Market Developments
Euro Secured Funding

Money Market Contact Group
March 16th, 2021
Limited Volatility

- Early covering as participants concerned by excess reserves and collateral scarcity.
- Forex basis widening caused stress in December as providing opportunities to USD holders.
- Pressure vanished on the turn in a declining volume thanks to balance sheet regulatory relief, the flattening of the Forex basis and ECB' Securities Lending Program.
Global Richening

Eurex EUR Repo Outstanding Volumes (m€)

Stoxx GC Pooling Deferred Fund Rate Index

Eurex EUR Repo Outstanding Volumes (m€)
- Source: Eurex

Stoxx GC Pooling Deferred Fund Rate Index
- Source: Stoxx, Refinitiv

Italy Repo Curve Evolution
- Source: Natixis

Germany Repo Curve Evolution
- Source: Natixis

France Repo Curve Evolution
- Source: Natixis
Collateral Scarcity

- Despite end of year turbulences, we see a clear richening trend in both core and peripheral repo.

- The euro zone has excess savings over investment. Savers are looking to buy risk-free bonds, but these bonds are extremely scarce due to the ECB’ purchases, leading to very low long-term interest rates.

- The poor supply of European Government Bonds, after ECB’ purchases, combined with higher savings should maintain this trend.

- Easing in ECB’ SLP access, more active involvement of national debt managements offices and higher usage of CCPs should smooth these effects on the market.
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