Italian repo market overview

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Daily (SN,TN, ON) prices and volumes dynamics on Italian repo market

- Market volatility increased the amount of short positions leading to an increase of specials bonds;
- The growth of traded volumes on the repo market was sustained by the special segment with an increasing weight of bonds trading below -0.46 bps;
- Main bidders were investment banks from London with special focus for 2-5y securities probably related to the price action on Italian bond cash market;
- Italian banks appeared more reluctant to refinance their specials' portfolios leading to the widening of bid-ask spread and a widespread drop of repo rates;
- Huge part of the widening of cash rates was future driven. This was highlighted by the repo activity on CTDs during the turmoil with BTP 06/20 (BTSA) and BTP 09/28 (IKA) respectively trading at -2% and -0.90%.

Source: MTS
During the first 3 weeks of the month, the curve remained flat up to 6 months tenor at -42bps (EONIA -6). Regarding 9-12M trades, the year-end together with increasing bidding interests of anglo-saxon investment banks made GC rates more expensive at -45bps (EONIA – 8).

Within these 3 weeks, the gradual widening of cash spreads led counterparties to be more interested in building-up cash&carry strategies up to 2 years maturity.

With the sell-off accelerating, repo rates over longer tenors started to evaporate and the curve upward shifted of around 4bps and longer tenors GC rates steepened.

During last week prices longer than 1M dried up with some counterparties refinancing their portfolio at EONIA + 20 bps on the 6 months and EONIA + 25 bps on the 1 year.

Along with the retracement of BTP yields, repo rates have been fairly normalizing with the curve that shifted +3bp and 9/12M rates that remain 3bps higher compared to shorter ones.

Repo market is currently reverted to normal liquidity conditions with most of the activity being focused on shorter tenors. MTS has been consolidating traded volumes above 100bln per day during that week.