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ECB Money Market Contact Group Collateral scarcity and MMFs

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Amundi
ASSET MANAGEMENT

MMFs use of the repo market

– How do MMFs usually use the repo market?

Speaking about non-public debt MMFs, essentially to invest part of their liquidity buffers.

– How are MMFs liquidity buffers calibrated?

Liquidity buffers are framed by MMFs regulation (MMFR), which imposes minimum levels for daily and weekly liquidity ratios:

- 7.5% and 15% for VNAV funds
- 10% and 30% for LVNAV and CNAV funds

After March 2020 turmoil, the daily liquidity buffers might have been significantly increased (> 20%), in order to be resilient to stressed redemptions similar to what happened during the Covid-19 crisis.

– What is the composition of MMFs daily liquidity buffers?

They can be composed of:

- cash left on the current account at the custodian (up to 10% / 20% under exceptional circumstances)
- Securities maturing on the following day
- O/N deposits
- Reverse repo with call 1D

– Who are the counterparts of MMFs for their repo operations?

Counterparts are banks (no CB facility in the EZ), which makes MMFs potentially exposed to market collateral scarcity as well as to banks' balance sheet constraints linked with their liquidity ratios.

MMFs use of the repo market

– What has been the situation recently and how is it evolving?

The case of year-ends

End 2021, MMFs suffered from the disequilibrium between the very high level of cash and the collateral scarcity, since at the same time:

- Banks were reluctant to welcome unneeded deposits because of balance sheet constraints, leading to potentially significant inflows in MMFs for the year-end turning and to extremely limited envelopes for MMFs O/N cash
- Collateral become extremely expensive

... leaving MMFs at risk of breaching the regulatory ratio on the amount of cash left at the custodian.

To cope with this risk, some Asset Managers implemented a soft closing of their MMFs, warning their clients that either they would refuse subscriptions, that significant subscriptions would be subject to an approval, or that they were considering the eventuality to activate deterrent subscription fees.

So far, there is some evidence showing that end 2022 should be easier as:

- The November TLTRO3 redemption seem to have begun to ease collateral tensions and December redemption is expected to be much bigger thus could accentuate this trend.
- At the same time, by redeeming significant amounts of TLTRO3, banks' balance sheet constraints are easing also, leading to a reduced risk to see massive inflows in MMFs and making banks show a renewed interest to welcome MMFs cash

MMFs use of the repo market

- What has been the situation recently and how is it evolving?

Apart year ends

The use of repo in daily liquidity buffers mix depends on yields offered compared to the other alternatives. Therefore it depends essentially on the conditions of remuneration of the cash that can be negotiated with the custodian.