Recent trends in repo rates

MMCG Meeting
12 December 2016
Frankfurt am Main
Volumes evolutions suggest activity stabilise at levels comparable to those of 2012

Repo rates, however, have substantially declined

Old and new factors behind the new type of price action

Will this trend continue?
## Overview

<table>
<thead>
<tr>
<th></th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Volumes lower but stable</td>
</tr>
<tr>
<td>2</td>
<td>A new type of segmentation</td>
</tr>
<tr>
<td>3</td>
<td>Dynamics at work</td>
</tr>
</tbody>
</table>
Volumes lower but stable

Volumes down: the impact of excess liquidity, similarly to 2012

Daily turnover in GC Pooling deferred index at its lowest since 2010-2012…

… while Excess Liquidity at its highest level ever

Both are clearly strongly correlated

Sources: Bloomberg, ECB
Volumes lower but stable

Stable volumes on a daily basis since summer 2016: EUR 450 bn per day according to MMSR data

Source: ECB MMSR data
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<p>| | |</p>
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<th></th>
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</tr>
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</tbody>
</table>
A new type of fragmentation

From DF rate…

Source: Brokertec, MTS
A new type of fragmentation

... Towards a new form of segmentation

MMSR confirms!

Lower mode

Left tails turn fatter, lower

DF rate
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Dynamics at work

The old factors

Germany: Less debt / other euro area countries

Weight of deliverables in futures baskets

New importance of old factors

Germany: The last very liquid AAA-rated country

Net negative supply

New factors

Regulations: EMIR for CCPs, HQLA for all

Other countries follow: NL, FR tend to trade lower

Purchase programmes
Collateral scarcity affects price action, but markets continue to function

Questions:

1) GC is now trading much more often below the DFR: what explains this, and should this be viewed as a distortion or…

2) … as a new, durable level of equilibrium where even GC becomes bond-driven, and is affected by collateral scarcity?

3) Could the new ECB measures (reduction in monthly purchases, cash collateral) counterbalance the increased specialness of repo rates?