Recent developments in the euro money market

Money Market Contact Group
Frankfurt, 10 December 2012
ECB developments and announcements

17 October

- The ECB published a legal guideline to allow for the admission of certain assets denominated in pounds sterling, yen or US dollars as eligible collateral.

28 November

- The ECB published amendments of the General Documentation, which are largely related to changes in the Eurosystem collateral and risk control framework.

6 December

- The ECB extended the fixed rate full allotment at least until July 2013 and announced 3-month LTROs to be allotted on 30 January, 27 February, 27 March, 24 April, 29 May and 26 June 2013.
Financial market background I

- Markets maintained a positive momentum following earlier ECB measures despite several sources of uncertainty

**Equity market performance**

- S&P500
- EuroStoxx 600
- EuroStoxx Banks
- MIB (Italy)
- IBEX (Spain)

Indexed: 1 Jan 2012 = 100

<table>
<thead>
<tr>
<th>Change since 18/09</th>
<th>Change since 25/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4%</td>
<td>+5%</td>
</tr>
<tr>
<td>+2%</td>
<td>+18%</td>
</tr>
<tr>
<td>+3%</td>
<td>+52%</td>
</tr>
<tr>
<td>-1%</td>
<td>+28%</td>
</tr>
<tr>
<td>-2%</td>
<td>+31%</td>
</tr>
</tbody>
</table>

Source: Bloomberg
Financial market background II

- Perceived credit risk of senior financials continued to decline in line with the sovereign risk premia

Itraxx indices for euro area sovereigns and senior financials

Source: Bloomberg
Bank funding conditions I

- Some signs of improved capital market access also by “non-core countries

![Chart showing breakdown of covered bond issuance YTD and unsecured issuance YTD.](chart.png)
Bank funding conditions II

- Latest euro area bank issuance met decent investors’ interest and performed well in the secondary market

<table>
<thead>
<tr>
<th>Issue</th>
<th>Country</th>
<th>Bond Type</th>
<th>Date of issuance</th>
<th>Tenor</th>
<th>Issue Size (EUR mn)</th>
<th>Spread at issuance</th>
<th>Δ in spread since issued (30/11)</th>
<th>Swap spread as per 30/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIB 3.125% Dec 2015</td>
<td>IE</td>
<td>Covered</td>
<td>28-Nov</td>
<td>3-year</td>
<td>500</td>
<td>270</td>
<td>-31</td>
<td>239</td>
</tr>
<tr>
<td>CXGD 5.625% Dec 2015</td>
<td>PT</td>
<td>Senior Unsec.</td>
<td>27-Nov</td>
<td>3-year</td>
<td>500</td>
<td>520</td>
<td>-41</td>
<td>479</td>
</tr>
<tr>
<td>BBVA 3.5% Dec 2017</td>
<td>ES</td>
<td>Covered</td>
<td>26-Nov</td>
<td>5-year</td>
<td>2000</td>
<td>260</td>
<td>8</td>
<td>268</td>
</tr>
<tr>
<td>ISPIM 3.625% Dec 2022</td>
<td>IT</td>
<td>Covered</td>
<td>22-Nov</td>
<td>10-year</td>
<td>1250</td>
<td>200</td>
<td>-25</td>
<td>175</td>
</tr>
<tr>
<td>BPCE 1.75% Nov 2019</td>
<td>FR</td>
<td>Covered</td>
<td>21-Nov</td>
<td>7-year</td>
<td>1000</td>
<td>48</td>
<td>0</td>
<td>48</td>
</tr>
<tr>
<td>Belfius Bank 1.25% Nov 2017</td>
<td>BE</td>
<td>Covered</td>
<td>19-Nov</td>
<td>5-year</td>
<td>1250</td>
<td>45</td>
<td>-15</td>
<td>30</td>
</tr>
<tr>
<td>BKIR 3.125% Nov 2015</td>
<td>IE</td>
<td>Covered</td>
<td>13-Nov</td>
<td>3-year</td>
<td>1000</td>
<td>270</td>
<td>-36</td>
<td>234</td>
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<tr>
<td>CFF 2.375% Nov 2022</td>
<td>FR</td>
<td>Covered</td>
<td>09-Nov</td>
<td>10-year</td>
<td>1000</td>
<td>74</td>
<td>-8</td>
<td>66</td>
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<tr>
<td>BESPL 5.875% Nov 2015</td>
<td>PT</td>
<td>Senior Unsec.</td>
<td>31-Oct</td>
<td>3-year</td>
<td>750</td>
<td>534</td>
<td>-30</td>
<td>504</td>
</tr>
<tr>
<td>BankInter 3.875% Oct 2015</td>
<td>ES</td>
<td>Covered</td>
<td>18-Oct</td>
<td>3-year</td>
<td>500</td>
<td>335</td>
<td>-33</td>
<td>302</td>
</tr>
</tbody>
</table>

Source: Dealogic, Bloomberg
Unsecured money market I

- A continuous decline in the EONIA spread to the deposit facility rate
- EONIA lending volumes trending lower

![Graphs showing EONIA rate and EONIA volumes](image-url)
Unsecured money market II

- Euribor – OIS spreads are close to multi-year lows but the pace of declines bottomed out, as also indicated by the forward spreads

Source: Bloomberg

Current Euribor-OIS spreads

3-month forward spreads*

* Currently corresponds to Dec12, Mar13, Jun13, Sep13

Source: Bloomberg
Secured money market I

- Spanish and Italian repo rates and spreads to Germany remained broadly stable
Secured money market II

- Repo market volumes are steady but the year-end effect visible in some markets

Source: ICAP research

Source: Banco d'Espana
Use of the ECB’s standing facilities and operations

- Decline in the recourse to the ECB operations (MROs)

Source: ECB
USD funding situation and ECB USD operations

- Stable funding conditions in the FX swap market
- Low recourse to the ECB USD facilities

Source: Bloomberg

Source: ECB
Market expectations of the ECB policy rates

- EONIA swap forward curve shifted downwards pricing in (i) a further narrowing of the EONIA deposit spread and (ii) an increased probability of a cut in the deposit facility rate in 2013
- Reuters’ poll (28 Nov): 34 out of 71 respondents forecast a rate cut by end-Q1 2013, 36 by end-Q2 2013

Source: Bloomberg
Market expectations of the VLTRO repayment

• Repayment possible as of 30 January (deadline for submission of interest on 23 January) with a weekly frequency

• A wide range of market estimates from EUR 60 bn to EUR 200 bn (in Q1 2013)

• A gradual repayment pattern seen most likely

• Limited impact on liquidity conditions and money market rates with the excess liquidity at around EUR 670 bn

Source: Bloomberg
Potential issues for discussion

1. MMCG assessment of the functioning of the euro money market
   - *End-of year effect on rates and volumes*
   - *MMCG expectations with regard to the VLTRO repayment*
   - *Sustainability of current situation and potential risk factors going forward*

2. MMCG expectations with regard to the ECB monetary policy and potential non-standard measures