

Functioning of the Euro Area Repo Markets



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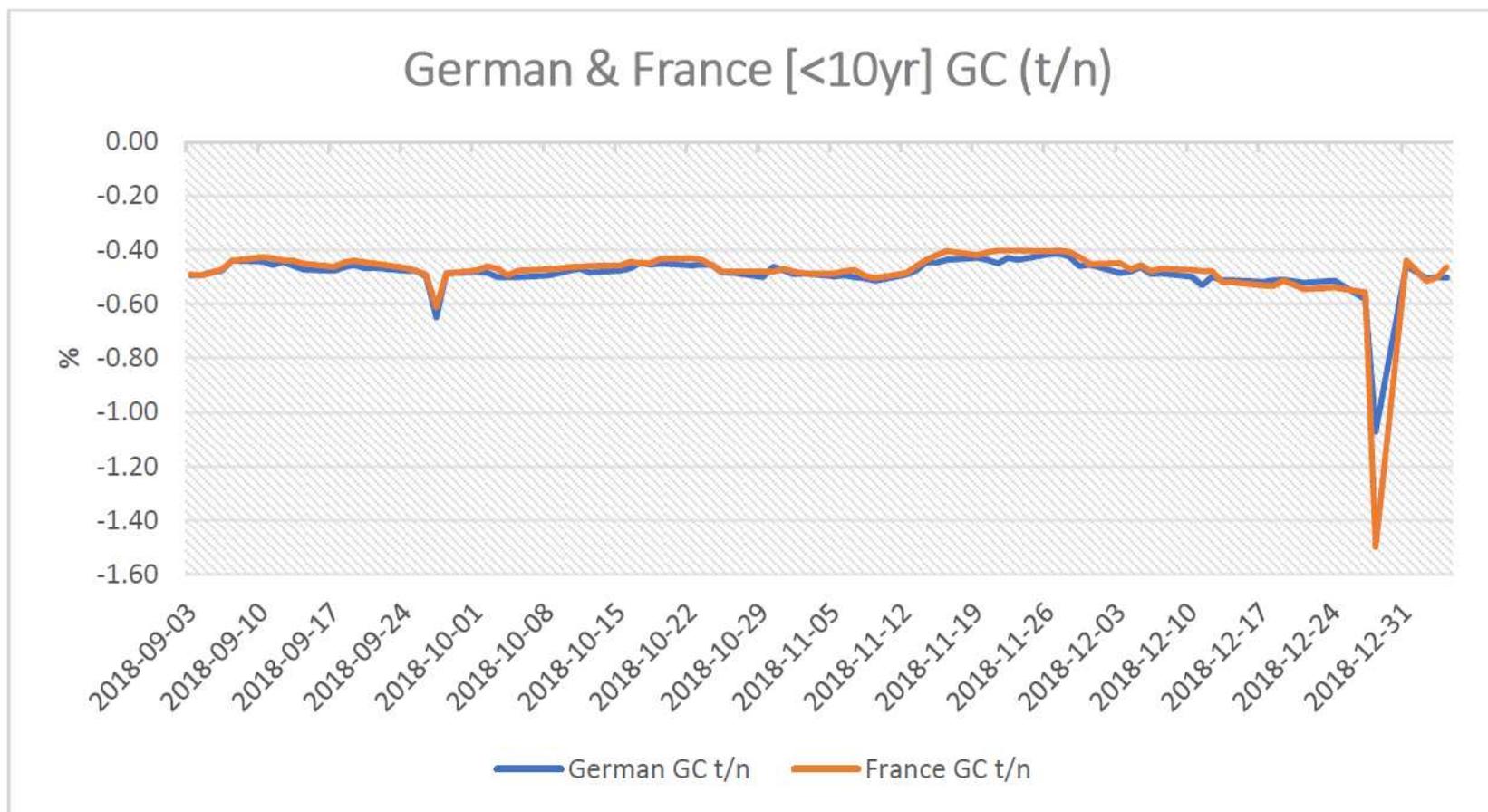
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Observations of Developments in 2018/2019

Observations	<ul style="list-style-type: none">▪ Convergence of repo rates across European underlying's▪ Fairly short dated trading tenors except for Italian government debt▪ Relatively uneventful trading at recent critical reporting dates
Potential Reasons	<ul style="list-style-type: none">▪ End of QE provided remedy for collateral availability as well as it reduced short positions▪ Because of a potential TLTRO succession rates the execution of trading strategies are set on hold▪ Lack of stimulus stemming from a recalibrated rate expectation is confining activities mainly to short tenors▪ Market participants have become more aware of behavioral risks and managed potential risks in advance
Evidence	<ul style="list-style-type: none">▪ Price-actions at specific dates became evident in forward trading whereas levels at critical dates were trading at significantly cheaper prices▪ Market participants with no access to ECB's deposit facility managed their needs ahead of time and/or mitigated the potential risks in price and availability of collateral with covered RCFs▪ CtD bonds traded at significantly cheaper levels
Selected Elements for Discussion	<ul style="list-style-type: none">▪ Extension of collateral schedules▪ Over-borrowing▪ Lending programs of European NCBs▪ Spread compression▪ Collateralized RCFs



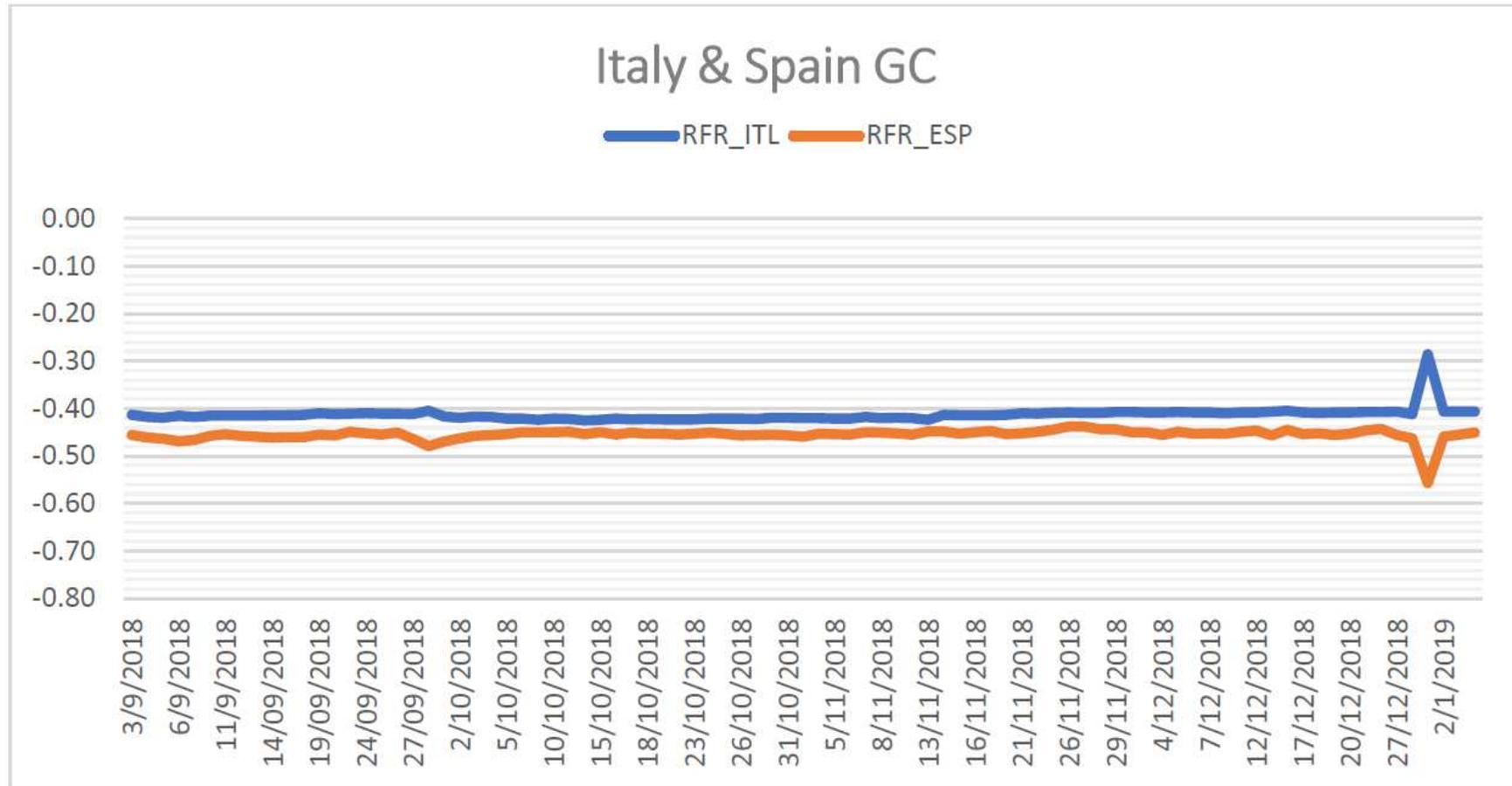
2018 Rate Development of German & French GC



Source: Source: Nex Data Services Ltd (BrokerTec Repo)



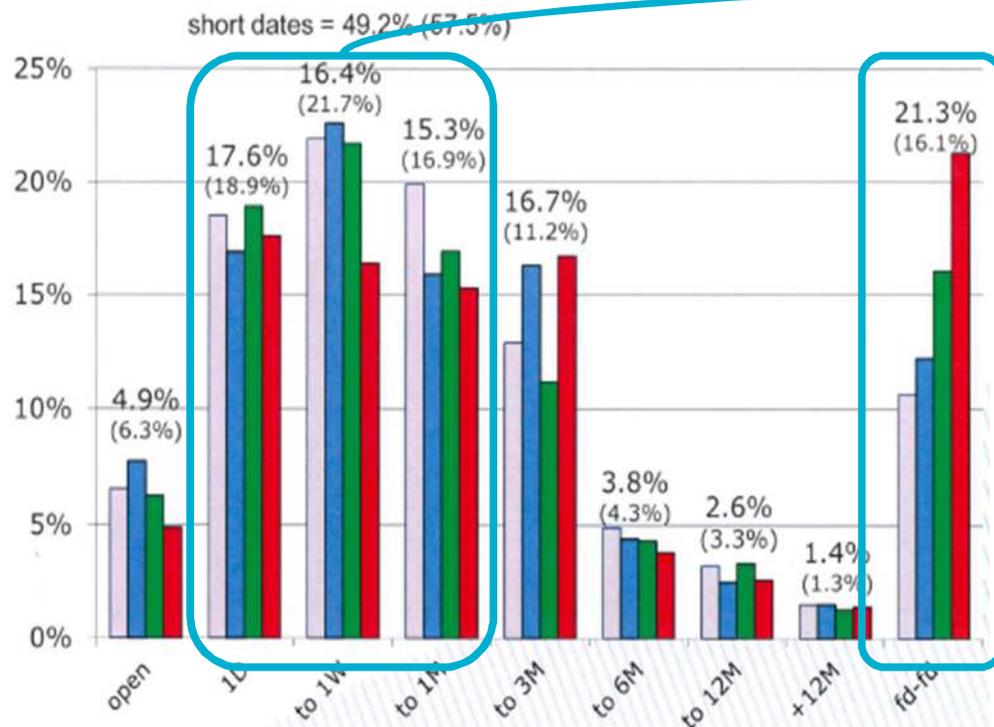
2018 Rate Development of Italian & Spanish GC



Source: Repo Funds Rate



Volumes within the European Repo Market



Volume in short termed transactions reduced slightly during the last 2 years (57.5% to 49.2%) in favor of forward trades, but nevertheless almost half of market volumes are traded in tenors < 1 month

Throughout 2018 the volume in forward repos has more than doubled from 10,5% in June 2017 to over 21% in December 2018

Source: ICMA - 36th European Repo Market Survey December 2018
6 Month-Intervals starting June 2017



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