Shifting tides in euro area money markets: from the global financial crisis to the COVID-19 pandemic

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Shift from unsecured to secured transactions, with an increasing share of trades cleared through CCPs

Shift towards secured (repo) transactions
Money market (MM) volumes in EUR bn

Increasing role of central counterparties (CCPs)
Counterparty share in % of total volume

Sources: Money Market Survey (MMS) until 2015, Money Market Statistical Reporting (MMSR) data thereafter (based on data from 37 banks that participated in both data collections).

Notes: Average daily transaction volumes traded over a quarter in the unsecured and secured (interbank) euro area money markets (in EUR billion; counterparties considered are deposit-taking institutions and CCPs only).
## Structural changes in the evolution of short-term money market rates

### Historical perspective: 2005-2020

*Policy corridor, unsecured and repo rates in %*

<table>
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<th>ECB policy rates</th>
<th>MM rates</th>
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<td>DFR</td>
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### Recent developments: 2015-2020

*Policy corridor, unsecured and repo rates in %*

- **DFR**
  - DE: -5.6
  - FR: -4.5
- **MRO**
  - DE: -4.9
  - FR: -4.0
- **MLF**
  - DE: -5.6
  - FR: -4.9

### Sources:
- SDW, BrokerTec and MTS.
- Note: Overnight money market rates (in %; data include both general collateral and suitable specific collateral repo trades (volume weighted) and ECB policy rates (DFR, MRO, MLF). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.

### O/N rates during the COVID-19 crisis

- **DE:** -5.6
- **FR:** -4.9
Cross-sectional dispersion of overnight money market rates as indicator of monetary policy pass-through

Cross-sectional dispersion of O/N money market rates, 2005-2020

Dispersion index in bps

Sources: Corradin et al. (2020) following Duffie and Krishnamurthy (2016).
Notes: Index (in basis points) constructed using EONIA, DE, FR, IT, ES GC and special repo rates, volume-weighted. Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.
Cross-sectional dispersion of money market rates and financial stress

Indicator of financial stress (VSTOXX) and dispersion index of O/N rates, 2005-2020

Dispersion index in bps, VSTOXX index in %

Sources: Corradin et al. (2020) and DataStream.
Note: Dispersion index (in basis points) and VSTOXX (in %; index of stock market volatility based on EURO STOXX 50 options). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.
Measurable tensions in other segments of the market and the effect of the ECB’s policy response

Evolution of EURIBOR and CP rates in 2020

**EURIBOR and Commercial Paper rates at issuance in %**

- **3M EURIBOR**
- **12M EURIBOR**
- **3M CP issuance rate**
- **12M CP issuance rate**

Evolution of unsecured market yield curve in 2020

**Rates on term unsecured transactions in %**

Sources: SDW, Banque de France.
Notes: Commercial Paper rate relates to issuance by A1-rated banks.

Sources: Money Market Statistical Reporting (MMSR), ECB calculations.
Highest during crisis = Maximum value between 1/03/20 and 30/04/20.
Pre-crisis = Average between 15/01/20 and 14/02/20.
Cross-sectional dispersion of money market rates and excess liquidity

Central bank excess liquidity and dispersion index of O/N rates
*Dispersion index in bps (left axis); excess liquidity in EUR bn (right axis)*

Sources: Corradin et al. (2020) and SDW.
Note: Dispersion index (in basis points; left-hand scale) and excess liquidity (in EUR billion, right-hand scale). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.
Cross-sectional dispersion of money market rates and securities lending

Securities lending and dispersion index of O/N rates

Dispersion index in bps (left axis); securities lending in EUR bn (right axis)

Sources: Corradin et al. (2020) and Eurosystem.
Note: Dispersion index (in basis points, left-hand side scale) and Eurosystem securities lending, monthly averages (right-hand scale, in EUR billion).
Cross-sectional dispersion of money market rates and regulation

Impact of regulation on quarter-end money market conditions
Dispersion index in bps

Quarter-end reporting dates
Dispersion Index
Asset Purchases Regulation
Quarter-end dispersion during the COVID-19 crisis

Source: Corradin et al. (2020).
Note: Dispersion index (in basis points) and quarter-ends (regulatory reporting dates). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.
Thank you very much for your attention!