Recent Money Market Developments

Money Market Contact Group
Frankfurt am Main, 18 November 2008
Development of ECB monetary policy stance and current interest rate expectations

**ECB Minimum bid rate**

**Current probabilities of ECB rate cut/hike**

- Rate change of 25 bp to 3.00%
- Rate change of 25 bp to 2.75%
- Rate change of 25 bp to 2.50%
- Rate change of 25 bp to 2.25%
- Rate change of 25 bp to 2.00%
- Rate change of 25 bp to 1.75%
ECB operations, reserve surplus and Eonia in the Aug/Sep ’08 maintenance period

-3.25
-3.45
-3.65
-3.85
-4.05
-4.25
-4.45
-4.65
-4.85
-5.05
-5.25

MRO with benchmark +20.0 bn
MRO with benchmark +14.5 bn
MRO with benchmark 9.0 bn
MRO with benchmark +3.0 bn
supplementary LTRO of 50.0 bn regular LTRO of 50.0 bn FTO of -20.1 bn

Daily reserve surplus/deficit (left-hand scale) Average daily reserve surplus (left-hand scale) EONIA (right-hand scale)
ECB operations, reserve surplus and Eonia in the Sep/Oct ’08 maintenance period

- Daily reserve surplus/deficit (left-hand scale)
- Average daily reserve surplus (left-hand scale)
- EONIA (right-hand scale)

- MRO with benchmark +20.0 bn
- Supplementary LTRO of 50.0
- MRO with benchmark +39.0 bn
- MRO with benchmark +59.0 bn
- 1 month special refinancing operation of 120.0 bn
- MRO of +190.0 bn
- Regular LTRO
- FTO of +25.0 bn
- FTO of +30.0 bn
- FTO of +70.0 bn
- FTO of +40.0 bn
- FTO of +59.0 bn
- FTOS of -173.0 bn
- Regular LTRO
- FTO of -171.9
- FTO of -193.8 bn
- FTO of -147.5
- FTO of -173.0 bn
- FTO of -200.0 bn
- FTO of -171.9
- FTO of -193.8 bn
- FTO of -147.5

EUR billions
Credit markets – iTraxx indices
corporate bond spreads
Equity market developments
Development of spread between MRO rates and the minimum bid rate

![Graph showing the development of spread between MRO rates and the minimum bid rate from 12/06/07 to 07/10/08, with marginal and weighted average rates highlighted.]
EURIBOR - OIS spreads for different maturities
Standard deviation of individual Euribor contributions
[3-month maturity; in bps]
International comparison of 3-month deposit-OIS spreads
A selection of ECB liquidity management measures since the last MMCG meeting

- **18 Sep**: Provision of O/N USD liquidity + Larger amounts for the term USD operations
- **29 Sep**: Special 1m term EUR refinancing operation
- **7 Oct**: Doubling of amount for 6m LTRO to EUR 50 billion
- **8 Oct**: Fixed rate/full allotment MROs + Narrowing of the corridor of the standing facilities
- **13 Oct**: Fixed rate/full allotment USD operations
- **15 Oct**: Fixed rate/full allotment LTROs + Temporary widening of the eligible collateral pool + USD FX swaps alongside repo operations + CHF FX swaps
Eonia development since the beginning of the turmoil
Maturity breakdown of the ECB’s liquidity providing operations
Use of the ECB’s standing facilities
[EUR million]
Number of participating banks in MROs
3m forward EURIBOR - OIS spreads
Results of the Eurosystem’s USD providing operations

7-day operations

28-day operations

84-day operations
### Simplified Eurosystem balance sheet

#### 31-Oct-2008 vs. (29-Jun-2007)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USD refinancing operations</strong></td>
<td>Cl. US Federal reserve 209 (0)</td>
</tr>
<tr>
<td>209 (0)</td>
<td>Cl. Swiss National Bank 14 (0)</td>
</tr>
<tr>
<td><strong>CHF refinancing operations</strong></td>
<td></td>
</tr>
<tr>
<td>14 (0)</td>
<td></td>
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<tr>
<td><strong>Autonomous liquidity factors</strong></td>
<td><strong>Autonomous liquidity factors</strong></td>
</tr>
<tr>
<td>Net foreign assets 260 (294)</td>
<td>Banknotes in circulation 728 (633)</td>
</tr>
<tr>
<td>Domestic assets portfolio 154 (131)</td>
<td>Government deposits 95 (70)</td>
</tr>
<tr>
<td><strong>Other autonomous factors (net)</strong> -27 (3)</td>
<td>Other autonomous deposits (net) -27 (3)</td>
</tr>
<tr>
<td><strong>Monetary Policy Instruments</strong></td>
<td><strong>Monetary Policy Instruments</strong></td>
</tr>
<tr>
<td>Main refinancing operation 327 (313)</td>
<td>Current accounts - Res. Requ. 179 (182)</td>
</tr>
<tr>
<td>Longer term ref. Operation 502 (150)</td>
<td>Absorbing Operations 0 (0)</td>
</tr>
<tr>
<td>Marginal lending facility 11 (1)</td>
<td>Deposit facility 279 (1)</td>
</tr>
<tr>
<td><strong>Total</strong> 1477 (889)</td>
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</tr>
</tbody>
</table>
Issues for discussion

• The ECB seems to have become the intermediary of last resort. What could be done to re-start normal market functioning?

• Has the fixed rate/full allotment strategy eased concerns regarding the upcoming end of the year? Or are members still wary of potential challenges in this respect?

• What are the prospects for money market developments in 2009?