ECB Money Market Contact Group
Frankfurt am Main, Monday, 12 December 2016, 13:00 – 17:00 CET

Summary of the discussion

1. Review of recent developments in euro money market activity

(i) Presentation of the main results of the quarterly Money Market Contact Group (MMCG) euro money market survey and additional insights from the ECB’s Money Market Statistical Reporting (MMSR) data on euro money market turnover

Julija Jakovicka presented the main findings of the quarterly MMCG Euro Money Market Survey conducted in the third quarter of 2016, which is conducted among current and some former members of the MMCG. This edition of the money market survey showed a general decline in euro money market turnover across all surveyed market segments, apart from the unsecured borrowing segment. Yet, despite the quarterly decline in the third quarter, on a year-to-date basis the total level of the surveyed euro money market activity in the third quarter had increased. Turnover in the unsecured borrowing segment has been increasing over the past two quarters. In the MMCG’s view, this development reflected the higher willingness of cash lenders to lend their funds at very low levels of interest rates, which provided sufficient compensation to the deposit-taking banks for the cost of the balance sheet usage.

The ECB MMSR data, available as of 1 July 2016, confirmed the general year-to-date trend in euro money market turnover, which registered stable to slightly increasing volumes in the secured and FX swap market and a mild decline in turnover in the unsecured market.

(ii) Update on the ECB’s Money Market Statistical Reporting

The ECB provided an update on the current status of the MMSR, which included information shared with reporting agents at a recent Eurosystem meeting with banks that report the detailed transaction-by-transaction MMSR data. Thanks to the constructive and intensive dialogue with reporting banks, the timeliness and quality of the data have improved steadily since the beginning of the data collection on 1 July 2016. MMSR data have already been used at the ECB to improve the understanding of money market functioning. In addition, MMCG members were given an initial indication of the type of aggregated data (volumes, rates, maturities, frequency) which could possibly be published on a regular basis.

The ECB clarified that the purpose of MMSR has always been to improve the ECB’s knowledge of the euro money market and the monetary policy transmission channels. The publication on a maintenance period basis, envisaged to start next year, would be intended neither to serve as a reference for financial contracts or products, nor to comply with the EU benchmark regulation. It would result instead from an ECB statistical regulation, following its own quality and governance standards.

Given questions about whether the ECB would make its MMSR data available to third parties, for example to facilitate the pre-live verification, i.e. the test period, of a fully transaction based Euribor, the ECB clarified that the statistical regulation would not allow the sharing of individual data with a private entity. The ECB is however looking at means of how to support the competent supervisor through some form of data access. Accordingly, banks would in any case need to send their data directly to the benchmark administrator.
2. Review of the latest market developments and other topics of relevance

The ECB reviewed the main developments in the euro money market since the last meeting of the MMCG, and recalled in particular the outcome of the most recent Governing Council meeting on 8 December 2016. Among the decisions of relevance for the money market, the MMCG discussed the Governing Council’s decision to allow the possibility of accepting cash as collateral in the Eurosystem central banks’ securities lending facilities. While some MMCG members welcomed the decision, saying it was a step in the right direction to support the smooth functioning of the repo market, other MMCG members pointed out that the overall limit for securities lending against cash collateral of EUR 50 billion would not be sufficient, and that the pricing of the facility (30 bps below the deposit facility rate or lower) was not attractive enough to alleviate the tensions observed in some core repo markets. A few members also pointed out that accepting cash collateral per se does not solve all technical inconveniences of accessing the facilities. In addition, the MMCG discussed the following issues:

(i) Recent trends in the evolution of the repo rates in the euro area

The ECB presented recent developments in repo market rates in the euro area. Contrary to the broadly stable developments in repo market trading volumes, repo rates have shown a continuing declining trend. This is also reflected in the distribution of repo rates being increasingly skewed to negative levels. Although core collateral has been affected most, the skewness was also visible in non-core markets. The negative levels of repo rates may provide an incentive for banks to use their portfolios of high-quality liquid assets in the repo market, thereby potentially increasing the supply of high-quality collateral in the repo market. For the time being, such activity is limited and banks showed reluctance to repo out their securities. Balance sheet reporting dates, in particular, the quarter- and year-ends were particularly unsuitable for engaging in repo market activity due to the related expansion of the banks’ balance sheets, at a time when the size of the balance sheet matters for the reporting of the leverage ratio and the calculation of bank levies and bank taxes.

(ii) Market preparations for the upcoming year-end and expectations for the money market liquidity;

Sascha Weil (Barclays) introduced some indicators of the anticipated year-end premia in a number of market segments. MMCG members were invited to reflect on the main drivers of the year-end-related price developments and their expected impact on bank funding and market liquidity. MMCG members broadly agreed on the fact that preparations for the year-end, e.g. balance sheet optimisation and funding, were taking place earlier in the year, i.e. in the course of November. While markets were less liquid in November, liquidity improved somewhat in early December. The low levels of yields on short-term German government securities and the deeply negative rates in the repo market were seen as a sign of balance sheet restrictions for banks, especially at the balance sheet reporting dates, as well as strong demand for the AAA-rated collateral.

As market pricing of the USD premium in the FX swap market is elevated, the ECB operation of 14 December, offering 21-day USD liquidity against euro collateral was expected to attract larger than usual demand. MMCG members pointed out that there some perception of stigma remains attached to participation in the USD operations offered by the Eurosystem. The MMCG Chair rejected the notion that the ECB attached a stigma to the usage of its operations. He clarified that the facility’s aim of is of a backstop nature and is in principle priced accordingly. However, the pricing has so far been changed only infrequently, which could lead to situations, in which access to the operation was financially attractive.

(iii) The impact of the Italian referendum on the financial market development and the outlook.

Marco Antonio Bertotti (Intesa) provided an overview of the recent developments and the near-term outlook. He noted the lack of adverse market reaction to the announcement of the results of the referendum.


Laurent Cote (CACIB) analysed the developments in the short-term USD funding markets in view of the US money market funds reform and the US enhanced prudential standards. In addition, MMCG members reflected on the main drivers of the FX swap market developments and factors affecting the supply and demand of the US dollar in the FX swap market. In particular, those factors included, the US money market funds reform, the monetary policy divergence between the euro area and the United States, as well as the Dodd-Frank Act and the
resulting enhanced prudential standards. The latter were expected to result in less centralised USD funding activity, which until now had been primarily concentrated in the US offices of European banks. With regard to US prime money market funds, a large majority of which had been converted into government money market funds and hence reduced their exposure to the banking sector, the reduction had been partly replaced by other investors and was partly reflected in lower reserves balances held by banks with the Federal Reserve.

Banks would be very mindful of their balance sheet costs when supplying US dollars or considering taking part in the ECB’s operations. Some members mentioned that, if the ECB were to offer an attractively priced three-month operation, which would be useful for Liquidity Coverage Ratio (LCR) requirements, it would likely also be accessed by major market participants, even if they availed of alternative instruments to source US dollar funding in the market.

4. **Update on the repo market benchmark.**

Alberto Lopez from the European Money Markets Institute (EMMI) updated the MMCG on the progress made on the development of the methodology for the alternative repo benchmark. According to the working version of the new methodology, which will be put forward for public consultation, the new repo index would be construed out of anonymous automatic trading system (ATS) executed trades, cleared through qualifying central counterparties (CCPs), with one-day maturities (overnight, tomorrow next, spot next), aligned by the settlement dates and secured by ECB eligible collateral. Depending on the outcome of the public consultation, the launch of the new index could be envisaged to take place around mid-2017. MMCG members welcomed the progress made on the index in view of the increased importance of the repo market and the declining turnover in the unsecured euro money market in recent years.

5. **Planning of the next meeting**

MMCG members were invited to make suggestions for the 2017 MMCG work programme by means of a written procedure. In particular, MMCG members were asked to indicate their interest in the issue of intraday liquidity management and to specify aspects of relevance for their organisations.

The next meeting of the MMCG will take place on **14 March 2017** in Frankfurt.