Recent developments in the euro money market

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

1) Bank stocks’ underperformance continues – volatility remains high
II) Perceived credit risk of senior financials and sovereigns reaches new highs
USD funding situation

USD Libor fixings creep higher

EUR/USD FX swap premia surge
EURIBOR - OIS spreads

Further gradual widening

also in the forward spreads
Repo market segmentation

3-month repo rates for different types of collateral
Maturity breakdown of the ECB’s liquidity provision

→ 1-year operations reintroduced

[Diagram showing maturity breakdown of ECB’s liquidity provision with different operations like 12m LTRO, 6m LTRO, 3m LTRO, 1m STRO, and MRO over time from January 2008 to October 2011.]
Use of the ECB’s standing facilities
ECB rates and Eonia developments
Development of the Euribor futures curve
1-week liquidity absorbing FTOs
ECB developments and announcements

15 September 2011
Announcement of three 84-day USD operations.

6 October 2011
Fixed rate / full allotment procedures until mid-2012
Announcement of two 1-year operations
Announcement of CBPP2 (EUR 40 bn from Nov.11 to Dec.12)

3 November 2011
Rate cut by 25 bps to 1.25% for the MRO rate – corridor width unchanged at +/-75 bps.

30 November 2011
Lowering of the pricing on USD liquidity swaps by 50 bps
84-day USD operations until further notice
Reduction of the initial margin of 3m USD operations to 12%
Network of reciprocal swap lines also in CAD, CHF, GBP and JPY
8 December 2011

Rate cut by 25 bps to 1.00% for the MRO rate – corridor width unchanged at +/-75 bps.

Announcement of two 3-year operations – full allotment – at the average MRO rate – early repayment options after 1 year

Reduction of the minimum reserves ratio to 1% - as of MP starting on 18 January 2012

Measures to increase collateral availability – i) lower rating threshold for certain ABSs – ii) acceptance of additional credit claims by NCBs

Abolishment of the end-of-MP FTOs - as of MP starting on 14 December 2011
Potential issues for discussion

• Members are invited to provide feedback on the recent decisions of the Governing Council and their possible impact on the money market.

• In particular, what are members’ forecasts for the likely demand in the 3-year operations?

• More generally, how do members assess banks’ current funding conditions – also in USD and other currencies?

• Are there any particular concerns as regards the turn of the year? And what is the outlook for the beginning of 2012?