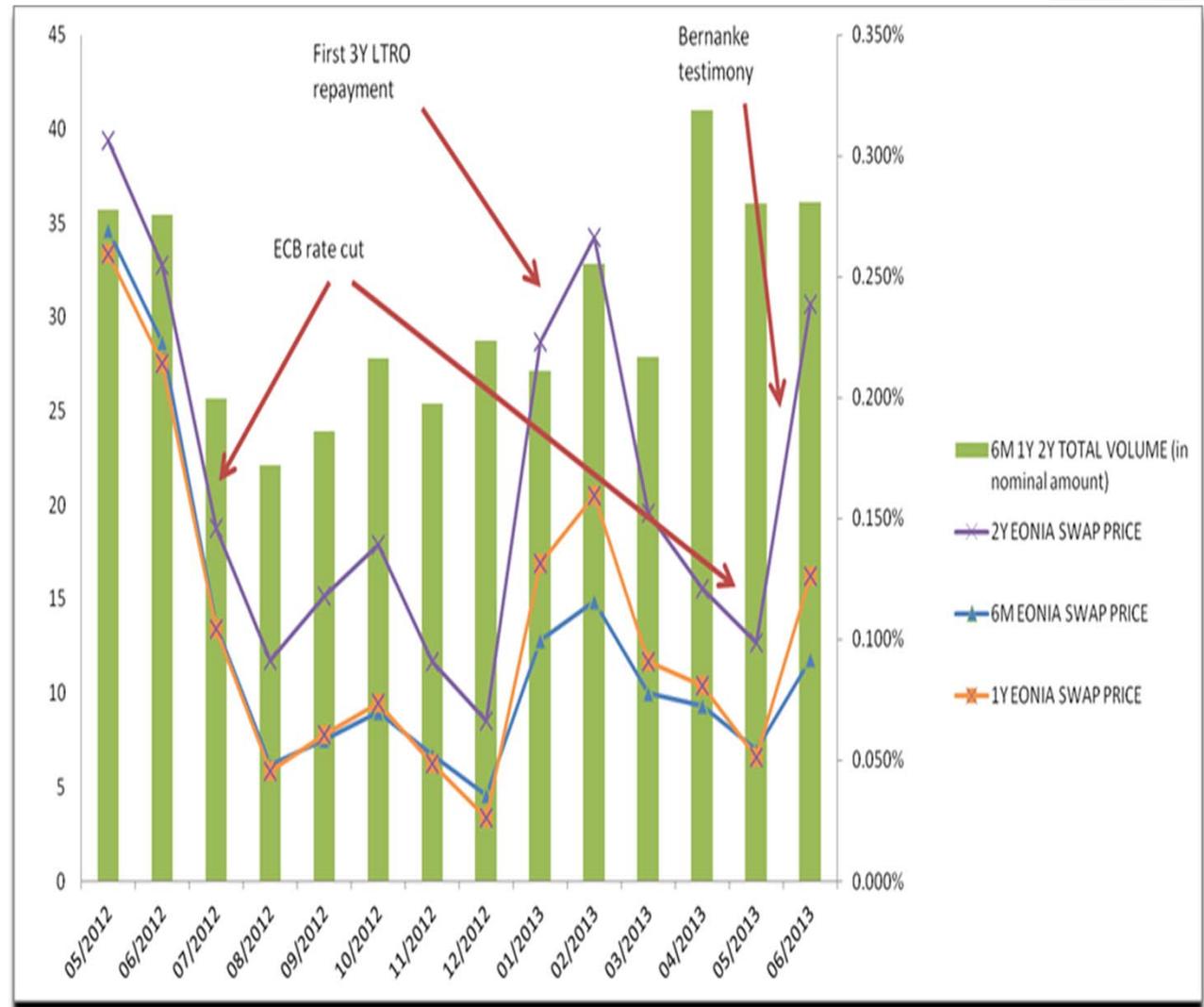




Evolution of Eonia OIS Volumes

Based on market participants data (brokers)

- ▶ Since may 2013, volumes on 1y and 2y bucket are growing
- ▶ Globally, market sentiment is that the trends on all short-end EUR products are for lower volumes, but this could change very quickly if for example, the ECB refines forward guidance or starts to discuss extension of the LTRO programme

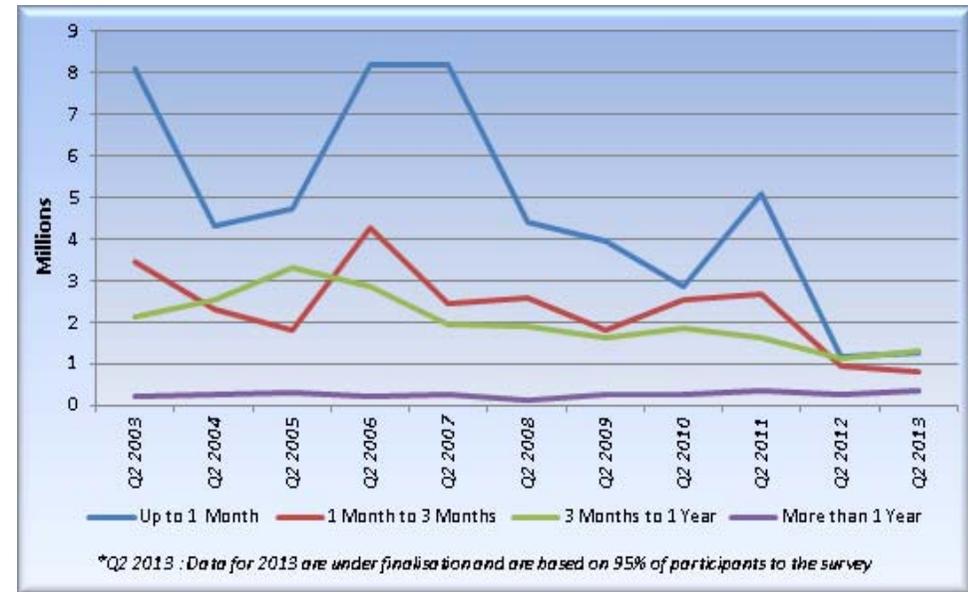
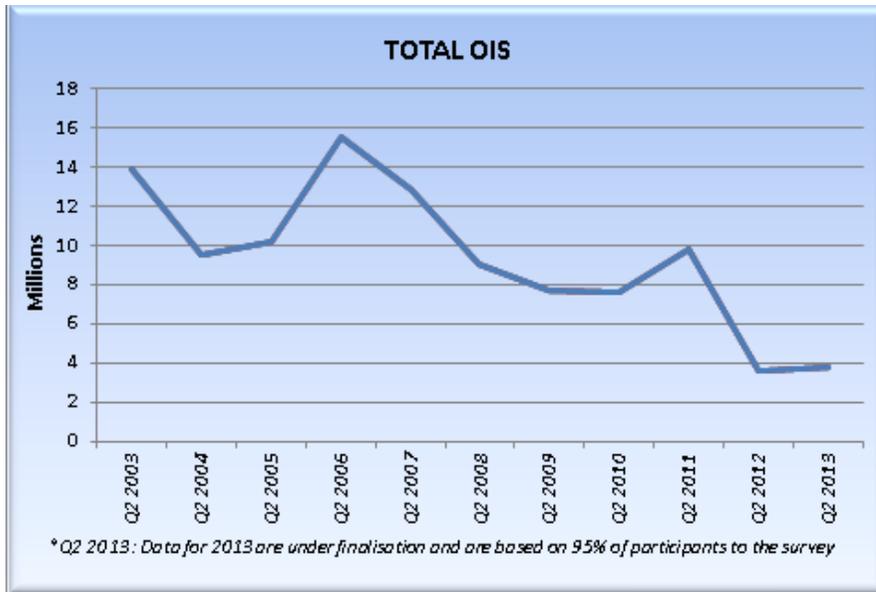




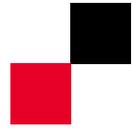
Evolution of Eonia OIS Volumes

Based on ECB Money Market survey (preliminary results for Q2 2013)

- ▶ Overall volumes stabilise or even slightly increase again, with the largest gain being recorded in the longer maturities (ie beyond 3 months and especially beyond 1y)
- ▶ The large drop in the segment up to 1 month seems to find its bottom



OIS - Breakdown by maturity		Δ 2012/2013
Up to 1 Month	33%	6%
1 Month to 3 Months	22%	-14%
3 Months to 1 Year	35%	15%
More than 1 Year	10%	32%



Evolution of Eonia OIS Volumes

- **ECB Money Market survey (preliminary results for Q2 2013) : qualitative remarks**
 - ▶ Most respondents insisted on their lower individual activity due to low rates and low volatility, which accounts for less need for hedging purpose through this instrument

 - ▶ For volume increases, the picture is more diversified in terms of explanations : some respondents indicated that the activity in the long end has increased while it declined in shorter maturities, some others indicate that higher BOR/OIS spread volatility pushed them to use more actively OIS, some did efforts to gain market share, some reported more activity based on their policy expectations or larger short-term securities portfolios.



Global Picture of the market

■ What is behind the different class of swaps

- ▶ Eonia swaps value spot = 75% of tickets, 50% of volumes
- ▶ Forward OIS and ECB meetings dates
 - 1y1y forward Eonia rate = main vehicle for Hedge Funds to speculate on the removal pace of the excess liquidity in the Eurosystem. The volatility of this rate provides good opportunity for speculators to sell the rate at 0.45/0.50 level, level that is close to the MRO rate which is considered by the market as the upon range of euro rates as long as ECB maintains its “easing bias” wording
 - ECB meetings OIS interests have decreased since may with the fading in talks about negative deposit rate but trades on specific meetings lay on timing issues. Moreover, bid/offer spreads on the further-forward ECB meetings is large compared to the margins on 1y1y Eonia.

1y,1y Forward Eonia rate





Global Picture of the market

■ What is behind the different classes of swaps

▶ Basis BOR/OIS

- Dominated by financial institution (Banks ALM, treasury desks, repo desks, Hedge Funds, Money market and real money funds), both for hedging and speculative reasons
- Trades on Eonia / FRA spreads have diminished as the likely return from speculation does not compensate for the bid/offer spread paid to get into and out of the trade
- What could renew interest in these spreads is any suggestion that the ECB might adjust the corridor between their target rate and the deposit rate, however there has been little sign of that and the early-2013 talk of negative deposit rates has quieted. This instrument will be more attractive when liquidity excess is reduced

FRA / OIS spread 3M IMM (first roll)





Global Picture of the market

What is behind the different class of swaps

▶ Schatz Eonia :

- Increase speculation trade between 2y German bond yields and EONIA. Hedge Fund community likes playing the range
- market participants have started to show this spread on their electronic screens, so more interest in this “commoditized” product which becomes more actively traded

Eonia Schatz ASW spread (1st roll)





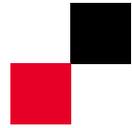
Global Picture of the market

■ Main final actors

- ▶ The number of HFs active (or watching) the EUR short end is reasonably constant, however trade sizes are smaller and profit-taking / stop-loss are tighter
- ▶ Asset manager big users of 3 months Eonia swaps for hedging (mainly French AM whose funds are Eonia benchmarked)
- ▶ Less interests from corporates due to low rates and less short term issuances

■ Trading structure

- ▶ Main market through voices brokers/sales
- ▶ Electronic trading is still on trial stage : low stable volumes in 2012 and 2013 and in reduction compared with 2011



Global Picture of the market

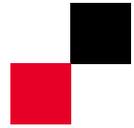


■ High competition among market makers

- ▶ Tighter bid/offer spread (spreads of cotation decreased by 40% compared with 2012)
- ▶ The global deleveraging trend in banks has also impacted the Eonia OIS industry : lower risk aversion => less interests in the market => tiny tickets and less active market-makers or liquidity providers.

■ Clearing Aspects :

- ▶ One improvement in liquidity for Eonia (and other OIS swaps in other currencies) is that Eonia swaps with maturity of greater than 2y are now accepted by LCH for clearing. This makes it easier for Hedge Funds to take positions without accepting the explicit counter-party risk of the trading bank.



Global Picture of the market



■ Questionmarks:

▶ Eonia - a reliable index ?

- Low volumes
- Some actors wonder whether a new market could not emerge from a global collateral fixing (Eurorepo fixing)