EUROZONE SECURED FUNDING SEGMENT: EXPECTATIONS FOR YEAR-END AND FOR 2022

PRESENTATION TO THE ECB MONEY MARKET CONTACT GROUP

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REPO RATES HAVE BEEN DECLINING COMPARED TO UNSECURED CASH

➢ SINCE THE COVID CRISIS EARLY 2020, THE RATES SEEN ON THE SECURED FUNDING SEGMENT HAVE BEEN DECLINING COMPARED TO UNSECURED FUNDING SEGMENT

FROM -3.5 BP IN APRIL 2020 TO +20 BP MID NOVEMBER 2021

➢ THREE FACTORS EXPLAIN THIS TREND:

1/ ECB POLICY: PANDEMIC ASSET PURCHASE AND TLTRO

2/ INCREASED STRUCTURAL DEMAND FOR HQLA IN A BROADELY COLLATERALISED FINANCIAL SYSTEM

3/ TEMPORARY FACTORS

• END OF YEAR BALANCE SHEET REDUCTION AMPLIFIED BY THE SINGLE RESOLUTION FUND TAX

• MARKET VOLATILITY AND INCREASED MARGIN CALLS

• SHORT POSITIONS BUILT IN THE MARKET FOLLOWING ECB OCTOBER MEETING (AS WELL AS BOE AND FED MORE HAWKISH STANCE)
ECB LENDING OF SECURITIES

- This measure dates back to April 2015
- Lending securities against cash was first introduced on December 8, 2016 to address the scarcity of German paper.
- The initial limit was €50 BLN, increased to €75 BLN in March 2018 and then to €150 BLN on November 16, 2021.
- The recourse to this measure is limited as:
  * It is designed for back-stop purpose and therefore at a less attractive rate.
  * It is non-homogeneous across national jurisdictions: fragmented rules, caps by ISIN at €200 MLN, credit limits by counterparty.
- Overall, the effects of past measures were limited and did not prevent year-end tensions (as seen in 2016).
OUTLOOK FOR YEAR-END: INCREASED TENSIONS IN THE SHORT-TERM MARKETS

- PRICING OF EUROPEAN BONDS OVER YEAR-END IS SHOWING A SITUATION CLOSE TO 2016
- YEAR-END TENSIONS STARTED VERY EARLY IN MID SEPTEMBER
- REPO RATES ARE STRONGLY IMPACTED BY BANK’S INABILITY TO INCREASE BALANCE SHEET CONSUMPTION
OUTLOOK FOR 2020: NORMALIZATION AT A SLOW PACE, HURDLES STILL TO BE EXPECTED

➢ THE NORMALIZATION OF THE ECB POLICY IS EXPECTED TO BE GRADUAL AND CAUTIOUS

➢ THE AMOUNT OF COLLATERAL AVAILABLE WILL DEPEND HIGHLY ON
  • TAPERING AMOUNTS AND SCHEDULE
  • TLTRO REPAYMENTS
  • THE ECONOMIC AND INFLATIONARY OUTLOOK AND THE HIGH DEPENDENCE ON THE SANITARY SITUATION

➢ FURTHER DEMAND FOR COLLATERAL WITH THE NEXT PHASE OF THE MARGIN RULES ON UNCLEARED DERIVATIVES DUE TO BE IMPLEMENTED IN SEPTEMBER 2022

➢ THE ECB « QUICK-FIX » ENDS IN Q2 2022 AND WILL FURTHER IMPACT BANK’S ABILITY TO ACT AS INTERMEDIARIES IN THE REPO MARKET