Recent Money Market Developments

Money Market Contact Group
Frankfurt am Main, 11 September 2008
Development of ECB monetary policy stance and current interest rate expectations

ECB Minimum bid rate

Current probabilities of ECB rate hike/cut

* probabilities based on assumption of Eonia spread at 4 bps (December 4 bps)
ECB operations, reserve surplus and Eonia in the Aug/Sep ’08 maintenance period

- MRO with benchmark +20.0 bn
- MRO with benchmark +14.5 bn
- MRO with benchmark 9.0 bn
- MRO with benchmark +3.0 bn
- Supplementary LTRO of 50.0 bn
- Regular LTRO of 50.0 bn
- FTO of -20.1 bn
Eonia development since the beginning of the turmoil
Development of spread between MRO rates and the minimum bid rate
Development of spread between 3m LTRO rates and 3m Eonia swap rates
Maturity breakdown of the ECB’s liquidity providing operations
International comparison of 3-month deposit-OIS spreads
EURIBOR - OIS spreads for different maturities
Credit markets – iTraxx indices
3m forward EURIBOR - OIS spreads
Eurepo - OIS spreads for different maturities
Results of the Eurosystem’s USD providing operations

[Chart showing data on total bid amount (Rhs), allotment amount (Lhs), and number of bidders (Lhs) over time.]
Issues for discussion

• MRO tender spreads have remained high or even rising again recently in spite of stable very short-term rates. What explains this observation?

• What explains the rather low demand in the latest LTRO?

• What drives the (relative) increase in repo rates? Why are short-term repo rates higher than unsecured rates?

• What is the outlook for the upcoming end of semester? Is the end of the year becoming a big concern (again)?