Market development of the gc repo segment – bilateral trading

Andreas Biewald
Development of Interest Rates
Spread EONIA versus GC Pooling ON
(July 01 – October 31, 2008)

Data provided by Eurex Repo

Lehman
Central Bank Action
Rate cuts
Development of Interest Rates
Spread EONIA versus average Italy GC - ON Rates
(July 01 – October 31, 2008)

Data provided by MTS Italy
Development of Interest Rates
Spread EONIA versus average German GC - ON Rates
(July 01 – October 31, 2008)

Data provided by ICAP

Lehman
Central Bank Action
Rate cuts
Observations & Remarks

SOME KEY DATES

► September, 14: Lehman Brothers files for bankruptcy protection

► September, 16: American International Group gets a $85 billion loan from the FED

► September, 18: Coordinated Central Bank Action to Improve US$ Liquidity

► October, 8: Rate cuts by several central banks, ECB’s announcement of fixed rate MROs with full allotment follows in the evening.

► October, 14: First fixed rate MRO with full allotment

► October, 15: ECB announcement of expansion of list of eligible assets and fixed rate LTROs with full allotment
Observations & Remarks

CHANGES IN THE € MONEY MARKET AND REPO AFTER LEHMAN (1/2)

INCREASED DEMAND FOR TOP COLLATERAL

► Limited liquidity in the money market - cash providers move into secured funding

► Central bank actions increase the demand for top collateral by banks
Observations & Remarks

CHANGES IN THE € MONEY MARKET AND REPO AFTER LEHMAN (2/2)

REDUCED SUPPLY OF TOP COLLATERAL

► Real money accounts increase buying of government paper and do not repo it out

► Hedge funds and banks accelerate deleveraging

► Agency lenders reduce / stop their repo activities

CONSEQUENCE

Huge demand for top collateral meets at a reduced supply : repo rates fall