Recent developments
in the euro money market

Money Market Contact Group
Frankfurt, 21 March 2012
Overall financial market background

1) Strong equity performance amid markedly lower volatility
Overall financial market background

II) Perceived credit risk of senior financials declined strongly, sovereign CDS index sharply lower after Greece’s exclusion from the index
Overall financial market background

III) Euro area sovereign bond yields (10-year)

- Start of sovereign debt crisis: 7 May 10
- Start of SMP for IT, ES: 8 Aug 11
- 3Y LTRO: 21 Dec 11 and 29 Feb 12

Graph showing the evolution of sovereign bond yields for Portugal, Spain, Italy, Ireland, and Germany from April 2010 to February 2012.
USD funding situation

USD Libor fixings reversed their rising trend

EUR/USD FX swap premia contracted
The ECB’s provision of USD liquidity
→ 84-day USD operations re-introduced
A sharp reversal after the 3-y LTRO also in the forward spreads
Development of the Euribor futures curve

Fed funds futures curve
ECB monetary policy expectations

Reuters poll on MRO rates
Repo market normalisation

3-month repo rates for different types of collateral
Maturity breakdown of the ECB’s liquidity provision –> 3-year operations introduced
Use of the ECB’s standing facilities

[Graph showing the use of marginal lending facility, deposit facility, and 20-day moving average (MA) over the years 2010 to 2012.]

- **Marginal lending facility**
  - Ranges from 0 to 18,000 EUR mio.
  - Peaks in mid-2011 and early 2012.

- **Deposit facility**
  - Ranges from 0 to 800,000 EUR mio.
  - Steady increase from early 2010 to mid-2011.

- **20-day moving average (MA)**
  - Smoothed line indicating trends.
  - Follows the general increase in usage of both facilities.

**Key Dates:**
- Jan-10, Apr-10, Jul-10, Oct-10, Jan-11, Apr-11, Jul-11, Oct-11, Jan-12

**Axes:**
- X-axis: Months from Jan-10 to Jan-12.
ECB rates and Eonia developments
1-week liquidity absorbing FTOs

[Graph showing liquidity absorption over time with bid amounts and intended amounts plotted against EUR million]
The ECB decided to conduct two one-day bridge liquidity-providing FTOs (allotted on 20 December 2011 and on 28 February 2012) related to the settlement of the 3-year LTROs.

Specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations were approved for Central Bank of Ireland, Banco de España, Banque de France, Banca d’Italia, Central Bank of Cyprus, Oesterreichische Nationalbank and Banco de Portugal
ECB developments and announcements II

28 February 2012

A temporarily suspension of the eligibility of marketable debt instruments issued or fully guaranteed by the Hellenic Republic for use as collateral in Eurosystem monetary policy operations.

The liquidity needs of affected Eurosystem counterparties can be satisfied by the relevant national central banks, in line with emergency liquidity assistance (ELA).

8 March 2012

In light of the activation of the buy-back scheme, marketable debt instruments issued or fully guaranteed by the Hellenic Republic will be again accepted as collateral in Eurosystem credit operations, without applying the minimum credit rating threshold for collateral eligibility until further notice.
Potential issues for discussion

• Members are invited to provide feedback on the two 3-year LTROs and how the impact on these operations has been unfolding in the money market.

• In particular, how members access developments in the FX swap market?

• More generally, how do members assess banks’ current funding conditions – also in USD and other currencies?