Developments in Euro and USD money market conditions since COVID-19 emerged
Sars-CoV-2 Development

Source: Center for Systems Science and Engineering (CSSE) at John Hopkins University,
Update from 23rd March 2020 07:55 pm
Sars-CoV-2 Development

Coronavirus COVID-19 Global Cases by the Center for Systems Science and Engineering (CSSE) at John Hopkins University, Update from 22nd March 2020 07:43 am
US Markets

Fed Bazooka:
- 100-150 BPs emergency cut
- QE programme worth $700 billion
- 84 Day FX Swaps lines
- Encourages banks to use the discount window (for up to 90 days)

March 3rd

- 50 BPs emergency rate cut in an unanimous decision

March 9th

- Amount offered by the Fed in the overnight and weekly repo increases to 150bio and 45bio respectively.

March 12th - 20th

- Daily repo auctions (O/N, 1M, 3M) in up to 500Bio USD but only very little take-up by primary dealers

March 15th

- USD FFE (LHS)
- USD SOFR (LHS)

March 17th

- Section 13(3) activated. Announcement of the Commercial Paper Funding Facility

Source: Reuters, NY Fed
In USD LOIS spread widened significantly showing the stress in the market and difficulties to fund on term;
In EUR this widening so far is only marginal; it seems that additional ECB injections help although it need to be mentioned that term funding nearly stopped
Funding Squeeze – XCCY funding

USD funding via swaps also showed significant stress levels

Coordinated announcement of central banks to support market via USD tenders show already positive effects on very short end

1-3Month still at elevated levels but off the highs

Source: Reuters
USD CP Issuance

Overall volumes in USD CP issues are relatively constant but yields have increased and a shift from financial CPs into asset-backed CPs can be seen.
Funding and Credit Spreads

While US and German Bills are lower in yields or at least unchanged, spread to periphery widened significantly; Even in longer dated UST selling pressure was seen

Source: Bloomberg
SUMMARY

• Market impact started with the spread of the virus outside China, especially once the first cases in Italy were spotted

• First reaction by central banks were rate cuts, but they seemed to create more panic than calming down the markets

• Worries on corporate funding caused a huge USD funding squeeze which could be halted by combined central bank action

• In EUR such a funding squeeze was not seen so far in the interbank market although term funding seems to be everywhere on hold

• Significant credit spread widening between different EU member states but especially in the lower rated corporate sector