Recent Developments Money Market
MMCG Meeting 18.03.04
Schedule

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## Major Events

### Regulatory

**Recent developments**
- EBA announces key features of the stress test
- Basel Committee
  - NSFR: Various revisions to Available stable funding and required stable funding
  - LR: Various amendments with regard to the treatment of several financial instruments

### Monetary Policy

**Central Banks keep accommodative stance**
- No major amendments at any of the major central banks
  - FED starts tapering moderately
  - ECB strengthens forward guidance
  - BoE implements changes to existing forward guidance

### Macro Developments

**Early signs of possible recovery**
- Encouraging signals from various areas
  - Ireland exited EFSF assistance programme
  - ESM’s assistance programme for Spain expired
  - CPI mostly stable
  - PMI levels in the major economies above 50
  - Recent turmoil in EM and geopolitical tensions could hamper overall positive outlook
Regulatory - EBA

- **Main features of the 2014 EU wide stress test**
  - Exercise will be carried out on the basis of the consolidated year end 2013 figures
  - Capital hurdle set at 8% Tier for baseline scenario
  - Capital hurdle set at 5.5% for adverse scenario
## Regulatory - Basel Committee Announcements

### LR “Capital measure/exposure measure“ expressed as percentage
- Capital measure is currently defined as Tier1 capital, minimum leverage ratios is 3%
  - Amendments of the treatment of securities financing transactions (SFTs) will allow limited netting with same counterpart (clear advantage of CCP trading)
  - *Off balance sheet items* will not be treated uniformly with a 100% credit conversion factor and variation margin can possibly reduce exposure (central clearing)
  - Cash and other HQLA have not been exclude from the exposure measure (denominator)

### NSFR “Amount of stable funding relative to the amount of required funding“
- NSFR should be equal to at least 100% on an ongoing basis
  - Various measures to harmonize and generally strengthen the basis of ASF
  - Various measures to harmonize and slightly reduce the RSF
## Regulatory - Basel Committee Possible Impacts

**LR**
- Overall the announced amendments should not have an immediate impact on repo and or derivatives markets as the adverse effects of the June consultation have been revised
- It is quite obvious that the regulatory pressure on banks to shrink and delever balance sheets is not over yet
- Repo and derivatives markets continue to shrink
- Current ratio of 3% will be monitored semianual / Unlikely that US regulators will back away from their original intention to impose a 6% ratio
- As cash and HLQA are not excluded banks are penalized for holding low risk assets – this could also interfere with attempts to strengthen LCR

**NSFR**
- „The main revisions to the NSFR seek to reduce cliff effects within the measurement of funding stability, improve its alignment with the Liquidity Coverage Ratio (LCR), and alter its calibration to focus greater attention on short-term, potentially volatile funding sources“(from the BIS web site)
- Overall whole sale funding has moderately been upgraded
- Operational deposits will be recognised with a 50% ASF compared to 0% previously
- At a first glance it seems as if the revisions leave the burden very high for most banks to reach the 100% benchmark
## Monetary Policy – Central Bank Decisions

<table>
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<tr>
<th>ECB</th>
<th>FED</th>
<th>BoE</th>
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<tbody>
<tr>
<td>No recent changes</td>
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<td></td>
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<tr>
<td>– Accomodative monetary policy in place</td>
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<td>– Emphasis on forward guidance</td>
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<tr>
<td>– Implied 3 mth rate Mar 2016 approx. 0,55%</td>
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<td>Tapering has started in Dec 13</td>
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<td>– Further acceleration of tapering announced at January meeting</td>
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<tr>
<td>– Implied 3 mth rate Mar 2016 approx. 1,30%</td>
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<tr>
<td>No recent changes</td>
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<tr>
<td>– About to amend parts of the recently implemented forward guidance</td>
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<tr>
<td>– Implied 3 mth rate Mar 2016 approx. 1,75%</td>
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## Macro Developments – Ireland & Spain

### Ireland
- Ireland officially exited the EFSF assistance programme 8th Dec 2013
- Moody’s raised the nation’s credit rating back to investment grade Baa3 with a positive outlook
- Ireland was able to launch two ten year bonds EUR 3.75 bln in early January 2014 and another EUR 1 bln in mid March
- Current yields for the whole sovereign curve are below the ones of Italy and Spain
- Repo market levels for Irish GC are pretty much in line with GC levels of Portugal if traded through CCP – around 10 bp above Bunds

### Spain
- The financial programme for Spain expired on 31st Dec 2013
- Spain was able to raise EUR 10 bln through issuing a 10 year note after receiving orders worth almost four times as much on the 22nd Jan
- Overall Spain had sold EUR 59 bln a quarter of the planned total 2014 gross issuance until the beginning of March
- Repo market levels for Spanish GC if traded through CCP is around 5 bp above Bunds and slightly higher if traded with ‘wrong way risk’
Macro Developments - CPI YoY Eurozone, UK, US

Source Bloomberg
Macro Developments - PMI Eurozone, UK, US
Macro Developments - Convergence PMI / GDP Eurozone

Source: Markit

Source: 4cast
Capital Markets - Eurozone Corporate Lending

[Eurozone Corporate Lending Chart]

Source Bloomberg / ECB
Capital Markets - Dow Jones vs. Dow Jones Financials

Source Bloomberg
Capital Markets – Euro Stoxx vs. Euro Stoxx Financials

Source Bloomberg
Capital Markets – CDS Senior Financials EU vs. US 5 Year Tenor

Source Bloomberg
Capital Markets – Fragmentation Target II Balance Germany

Source Bloomberg / ECB
Capital Markets – Fragmentation Sovereign Yields Euro Zone

Source Bloomberg
Capital Markets – Fragmentation Asset Swap Germany 2 yrs

Source Bloomberg
Money Markets - EONIA 3 mths vs EURIBOR 3 mths

Source Bloomberg / ECB
Money Markets – EONIA Fixing vs Outstanding Open Market Operations

Last Price
- ECBLEFAC Index (R1) 0.527M -0.011
- EONIA Index (R2) 0.172 +0.001

Source Bloomberg / ECB
Money Markets - EONIA Fixing vs. Excess Liquidity

Source Bloomberg / ECB
Money Markets – EONIA Volume vs. Excess Liquidity

Source Bloomberg / ECB
Money Markets – EONIA Rate / Volume vs. Excess Liq.

Normalized As Of 01/28/2013

<table>
<thead>
<tr>
<th>Index</th>
<th>Value</th>
<th>Change</th>
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<tbody>
<tr>
<td>ECBLXLIQ</td>
<td>23.903</td>
<td>+2.316</td>
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<tr>
<td>EONIVOL</td>
<td>131.496</td>
<td>-21.338</td>
</tr>
<tr>
<td>EONIA</td>
<td>235.616</td>
<td>+1.37</td>
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Last Price

Source Bloomberg / ECB
Money Markets – GC pooling Rate / Volume vs. Excess Liq.

Source Bloomberg / ECB
Money Markets - EUR Spot Rates

Source Bloomberg
Money Markets – EUR$ cross currency swap 1 year
Outlook - EURIBOR Spreads

Source: Bloomberg
Outlook – EONIA Curve

Source Bloomberg
Outlook - Forward Eonia 12*24

Source Bloomberg