Repo market: fairing in calmer waters?

Expectations for the September quarter end

ECB Money Market Contact Group
Frankfurt, 26 September 2017
Overview

Market feedback suggest improved repo market conditions:

- Less pressure on the repo rates: narrowing “specialness” spread
- Robust repo market volumes
- Uneventful futures delivery dates
- Low amount of fails
- Evidence of market pre-funding ahead of the quarter-ends in 2017
Repo market: fairing in calmer waters?

Less pressure on the repo rates with increasing repo market volumes

- Narrowing GC vs non-GC spread
- Higher repo market volumes in the run-up to end-September
- What are the main drivers of these developments?
Repo market: fairing in calmer waters?

Less pressure on the repo rates with increasing repo market volumes
Case of German collateral

- Narrowing of the spread and an increase in volumes is observed also for the German collateral

Source: BrokerTec
Expectations for the September quarter end: MMCG discussion
Most recent repo market developments point to the reduced quarter-end volatility: pre-funding?

Weighted average repo rate for O/N, T/N and S/N combined, GC and non-GC trades.

Source: MMSR, own calculations

Expectations for the September quarter end: MMCG discussion
Possible questions for discussion

• Do you agree with the general assessment of a better functioning repo market in the euro area?
• What could be the main drivers for these developments?
• What is the role of the Securities Lending facilities in this?
• Would you confirm a larger tendency towards pre-funding in the repo market?
• Is bank pre-funding in longer tenors contributing to higher volumes in the short-dated repo market?
• What does this imply for the forthcoming September quarter-end and for the year-end?