GC Curves Richening

The Italian GC curve has flattened with the 1y point richening 9bps.
French & German curves have richened in fairly parallel fashion.

T/N repo has richened 5/7bps in France and Germany respectively from the end of Sep 2020.
Italy has richened 4bps leaving the core-peripheral spread ~3bps wider.

Sources: GS Global Markets Division 20/05/2021; past performance not indicative of future results. This material is for discussion purposes only, and does not purport to contain a comprehensive analysis of the risk/rewards of any idea or strategy herein.*All pricing indicative on 20.05.2021
**Repo Markets**

**GC/Specials Basis Widened**

The spread between “specifics” and GC has widened in Germany whilst staying benign in France in most sectors.

As a result, the implied repo through each futures cycle has richened, but remains contained vs prior years.

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Repo Markets
Lending Facility Usage has Increased

German specials have richened to consistently trade through -0.70

As a result borrowing vs cash at the ECB lending facilities has increased

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Repo Markets
Impact in repo benign vs 2017 and spill over to cash markets has been limited

Term GC/OIS remains 10/20bps tighter to the DFR than the 2017 lows

Similarly ASW spreads have not widened to the same extent as 2017

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**Repo Markets**

The ultimate crux = Demand versus (market) supply

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ECB reserves in the system – and hence demand for EGB collateral – keep growing at a rapid pace...

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...when the free float available However remains unchanged

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• Do BMCG members expect the market input of ongoing asset purchases to remain relatively benign?

• What other tools/incentives are available to smooth out any spillover from repo markets if it occurs in future?

• Any lessons from other developed bond markets?
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