Money Market Contact Group
Review of Recent Developments

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Presentation to:
MMCG

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Major Events

Macro Economic

Grounds for optimism on world growth (Europe lagging)…..

IMF July Update: Global GDP to increase by 4% in 2015 (above trend)
Latest PMIs point to continued expansion
Employment rising strongly in US (NFP 2014 average 230k per month vs 194k in 2013)
Euro area Unemployment rate (July 11.5%) moving lower but from high level (12% peak in late 2013)

Political / Regulatory

With heightened political & regulatory event risk……..

War in Gaza / Ukraine / Middle East
No resolution to Argentinian default negotiations
Collapse of BES
Uncertainty ahead of SSM
LCR implementation delay to September?

5th June: ECB announce rate cut, tLTRO, suspension of SMP sterilisation
20th August: BoE voting split with 2 votes for hike in August
22nd August: Janet Yellen – “emphasis shifting to determining what labour market conditions would bring about less accommodation”
22nd August: Mario Draghi (Jackson Hole) “ECB stands ready to adjust policy further”

Monetary Policy

And diverging trends in monetary policy

Bank of Ireland Group
For small steps, for big steps, for life
Grounds for optimism on world growth - Europe lagging

- PMIs point to continued expansion
- Strong rebound in US post weak Q1, sustained growth in UK
- Ongoing but moderate recovery in Euro area
- Unemployment falling steadily in the US and UK, but lagging in Euro Area
Major Events – Political / Regulatory

Growth projections and ample liquidity supporting risk appetite?

Source: Bloomberg
Growth projections and ample liquidity supporting risk appetite?

Source: Bloomberg
Eurozone inflation expectations falling

- 22 Aug 2014 - Mario Draghi
  “The 5 year/5 year swap rate declined by 15 basis points to just below 2% - this is the metric that we usually use for defining medium term inflation.”

- Equivalent levels in US 2.50%, UK 3.25%

Source: Bloomberg
Central Bank Policy

Divergence in interest rate expectations reflected in $OIS, SONIA & EOMA

**USD** – Hike expectations / increasing pace

**GBP** – Hike expectations / moderation in pace

**EUR** – No hike expectations

Source: Bloomberg
Market Impacts – Cross Border Divergence

Multi-year US equity outperformance

Source: Bloomberg
Market Impacts – Cross Border Divergence

Macro underperformance feeding through to currency

Source: Bloomberg
Market Impacts – Cross Border Divergence

Euro becoming funding currency

Source: Bloomberg
Peripheral bond markets continue to rally

Source: Bloomberg
Market Impacts – Risk Appetite

German Target II Balances continue to fall…

…and money market risk premiums remain low as reflected in Spot FRA OIS

Source: Bloomberg
Money Markets

Eonia volumes increasing as ECB rates fall.

Source: Bloomberg
Money Markets

Recent evidence of Eonia being less sensitive to movements in excess liquidity

Source: Bloomberg
Money Markets

Overnight GC trading negative. Eonia first negative print 28th August 2014.

Source: Bloomberg
Money Markets

Markets preparing for tLTRO - evidence of switching LTRO funding for MRO funding?

Forward Eonia rates below zero. Markets expecting period of negative rates?

Source: Bloomberg