Key financial market developments

Operations Managers Contact Group Meeting

Frankfurt am Main, 5 November 2013
Financial markets – global environment

• Central bank policy remains key driver of asset price developments
• The review period can be divided into two phases
• Fed indicated tapering of asset purchases in Q2-2013
  – Risk assets sold off first when tapering talk was introduced
  – Capital outflows from US bond funds accelerated in Q3-2013
• In September 2013, the tapering of the Fed’s asset purchases was delayed, driving risk assets higher, US Treasury yields lower
• US Government shutdown and debt-ceiling issues in October 2013
  – Shortest term Treasury Bill rates spiked, USD dollar weakened
US and German 10-year government bond yields increase since May 2013

Source: Bloomberg.
US T-Bill curve around 17 October 2013

Source: Bloomberg.
Financial markets – euro area developments

- Sovereign bond yield spreads decreased in the periphery, though some risk remain especially in Italy and Portugal
- Increasing issuance activity in the corporate bond markets
- Equity markets continued to benefit from capital inflows
- The euro appreciated significantly, driven by interest rate differentials and fundamental factors
Italian, Spanish and Portuguese 10yr government bond yield developments in 2013

Changes in euro area 10-yr government bond yields since 1 July

Source: Bloomberg; ECB calculations
Euro area covered (top) and senior unsecured (bottom) bond issuance and redemptions (EUR mn)

Source: Dealogic, ECB calculations
Spanish and Italian equities benefited from capital inflows in Q3 2013

Source: Bloomberg; ECB calculations
Interest rate difference has been a key driving factor of EUR/USD exchange rate developments.

Source: Bloomberg.
Financial markets – euro money market developments

• Forward guidance introduced by the ECB resulting in decline in the volatility and stabilisation in the level of short term interest rates in Q3 2013.

• Declining excess liquidity in the Eurosystem prevents interest rates to fall significantly.
Declining excess liquidity prevents short term interest rates to fall significantly.

Source: Bloomberg.