Recent developments in the euro money market

Money Market Contact Group
Frankfurt, 14 March 2011
Overall financial market background

1) Bank stocks continue to underperform

Indexed: 1 Jan 2010 = 100
Overall financial market background

II) Similar underperformance of financials in the credit market – continued high correlation with perceived sovereign risk
FX swap premia
(impied USD borrowing costs - USD LIBOR)

USD funding pressures seem to ease somewhat
EURIBOR - OIS spreads

Cash spreads volatile, little changed; forward spreads close to recent lows
Development of the Euribor futures curve
Maturity breakdown of the ECB’s liquidity providing operations
- Declining trend in MRO participation until H1/2010 - stabilisation and gradual increase thereafter.

- Some volatility more recently.
Number of bidders vs. average Eonia rate in the week preceding the respective MRO

- Higher avg. Eonia in the week preceding the MRO leads to higher MRO participation.

- Consecutive O/N market funding and MRO participation seem to be closely related funding alternatives for many (smaller) banks.
Use of the ECB’s standing facilities
ECB rates and Eonia developments

[Graph showing ECB rates and Eonia developments]
Eonia rate and historical Eonia volatility
Relation between Eonia spread and excess liquidity

Relation EONIA spread vs excess liquidity

- EONIA - MRO rate, bps
- Accumulated excess liquidity, €

Data points:
- 21 Jan - 24 Jun 2009
- 25 Jun 2009 - 30 Jun 2010
- 1 Jul - 23 Dec 2010
- 24 Dec 2010 to now

European Central Bank
Historical volatility of selected Eonia swap indices
Securities Markets Programme

- Evolution of settled Eurosystem purchases
1 January 2011
• Expiry of temporary eligibility of (i) marketable debt instruments denominated in USD, GBP and JPY; and (ii) debt instruments issued by credit institutions and traded on accepted non-regulated markets.
• Entry into force of a new haircut schedule, which graduates those according to maturities, liquidity categories and credit quality.

1 March 2011
• Requirement to have at least two ratings and second-best rating rule are applied to all ABSs, regardless of their date of issue.

3 March 2011
• Fixed rate / full allotment for MROs, MPOs and 3m LTROs to be continued in Q2/2011 (with LTROs indexed to MRO rate).
Potential issues for discussion

• How do members assess the increased volatility of very short term rates and their impact on market liquidity?

• Has the modest tightening of the collateral framework had any noticeable effect on market functioning?

• What could be the reasons for the continued high use of the deposit facility – also in times with rather low excess liquidity?

• The MP operations are the last ones with a non-standard maturity. How do members assess their usefulness? What could be a desirable share of 3m operations in the overall liquidity provision?