Review of Bond Market Developments
(with a focus on market liquidity)

ECB Bond Market Contact Group

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Markets are pricing 175bp of ECB hikes in 2022, 100bp in 2023

In the US markets are pricing cuts after March 2023

The ECB and Fed scheduled meetings have led to a reassessment of prospects for risk assets, both equity and credit

Source: Nomura, Bloomberg, Brokers
10y BTP spreads: no prizes for guessing the timing of the conventional and the ‘ad hoc’ ECB meetings

9f1y swaps and the quest for neutral

Source: Bloomberg
The Price for Liquidity

Source: Nomura, TRAX, TradeWeb, Bloomberg
• Is the recent deterioration in market depth and volatility the temporary result of a macro transition or a persistent feature of a new regime without QE and more limited capacity for intermediation?

• Should central banks attempt to anchor the long end by discussing neutral rates? Is guidance on the terminal rate necessary?

• Is the main aim of recent ECB decisions to signal commitment to price stability or to deflate demand? Would a slowdown in economic activity slow or stop the tightening cycle?

• Is an anti-fragmentation tool necessary? If so, should the ECB respond to spreads widening too much or too disorderly? What communication would soothe markets? Will the tool be used?
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