Euro Money Market Study 2022

2021-2022 trends observed through ECB Money Market Statistical Reporting data

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Comprehensive **analysis** of euro money market over the two year period: Transactions-based dataset provided by reporting agents contributing to MMSR
Activity increased in a context of rate hikes, collateral scarcity, ample reserves.

Euro Money Market Daily transaction volumes

ECB Deposit Facility Rate

European Government Bond (EGB) availability

Excess Liquidity (EL)

Sources: MMSR

Sources: ECB

Notes: Calculated as the total issuance of euro area government bonds minus the Eurosystem footprint (monetary policy portfolios + government bonds pledged as TLTRO collateral – bonds lent through the securities lending program).
Activity dominated by money market secured trades and FX swaps

Daily transaction volumes (flows)

Outstanding amount (stock)

Sources: CSDB for the STS segment and MMSR for the other four segments.
Note: From 2016 on, series includes MMSR transactions. Previous to that, the series includes euro money market survey for 38 overlapping reporting agents.

Note: OIS is not represented because these derivative only involve the exchange of interest payments between the parties, without exchanging the notional amounts.
Significant share of non-banks and CCPs in several money market segments

Secured

- **Banks**
  - 10%
- **Non-banks**
  - 21%
- **CCPs**
  - 69%

Unsecured

- **Banks**
  - 22%
- **Non-banks**
  - 78%

Short-term securities

- **Non-banks**
  - 90%
- **CCPs**
  - 10%

Overnight Index Swaps

- **Bank**
  - 5%
- **CCP**
  - 95%

Source: CSDB for the STS segment and MMSR for the other segments.
Effect of interest rate hikes

Uneven and partially lagged transmission to secured

Sources: ECB and Bloomberg.
Note: The "STR shows the one-day change for unsecured overnight trades that settled on the last day of the MP and the first day of the MP.

Good and complete transmission to unsecured

Sources: BrokerTec, MTS.
Note: Basis points difference of the volume-weighted average rates of the overnight (O/N), spot/next (S/N) and tomorrow/next (T/N) trades from the day of the Governing Council decision until the last day of the maintenance period (MP) and that settle either on the first or second day of the new MP, and the trades from the day of the Governing Council decision until the last day of the MP and that settle before the new MP. For Spain, there were no transactions with GC that met these date requirements for the September hike.
Effect of ample reserves in the system

Daily borrowing transaction volume

Sectors EA banks borrow from

Sources: MMSR
Short investments horizon exerted downward pressure on unsecured rates

€STR vs DFR and Euribor vs OIS spread

Unsecured

Secured

Source: MMSR, BrokerTec and MTS

Sources: MMS
Effect of collateral scarcity

Transaction secured volume

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Source: MMSR.

Note: Non-general collateral repo refers to secured transactions collateralised using specific securities (international securities identification number (ISIN) codes) and trades with undefined collateral. Given that reporting special collateral is voluntary in the MMSR, the volumes may be under-represented.

Both graphs refer to daily transaction volumes.

Secured transactions by collateral type

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<th>Year</th>
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GC  Non-GC (only special)  Non-GC (except special)
Specialness exerted downward pressure on repo rates

Repo rates spread to DFR by collateral jurisdiction

Share of repo volume trading below the GC repo rate (%)

Sources: MMSR, BrokerTec and MTS
Euro money market developments in 2021-2022 highlighted in the Study

Volumes
• Turnover dominated by secured transactions (56%) and FX swaps (24%)
• Aggregate daily activity across all segments grew by 23% from €1 trillion at the end of 2020 to €1.3 trillion at the end of 2022

Maturities
• Secured and unsecured trading concentrated on the one-day tenors
• Investor focus on short tenors led to market rates trading below DFR as banks paid little for deposits with no regulatory value

Counterparties
• Central Counterparties (CCPs) are involved in 70% of secured trades and 90% of overnight index swap trades
• Money Market Funds accounted for 28% of unsecured trades in 2022 (19% in 2020 and 7% in 2018) and hold 73% of total banks issuance of short-term securities
• Investment Funds accounted for 31% of bilateral secured trades in 2022 (25% in 2020 and 15% in 2018)

Rates:
• OIS reacted swiftly to policy tightening signals by ECB Governing Council members and anticipated well policy rate hikes
• Full pass-through of ECB interest rate changes to unsecured rates; less even and partially lagged transmission in secured market; Eurosystem support, via higher amounts available via the Eurosystem Securities Lending facilities and changes to remuneration of non-monetary policy deposits, helped to alleviate somewhat high-quality collateral shortage concerns
• ECB deposit facility rate (DFR) works well as an anchor for money market rates but trades occur below the DFR reflecting the predominance of non-bank actors without access to ECB facilities