



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Euro Money Market Study 2022

---

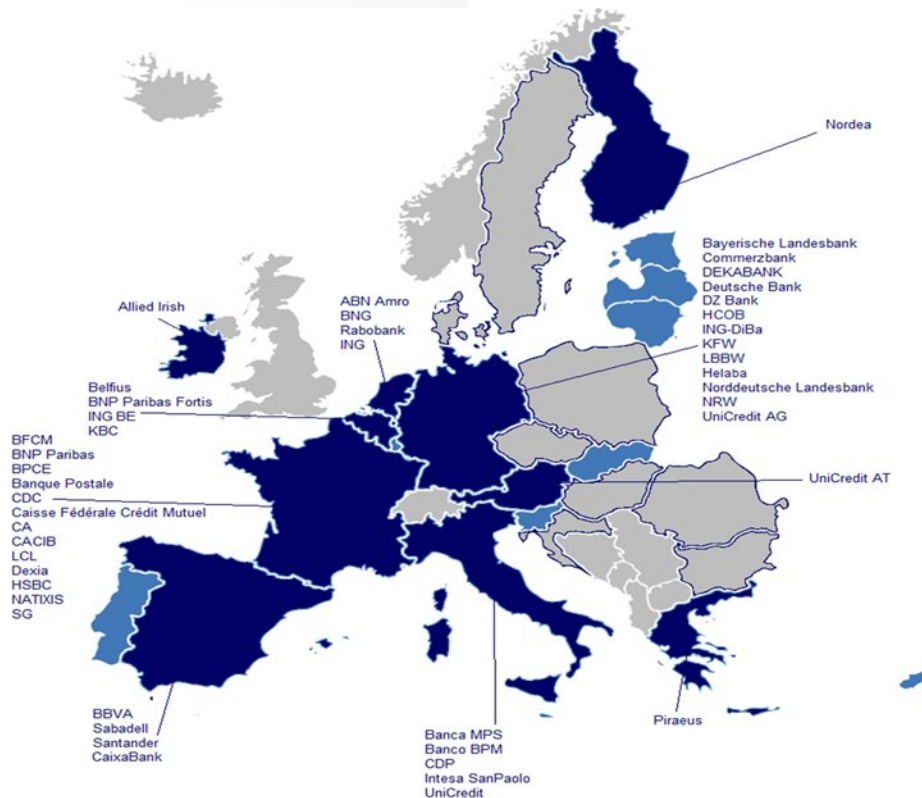
2021-2022 trends observed  
through ECB Money Market  
Statistical Reporting data

**MMCG – 21 June 2023**

**Maria Encio**  
**Directorate General Market Operations**

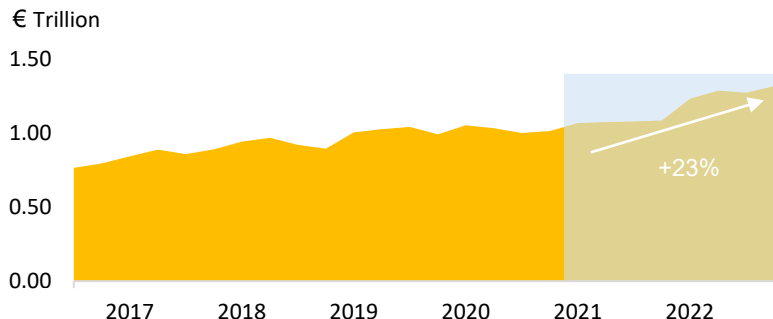


# Comprehensive analysis of euro money market over the two year period: Transactions-based dataset provided by reporting agents contributing to MMSR

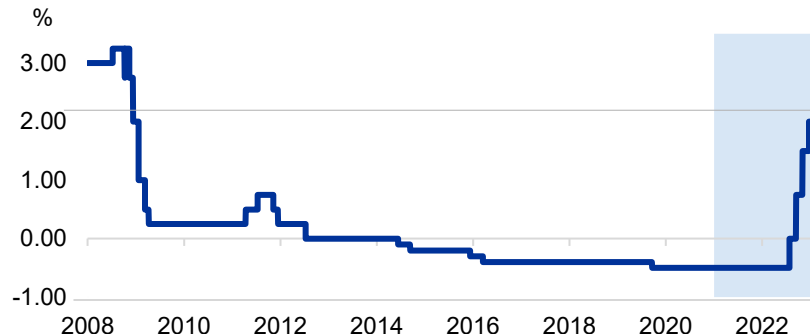


# Activity increased in a context of rate hikes, collateral scarcity, ample reserves

## Euro Money Market Daily transaction volumes



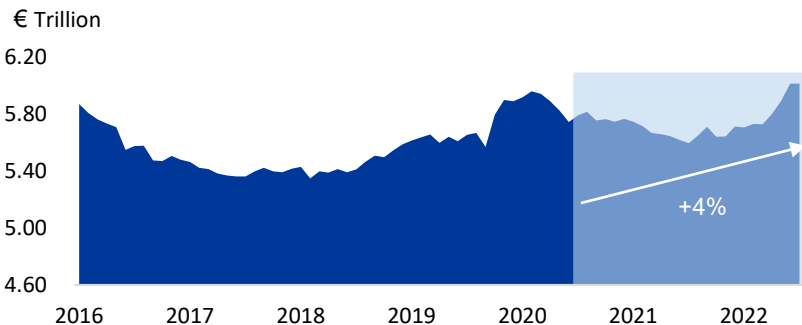
## ECB Deposit Facility Rate



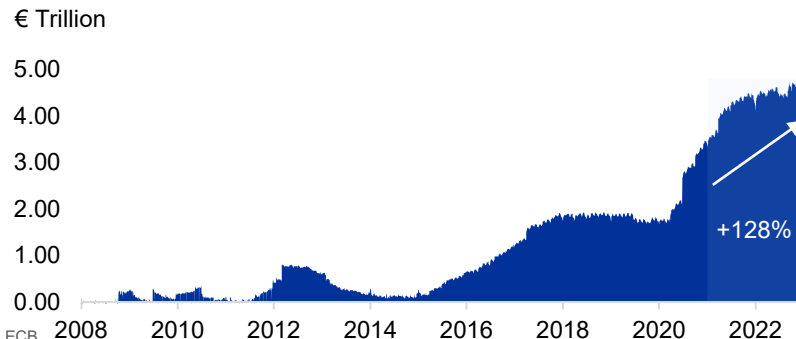
Sources: MMSR

Sources: ECB

## European Government Bond (EGB) availability



## Excess Liquidity (EL)



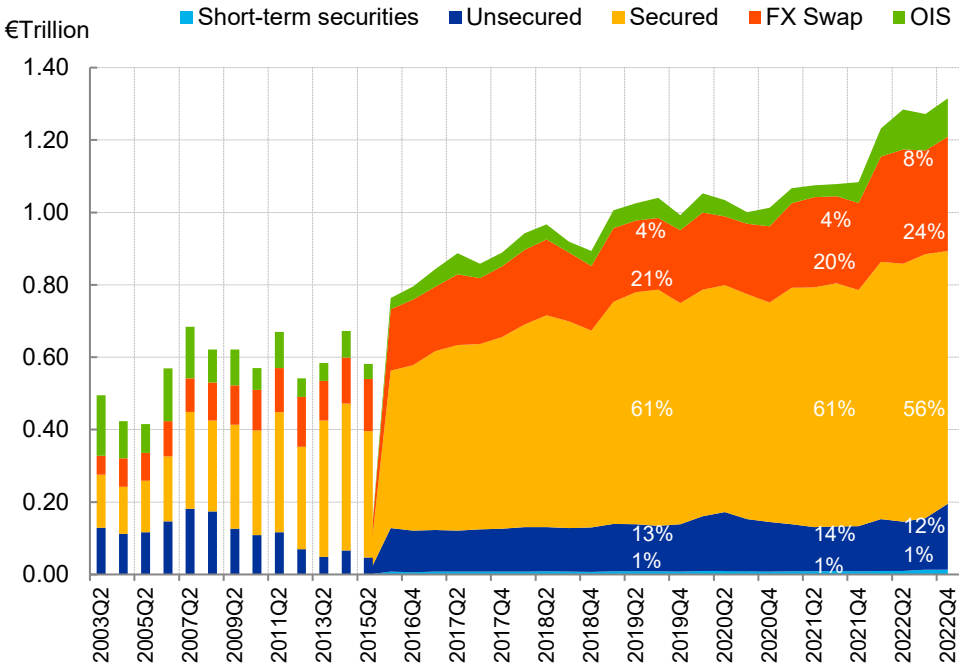
Sources: ECB

Sources: ECB own calculations

Notes: Calculated as the total issuance of euro area government bonds minus the Eurosystem footprint (monetary policy portfolios + government bonds pledged as TLTRO collateral – bonds lent through the securities lending program)

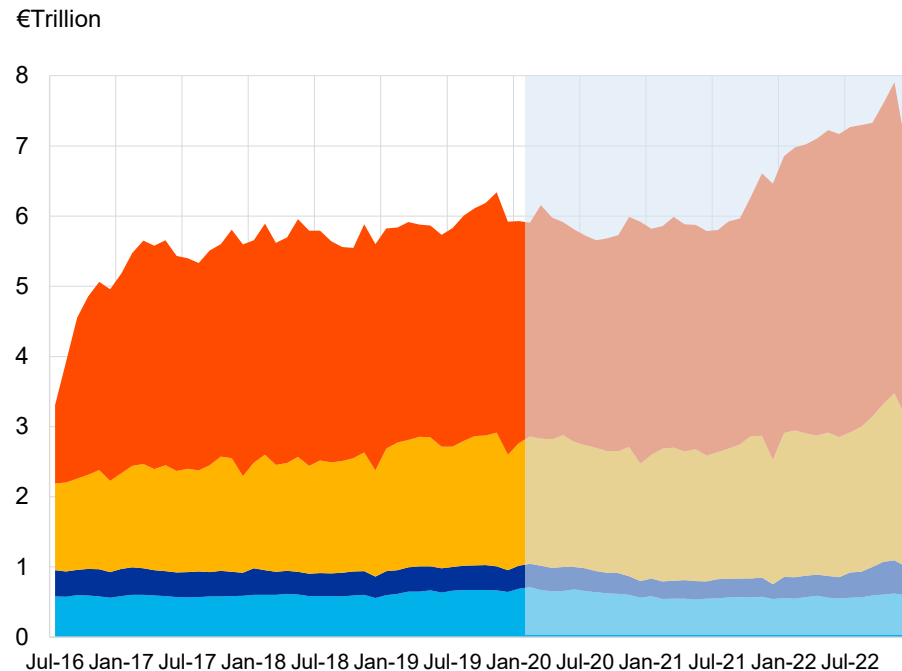
# Activity dominated by money market secured trades and FX swaps

## Daily transaction volumes (flows)



Sources: CSDB for the STS segment and MMSR for the other four segments.  
 Note: From 2016 on, series includes MMSR transactions. Previous to that, the series includes euro money market survey for 38 overlapping reporting agents.

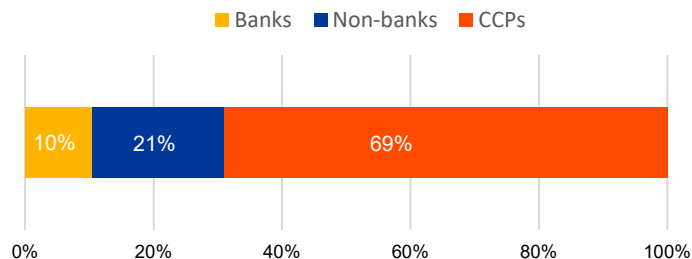
## Outstanding amount (stock)



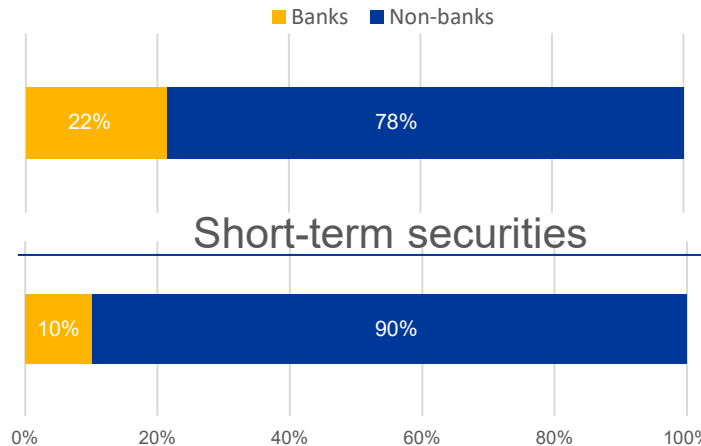
Sources: CSDB for the STS segment and MMSR for the other three segments.  
 Note: OIS is not represented because these derivative only involve the exchange of interest payments between the parties, without exchanging the notional amounts

# Significant share of non-banks and CCPs in several money market segments

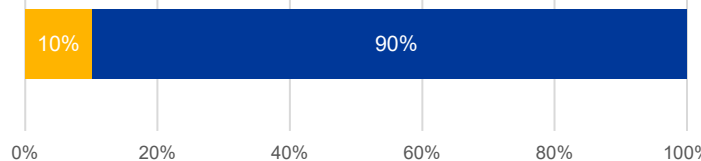
## Secured



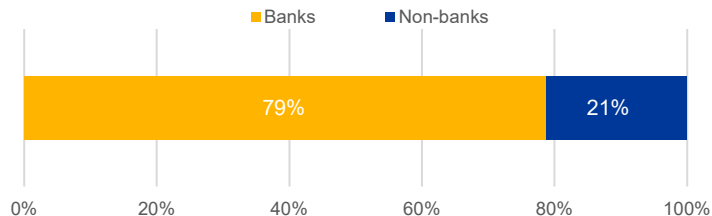
## Unsecured



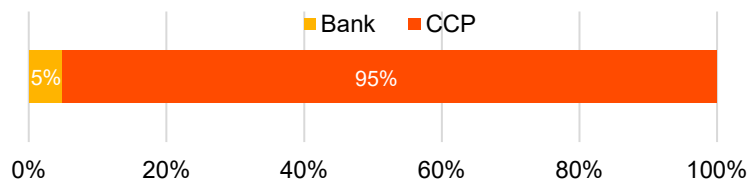
## Short-term securities



## Foreign Exchange Swaps



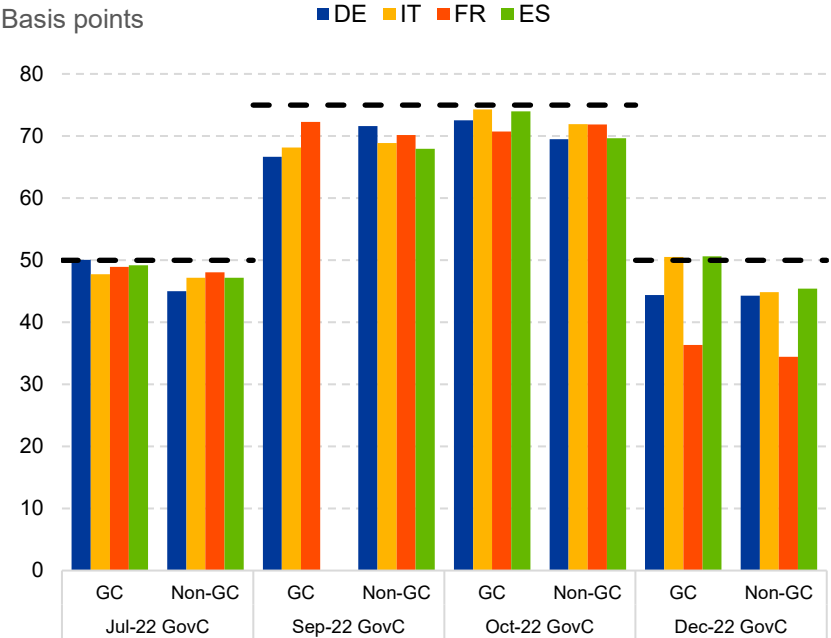
## Overnight Index Swaps



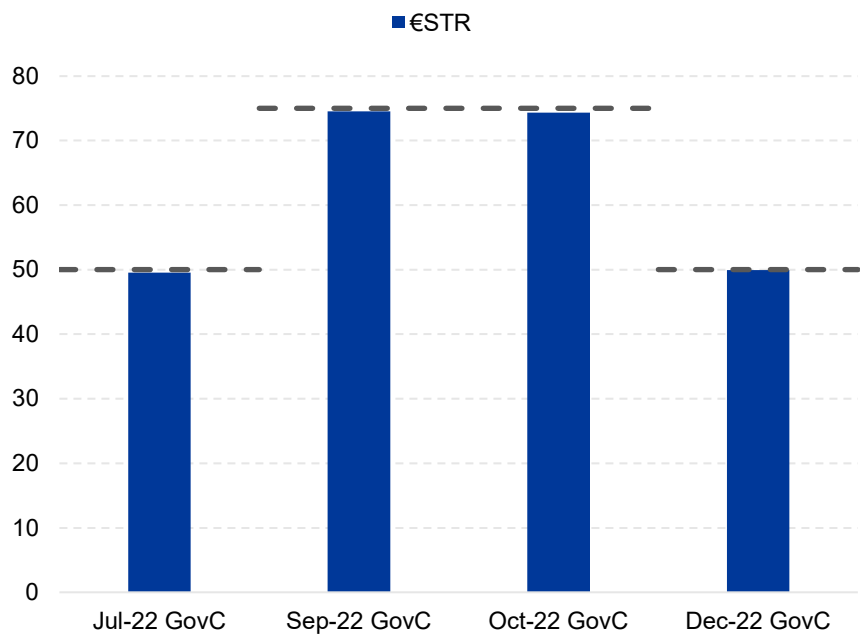
Source: CSDB for the STS segment and MMSR for the other segments.

# Effect of interest rate hikes

## Uneven and partially lagged transmission to secured



## Good and complete transmission to unsecured



Source: BrokerTec, MTS.

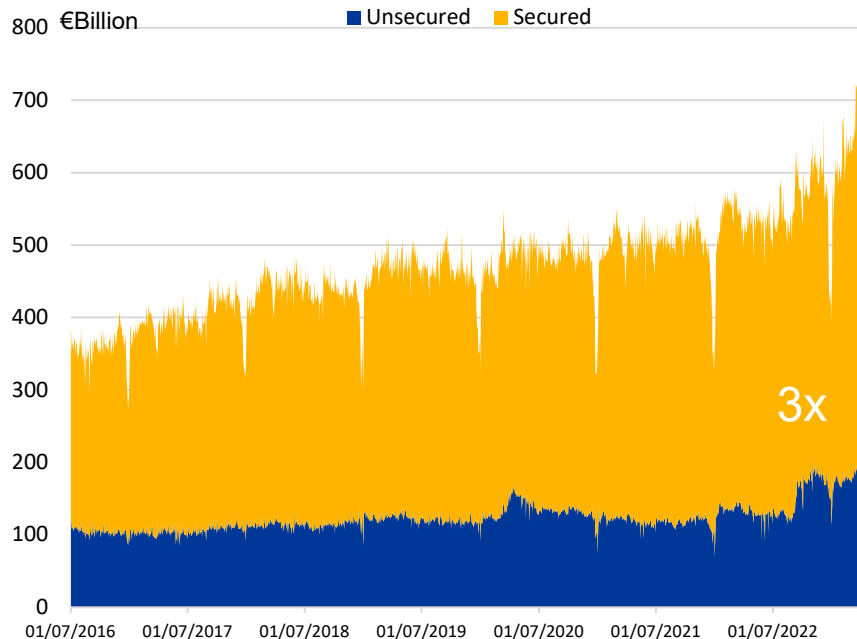
Note: Basis points difference of the volume-weighted average rates of the overnight (O/N), spot/next (S/N) and tomorrow/next (T/N) trades from the day of the Governing Council decision until the last day of the maintenance period (MP) and that settle either on the first or second day of the new MP, and the trades from the day of the Governing Council decision until the last day of the MP and that settle before the new MP. For Spain, there were no transactions with GC that met these date requirements for the September hike.

Sources: ECB and Bloomberg.

Note: The €STR shows the one-day change for unsecured overnight trades that settled on the last day of the MP and the first day of the MP.

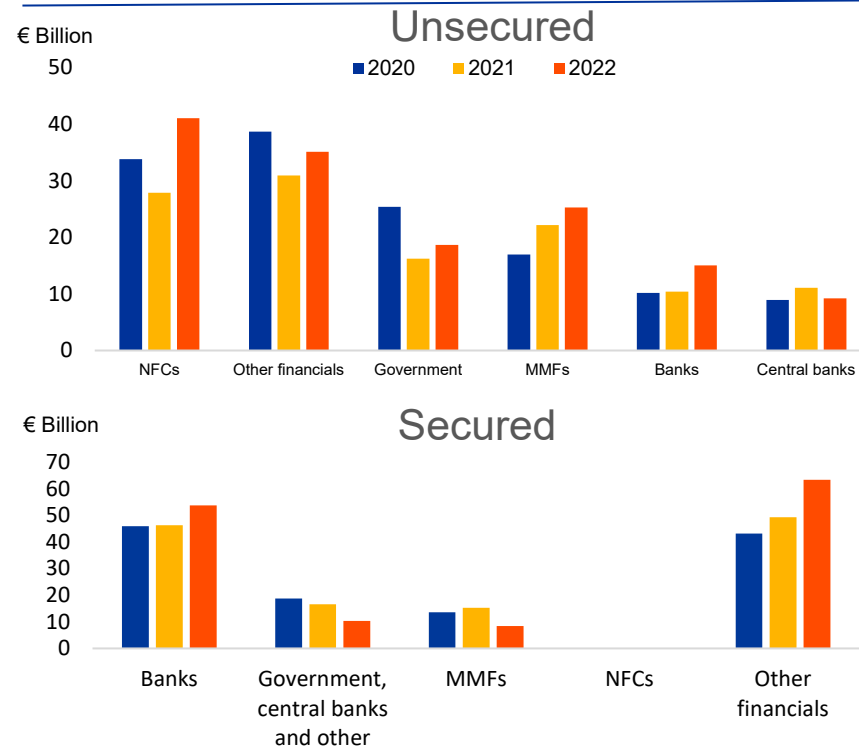
# Effect of ample reserves in the system

## Daily borrowing transaction volume



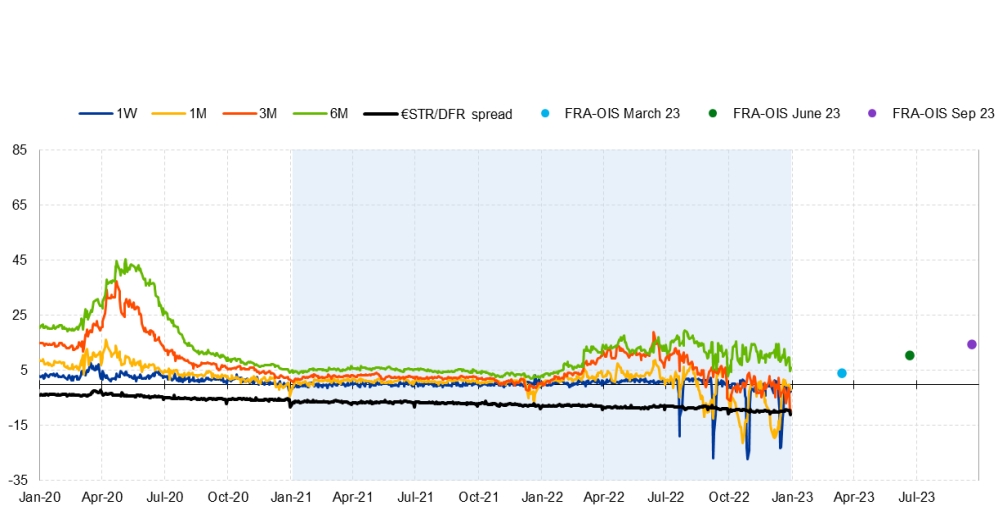
Sources: MMSR

## Sectors EA banks borrow from



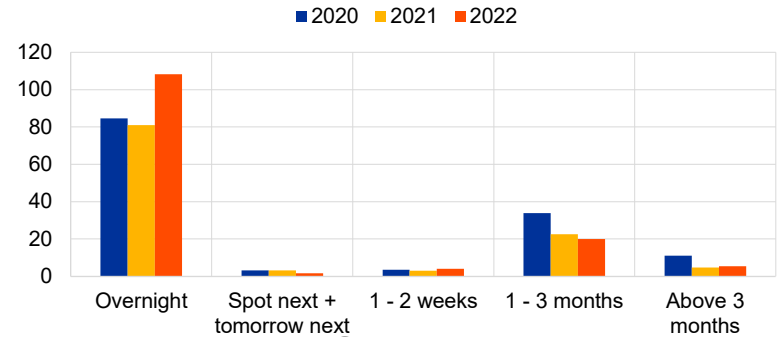
# Short investments horizon exerted downward pressure on unsecured rates

## €STR vs DFR and Euribor vs OIS spread

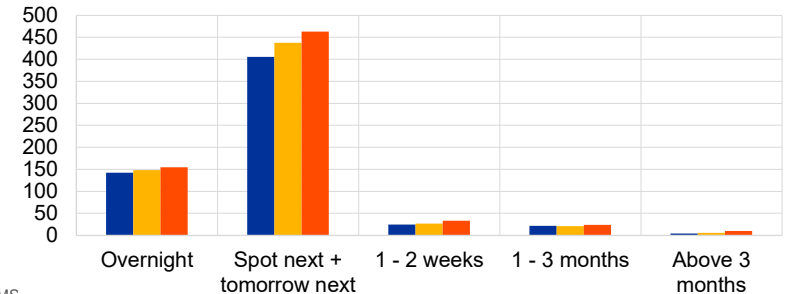


Source: MMSR, BrokerTec and MTS

## Unsecured



## Secured

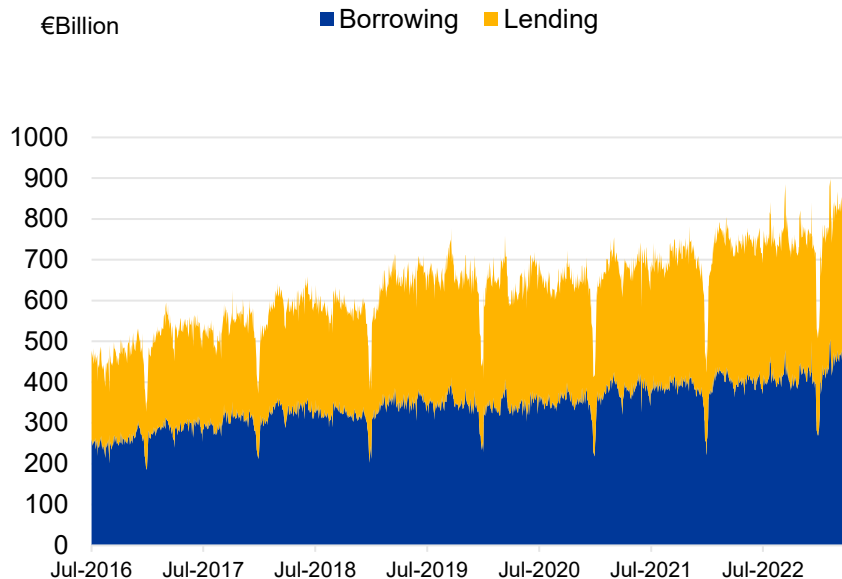


Sources: MMS



# Effect of collateral scarcity

## Transaction secured volume

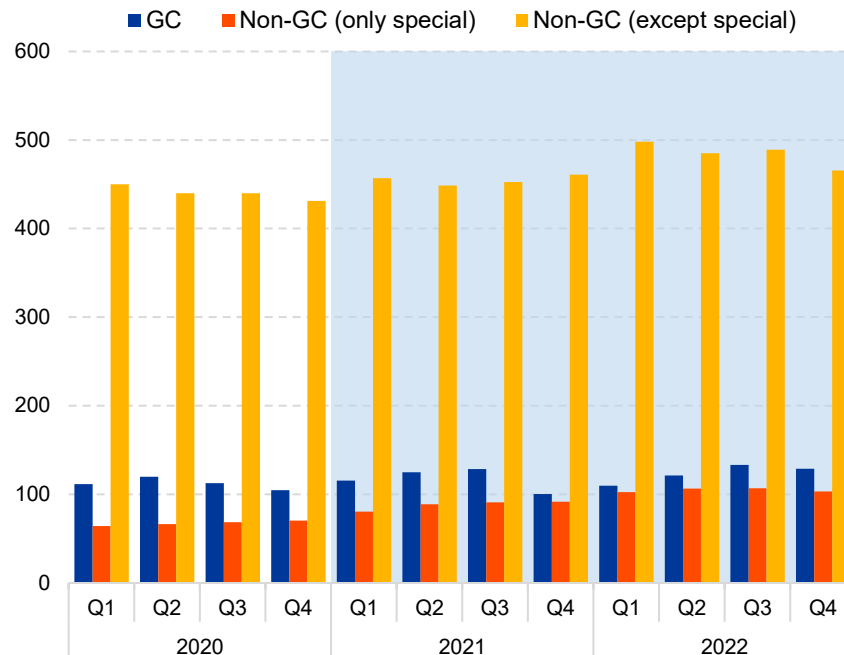


Source: MMSR.

Note: Non-general collateral repo refers to secured transactions collateralised using specific securities (international securities identification number (ISIN) codes) and trades with undefined collateral. Given that reporting special collateral is voluntary in the MMSR, the volumes may be under-represented.

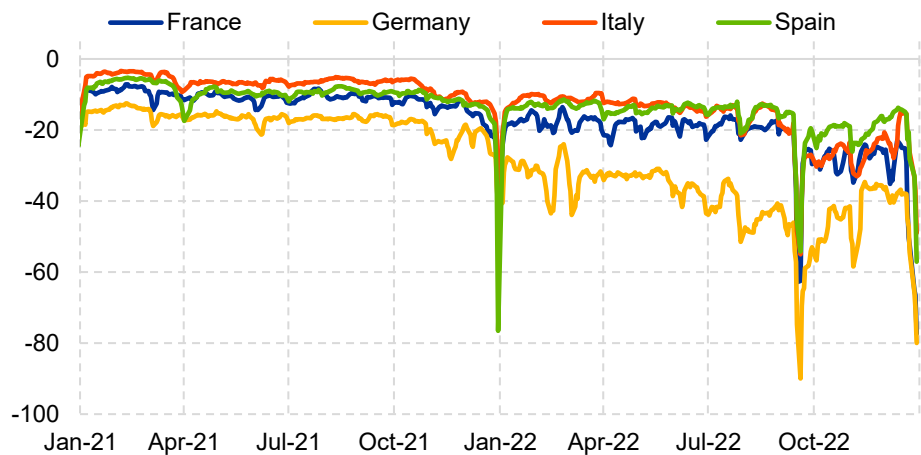
Both graphs refer to daily transaction volumes

## Secured transactions by collateral type

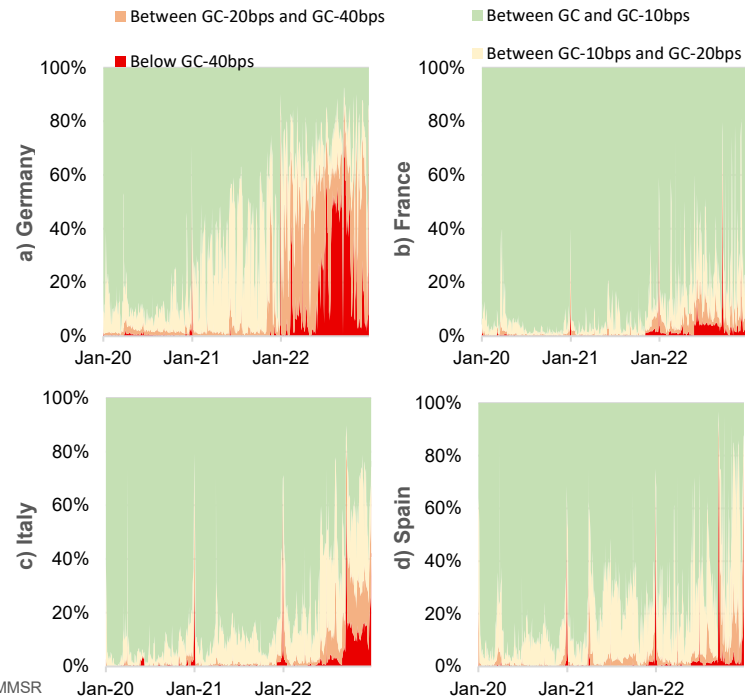


# Specialness exerted downward pressure on repo rates

## Repo rates spread to DFR by collateral jurisdiction



## Share of repo volume trading below the GC repo rate (%)



Source: MMSR, BrokerTec and MTS

Sources: MMSR

# Euro money market developments in 2021-2022 highlighted in the Study

## Volumes

- Turnover dominated by **secured transactions (56%)** and **FX swaps (24%)**
- Aggregate daily activity across all segments grew by 23% from €1 trillion at the end of 2020 to €1.3 trillion at the end of 2022

## Maturities

- **Secured and unsecured trading concentrated on the one-day tenors**
- Investor focus on short tenors led to market rates trading below DFR as banks paid little for deposits with no regulatory value

## Counterparties

- **Central Counterparties (CCPs) are involved in 70% of secured trades and 90% of overnight index swap trades**
- Money Market Funds accounted for 28% of **unsecured** trades in 2022 (19% in 2020 and 7% in 2018) and hold 73% of total banks issuance of **short-term securities**
- Investment Funds accounted for 31% of **bilateral secured** trades in 2022 (25% in 2020 and 15% in 2018)

## Rates:

- **OIS** reacted swiftly to policy tightening signals by ECB Governing Council members and anticipated well policy rate hikes
- **Full pass-through of ECB interest rate changes to unsecured rates; less even and partially lagged transmission in secured market;** Eurosystem support, via higher amounts available via the Eurosystem Securities Lending facilities and changes to remuneration of non-monetary policy deposits, helped to alleviate somewhat high-quality collateral shortage concerns
- **ECB deposit facility rate (DFR) works well as an anchor for money market rates** but trades occur below the DFR reflecting the predominance of non-bank actors without access to ECB facilities