The euro money market survey 2010

preliminary results

Money Market Contact Group

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1. Euro money market across time and segments

- The 2010 Survey showed a **decline in aggregate turnover** (by 2% in Q2 2010 from Q2 2009) for a third consecutive year.
- Largest declines were recorded in the **OIS** (-19%) and **Unsecured** (-18%) segments.
- The **secured repo market** was still the largest segment and increased by 9% in 2010. The **CCP segment** also continued to increase (+19%).

**Chart 66 Aggregated average daily turnover of the euro money market**
(index: aggregated average daily turnover volume in 2002 = 100)

Note: The panel comprised 85 credit institutions in 2000 and 2001 and 105 credit institutions thereafter.

Source: ECB
2. Euro Money Market: Unsecured market

- The **unsecured market** declined on both the lending (-11%) and the borrowing (-22%) sides.

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**Chart 1** Average daily turnover in unsecured cash lending and borrowing  
(index: cash lending volume in 2002 = 100)

- Lending
- Borrowing

Note: The panel comprised 85 credit institutions in 2000 and 2001 and 105 credit institutions thereafter.

Source: ECB
3. Unsecured market: shortening of maturities

- The biggest declines in the unsecured market volumes were seen in the T/N to 1-Month maturities (-24%) and for maturities over 1 year (-84%).

Source: ECB
4. Unsecured market: qualitative assessment

- The qualitative assessment showed that **efficiency** in this segment was viewed as more limited than the already very limited efficiency in 2009.
- Most respondents reported that liquidity conditions had worsened or remained broadly unchanged in 2010 compared to 2009.

**Source: ECB**

**Note:** The panel comprised 105 credit institutions.
5. Euro Money Market: Secured market

- Activity in the **secured market** increased by 9%.
- The **cash lending side** (reverse repo) increased by 7% and the **cash borrowing side** (repo) increased by 9%.

*Source: ECB*
6. Secured market: shorter maturities gain in prominence

- However, the **overnight activity** decreased this year by 5%, making up 21% of the total turnover in the secured segment compared to 24% in 2009.

*Note: The panel comprised 105 credit institutions.*
7. Secured market: CCP accounts for a larger share of bilateral repo

- The activity in the secured market **cleared via central counterparties** increased and accounted for 41% in 2010 compared to 38% in 2009.
- The share of Triparty repo grew slightly to 8% in 2010 (from 7% in 2009) after having experienced a significant drop in 2009.

Source: ECB
8. Secured market: Share of ‘national’ collateral declining

- The share of ‘national’ collateral fell from 36% in 2009 to 32% in 2010. Most of this decline was taken up by a rising share in ‘euro area’ collateral.

Note: The panel comprised 172 credit institutions.

Source: ECB
9. Derivatives market: Aggregate turnover declining

- Activity in the derivatives market declined by 7%, FX Swaps was the only derivative segment to show an increase (3%).
10. Derivatives market: OIS segment

- The **OIS segment** continued to decline for the fourth consecutive year (-19% in 2010).

*Chart 27 Average daily turnover in the OIS segment*

(index: OIS volume in 2002 = 100)

Note: The panel comprised 85 credit institutions in 2000 and 2001 and 105 credit institutions thereafter.

*Source: ECB*
11. Derivatives market: IRS segment

- **IRS activity** showed again a significant drop, declining by 11%.

**Chart 19: Average daily turnover in the other IRS segment**

*(index: other IRS volume in 2002 = 100)*

- Up to 2 years (<2y)
- 2 years to 5 years (2y-5y)
- 5 years to 10 years (5y-10y)
- More than 10 years (>10y)

*Note: The panel comprised 85 credit institutions in 2000 and 2001 and 105 credit institutions thereafter.*

Source: ECB
12. Derivatives market: FRA segment declined

- **FRA turnover** decreased by 10%, possibly reflecting lower hedging needs.
- Most significant drop took place in maturities between 3-months and 1-year.
- FRA turnover accounted for 10% of the euro money market turnover.

*Source: ECB*
Activity in the **FX swap market** increased by 3% in 2009.

**Chart 33** Average daily turnover in the FX swap segment
(index: FX swap volume in 2002 = 100)

Note: The panel comprised 85 credit institutions in 2000 and 2001 and 105 credit institutions thereafter.

**Source:** ECB
14. Market liquidity assessment: some signs of stabilisation in Q2 2010?

• More participants report a worsening of liquidity conditions in 2010 in OIS, FX swaps and Xccy swaps. Most market participants still report worsening conditions in the unsecured market.

• In secured, IRS, FRA, short-term securities, futures and options most market participants report that liquidity conditions have not changed.

Has the market liquidity in the euro money market changed with respect to last year? (percentages of total)

Note: The panel comprised 105 credit institutions.

Source: ECB
15. Issues for discussion

• To what extent does continued credit risk aversion explain the shift from unsecured to secured turnover?

• What was the impact of the surplus liquidity environment after the high allotment at the first 1-year LTRO in June 2009 on the decline in unsecured turnover?

• Does lower interest rate volatility help explain the decline in turnover in OIS and other short-term interest rate derivatives?

• What has been the impact of liquidity regulations and reduced bank balance sheets?

• What has been the impact of the ‘sovereign debt crisis’?