The European Repo-Segment under the impact of Tiering

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Main Takeaways from TIERING

- After ECB monetary policy decision (12/09), market repriced future rate expectations with repo curves moving along with EUR OIS curve.
- The announcement of the entity of X6 tiering multiplier spread some doubts about the excess of liquidity held within the Italian banking system – which appeared not sufficient to fully benefit from 0% on tiered amount.
- As a consequence, during second half of September Italian repo rates were exposed to upward pressures with rates from 2M to 1y around -40bps. Market reaction was particularly pronounced during 12.09 with 6M GC trading from -0.52 to -0.40.
- In the period towards the beginning of the tiering (30.10), Italian banks efficiently front-loaded liquidity in order to arrive well prepared at the start of the maintenance period. Uncertainties surrounding future development led to increasing volumes over tenors below 1month.
- Some upward pressures were recorded also on core paper with repo rates tightening toward the level of the deposit facility.
- Italian repo market was extremely resilient during the beginning of the tiering showing good liquidity conditions both in terms of rates and volumes (140bios daily). After the first 3 days spike (ON at -40bps) short term rates found a consolidation level around -0.46.
- Sentiment over the first tiered maintenance period appears positive in an environment of good cross-border flows and declining volatility.
- A good test of the Italian repo market's resilience will be the next maintenance period starting from 17.12.19 when the combination of Tiering and year-end would be a great challenge for market participants.
Evolution of the Italian Repo Market

- Italian repo market was extremely resilient during the beginning of the tiering showing good liquidity conditions both in terms of rates and volumes (140bios daily) – Table 1

- Volumes were mainly focused within maturities below 1 month – Chart 1

- Activity were mainly liquidity driven as shown by the increasing weight of GC trades – Chart 1

- The tiering announcement generated an overshooting of the Italian repo curve. Before beginning of tiering, the curve appeared almost flat around -40bps – Chart 2

- European core paper tightened toward the deposit facility level over the entire curve and remained linked to the shifts of EUR OIS curve – Chart 2

(*) The sample includes only trades done on MTS via platform and OTC. Please note that trades executed on BTEC were excluded. Please note that trades executed on MTS via RFQ were excluded.
Day-by-Day Activity (**)

- Uncertainties regarding future development (Rate cut + modification of Tiering Multiplier) led banks to focus on shorter tenors – Chart 1

- Spreads of Italian repo rates against EONIA remained quite stable. Market traded at EONIA +5bps only during first 3 days of maintenance period – Chart 3

- The special activity gradually dropped in terms of volumes with everyone focusing on liquidity – Chart 4

- Special rates converged toward GC and day-by-day price volatility declined as shown by the tightening of Max-min average spreads – Chart 5

(*) The sample includes only trades done on MTS via platform and OTC. Please note that trades executed on BTEC were excluded. Please note that trades executed on MTS via RFQ were excluded.

(**) Analysis considers only trades with maturity below 1
Before ECB Sep meeting, Italian repo curve moved according to EUR OIS curve.

After ECB meeting and tiering announcement, Italian curve appeared totally delinked from OIS curve. The immediate reaction was impressive during 12.09 with 6M GC trading from -0.52 to -0.40.

During October, Italian repo rates were trading above EONIA for tenors longer than 1 month. On the contrary, core paper remained below EONIA but tightened toward the deposit facility level.

The beginning of the tiering came better than expected. Short term Italian repo rates found a consolidation level around -45/-46 bps and slightly influenced longer rates.

Potential tension over the year-end kept weighting on rates from 2months on.

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Italian Banks Front-Loaded Liquidity in a Environment of Uncertainties (**) 

- Italian banks were able to tempestively fund their portfolios – Chart 9
- Significant funding activity was recorded for bonds not tradable on the platform (BTP Italia, Rep of Italy, CB)
- Duration of funding strategies was reduces below 1M – Chart 7
- Banks were interested in collecting liquidity with an increasing weight of GC segment – Chart 8
- Spikes in volumes during the second half of September were the combined effect of front-loading activity and unwinding of speculative positions – Chart 9
- During the End of November counterparts started to focus on year-end, pricing in a 0% rate for the 31/12-02/01 period

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(**) The following analysis consider only trades with tenor longer than 1M