Money Market Contact Group

Market functioning in the environment of large excess liquidity

*Items for discussion*

Frankfurt, 9th Sept 2015
Marco Bertotti
Last week, excess liquidity reached 500 eur/bln
EONIA panel ongoing contraction: the «first victim» of sharply negative rates?

Last month has been marked by a decline in the volume of the EONIA panel; average volume observed have been 24.1 bln in 2012, 20.6 bln in 2013, 26.5 bln in 2014, 22 bln in 2015 and just 13.9 bln in August 2015.
Since March 2012, borrowing at the ECB by Italy and Spain has constantly exceeded 50% of the total outstanding.

How the ECB and the MFIs involved will handle such situation in the run-up to Sep 18?
Excess liquidity and «yield compression» (1): the correlation looks counterintuitive but…

...its pretty straightforward that excess liquidity has played a role in driving down yields and spreads.

But, going negative, is still a big driver? or yields are becoming less and less “elastic” to liquidity changes?
Excess liquidity and «yield compression» (2): how liquidity risk is interconnected with banks’ credit risk...

Eurozone Excess liquidity vs Eur 5Y CDS

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Eurozone excess liquidity (Right axis)
Intesa Sanpaolo
BBVA
BNP
Deutsche Bank

Eurozone excess liquidity vs Eur 5Y CDS

Bps
0 50 100 150 200 250 300 350 400 450 500

Bln
0 100 200 300 400 500 600 700 800 900

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