

Drivers of Recent Market Volatility and Re-Pricing in Euro Money Market Rates

ECB MMCG



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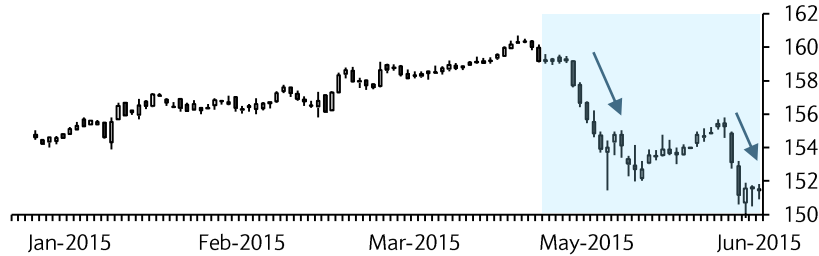
June 2015

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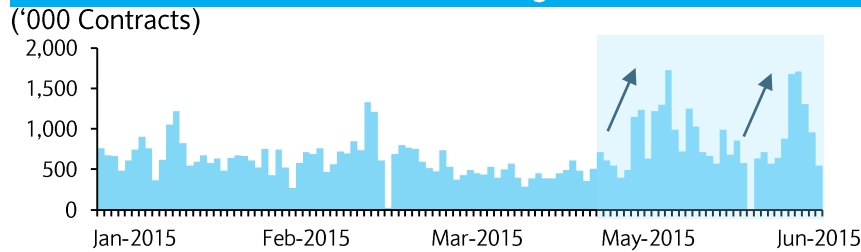
1. What happened – When the Bund fell off the cliff...
2. Why has this happened – Potential drivers....
3. Future Development/Implication – Risks to watch, opportunities to take...

The day when the Bund fell off the cliff...

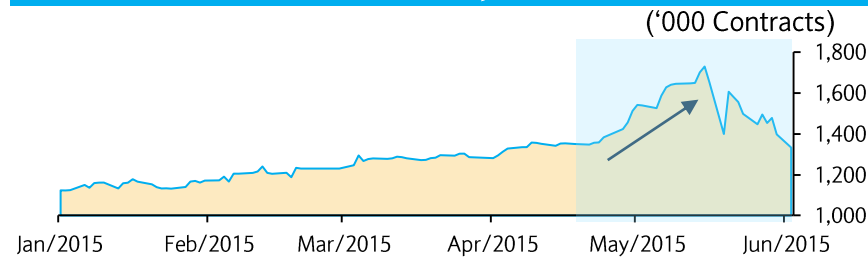
Bund Futures - Candle Chart



Bund Futures – Trading Volume

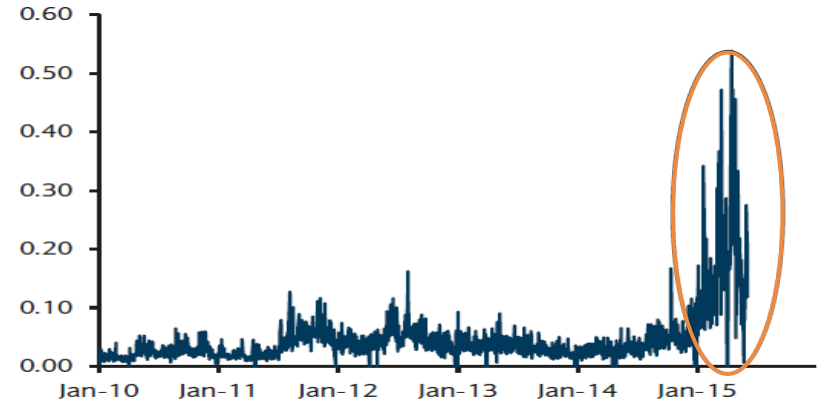


Bund Futures – Open Interest

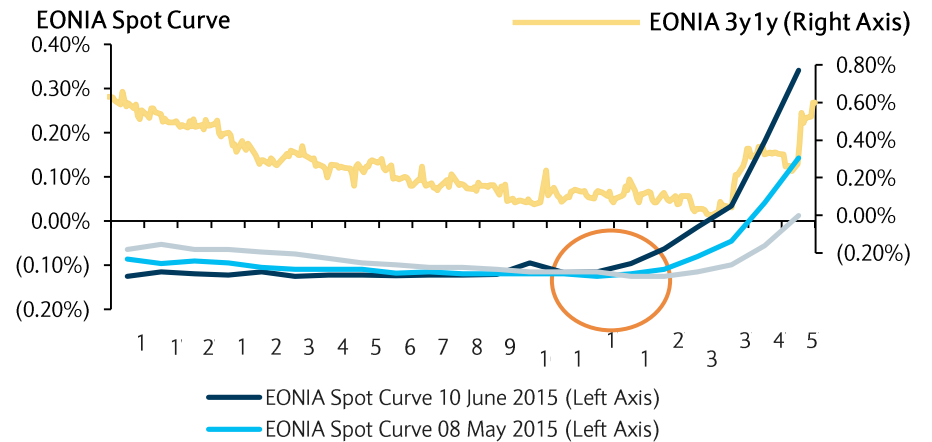


Source: Bloomberg

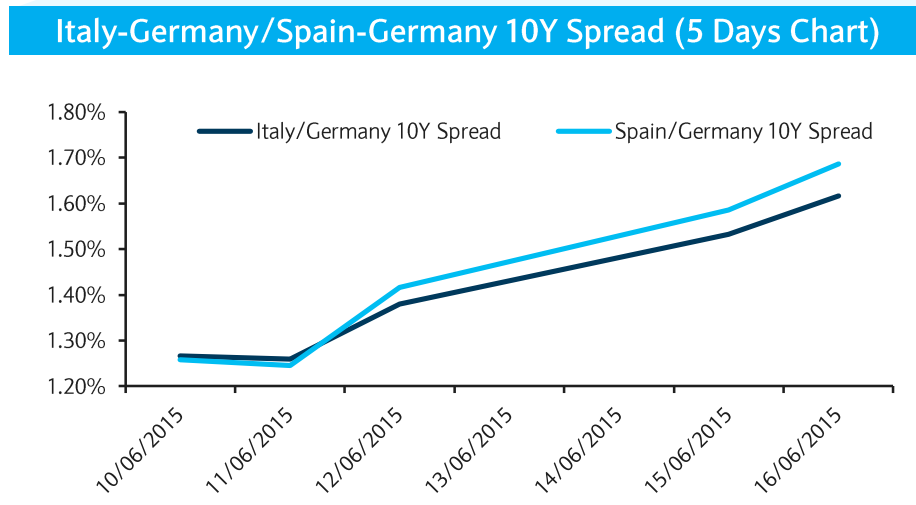
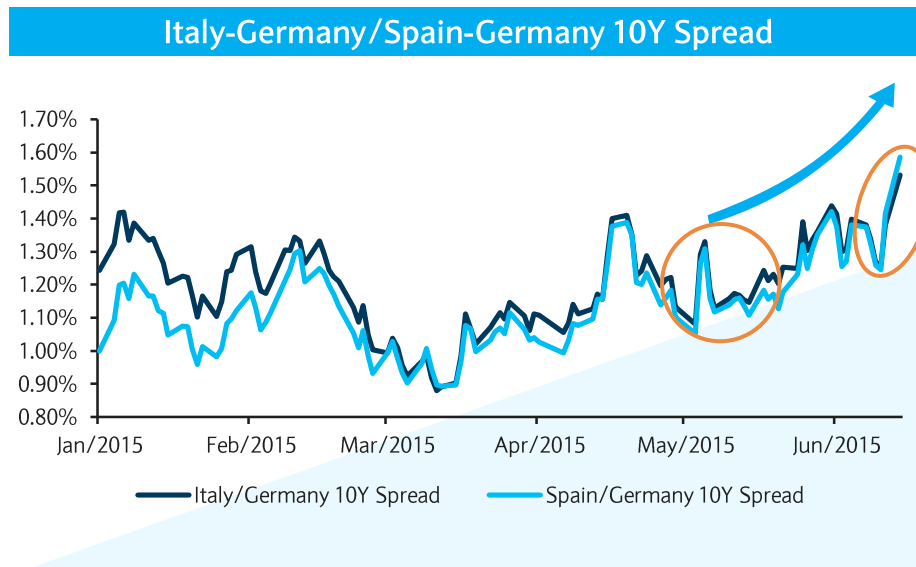
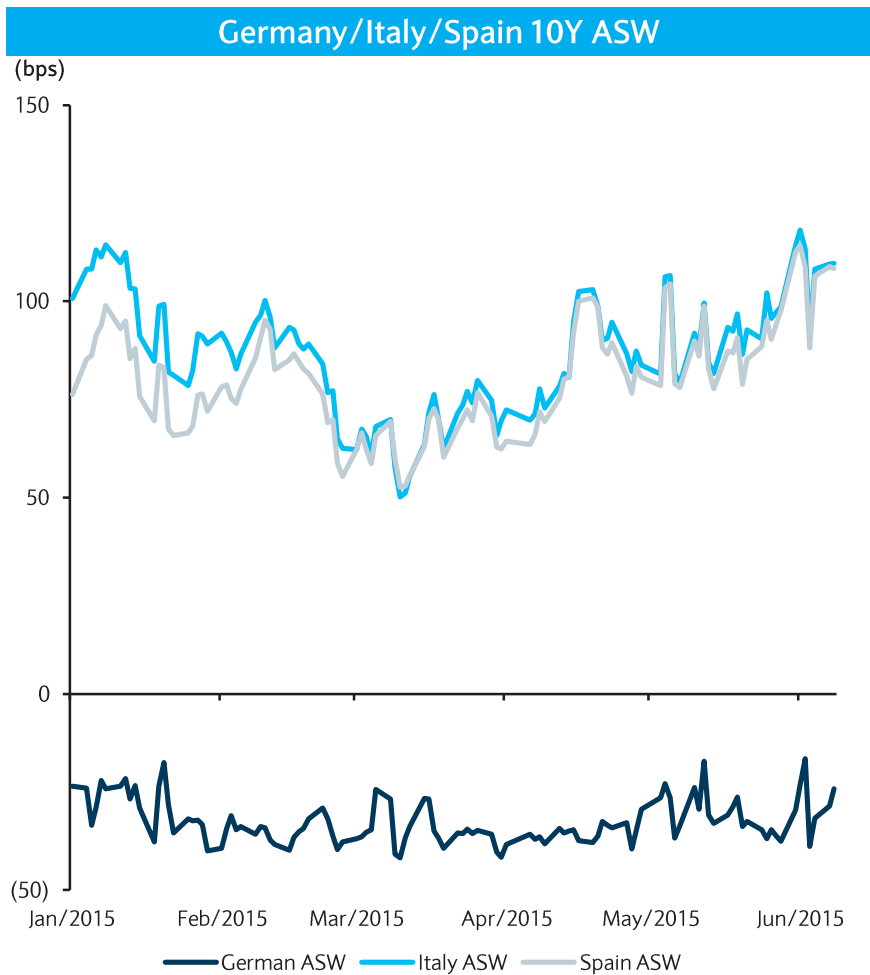
Bund volatility has indeed spiked as yields got very low



EONIA Spot Curve Change (-3m to today) and EONIA 3y1y



Amid significant volatility, non core credit spreads have remained relatively stable – has the market been too long duration?



Source: Bloomberg

Factors that might have contributed to the recent market developments

NCBs recent PSPP behavior could have had an impact on Bund sell off and relatively stable ASW Spreads...

ECB May's PSPP Table – Shortening duration in Germany

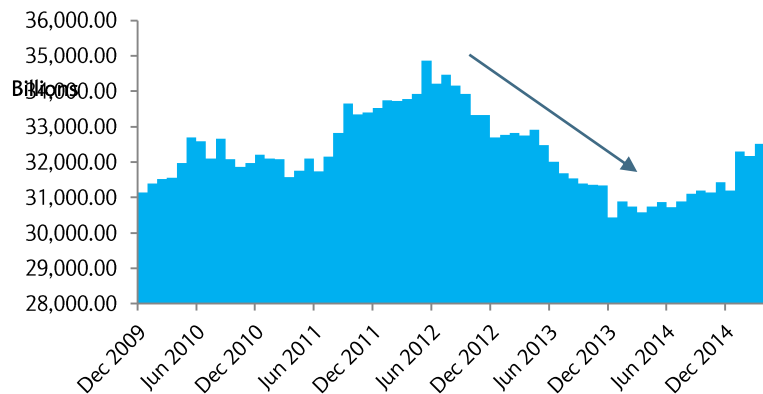
	EGB & Agency purchases under PSPP (€bn) (A)	Purchase % per country (B)	ECB capital key ratios (%) (C)	Actual purchase vs key ratio difference (D)	Weighted average maturity of the purchases (yrs) (E)	Weighted average maturity of eligible universe (yrs) (F)	PSPP holdings vs eligible universe weighted average maturity difference (yrs) (G)
Germany	34.4	26.6%	26.5%	0.2%	7.1	8.7	-1.6
Spain	16.8	13.0%	13.0%	0.0%	9.7	8.5	1.2
Italy	23.4	18.1%	18.1%	0.0%	8.7	8.7	0.0
Portugal	3.3	2.6%	2.6%	0.0%	10.8	7.8	3.0

Source: ECB, Barclays Research

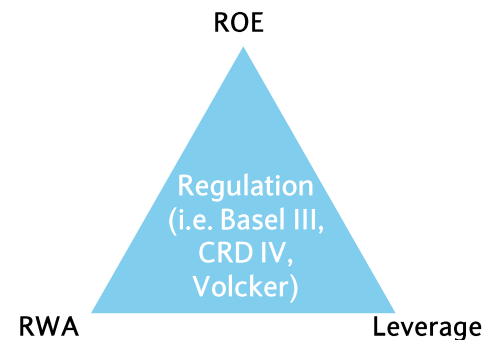
Factors that might have contributed to the recent market developments

European MFIs Aggregate Asset (excluding Eurosystem's) – With deleveraged balance sheets, banks are losing status as shock absorbers...

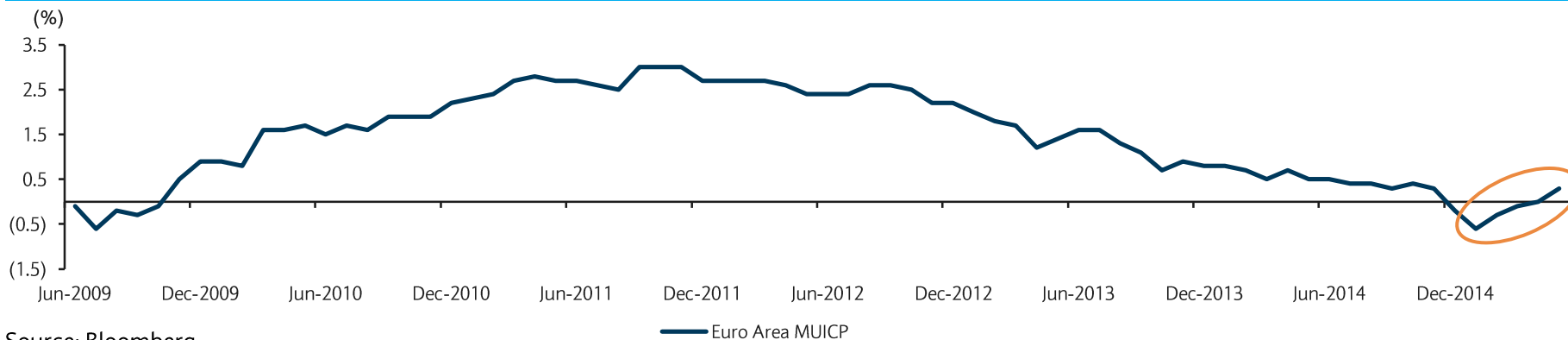
...as regulations impact balance sheet activities.



Source: Bloomberg, ECB



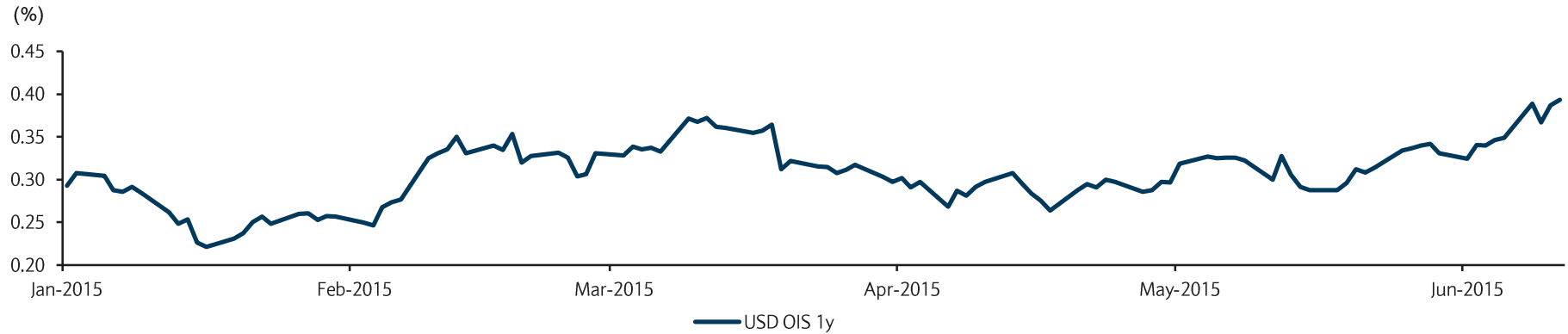
HICP is recovering, putting additional pressure on forward curve



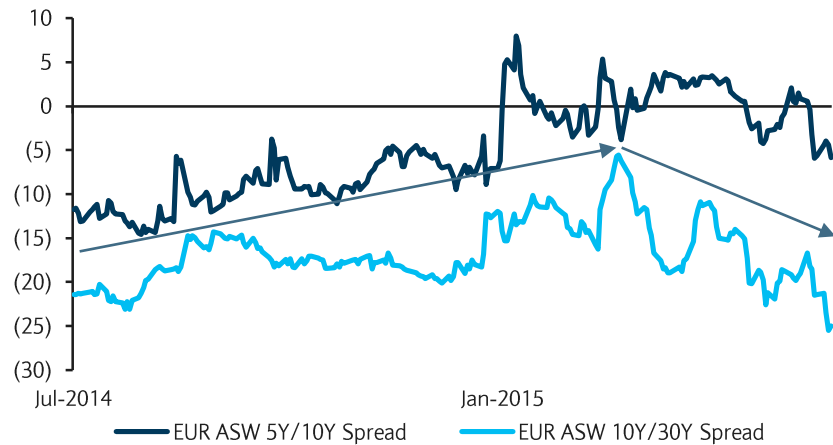
Source: Bloomberg

Risks to watch, opportunities to take

USD OIS 1y – Market has started pricing in the FED’s hiking cycle

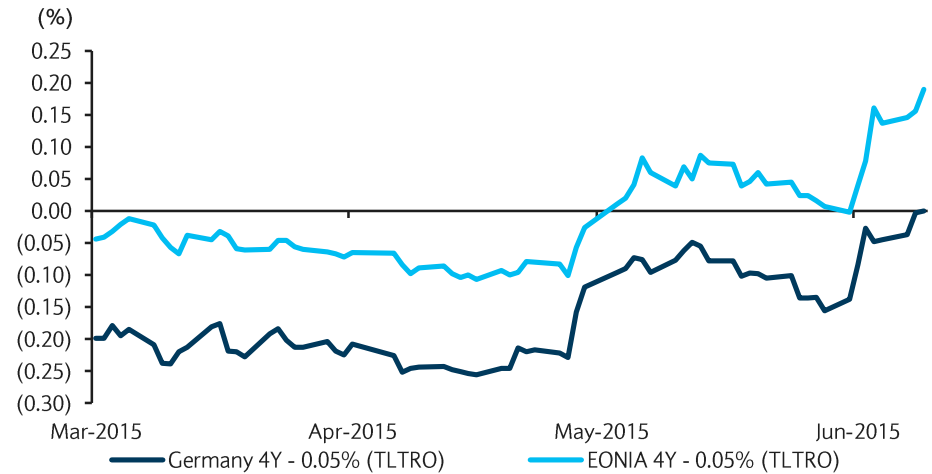


Has liquidity premium been priced in correctly...?



Source: Bloomberg

Relative Cost of TLTRO in banks' favour



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