

Money Market Contact Group

Frankfurt am Main, Wednesday, 18 March 2015, 13:00 – 17:00 CET

Summary of the discussion

1. Presentation of the main results of the quarterly Euro Money Market Survey and an update on the Money Market Statistical Reporting Regulation

Julija Jakovicka reviewed the main findings of the quarterly Euro Money Market Survey. Consistent with other similar surveys performed by industry bodies and in line with data on market trading volumes, the quarterly survey indicated that the money market activity of members of the Money Market Contact Group (MMCG) declined slightly in the fourth quarter of 2014, reversing the increase of a comparable magnitude observed in the previous quarter. In terms of maturities, the most noticeable changes occurred in the repo market, where the survey showed structural changes in the maturity distribution owing to the implementation of the Central Securities Depositories Regulation and the migration to a T+2 settlement period for securities on 6 October 2014 – this resulted in a higher share of tomorrow/next maturity in the repo market at the expense of spot/next tenor. In terms of geographical distribution, the survey displayed an increase in the share of cross-border repo market activity involving euro area counterparties. In contrast, in the unsecured segment, the activity of domestic counterparties increased slightly, leaving the share of both domestic and euro area counterparties broadly balanced.

Holger Neuhaus informed the MMCG about the Eurosystem's progress vis-à-vis money market data reporting under Regulation (EU) No 1333/2014 of the European Central Bank of 26 November 2014 concerning statistics on the money markets (the Money Market Statistical Reporting Regulation). In addition to describing major steps and milestones, members of the MMCG were asked to provide written feedback on the treatment of non-financial corporate deposits for the purposes of the Regulation.

2. Recent ECB decisions and announcements with regard to the implementation of monetary policy

The Chairman recounted the Eurosystem's deliberations on the introduction of the expanded asset purchase programme and its main features, as well as recent decisions relating to the assets eligible as collateral in Eurosystem operations. Cornelia Holthausen provided an overview of the status of securities lending by the Eurosystem in the covered bond and government bond segments. In particular, she emphasised that, as announced on 5 March, marketable debt instruments purchased under the public sector purchase programme (PSPP) will also be made available for securities lending with the aim of preserving market liquidity and ensuring that

market functioning is not impeded by severe distortions, given the large volumes to be bought by the Eurosystem.

In the subsequent discussion, members of the MMCG emphasised the importance of the Eurosystem's securities lending facility both for bond and repo market functioning. It was also considered crucial for a smooth implementation of the PSPP. Furthermore, members of the MMCG underlined the importance of central banks ensuring a level playing field across jurisdictions and expressed a need for more details on the modalities of the facility.

3. Review of the latest market developments and other topics of relevance

José Rull reviewed the main developments in the euro area money market since the last meeting. The presentation was followed by an exchange of views on those developments as well as on a number of issues that had been submitted to participants prior to the meeting, such as the impact of the PSPP on the money market and banks' liquidity management, the transmission of negative rates to euro area money market rates and recent developments in the FX swap market.

The presentation highlighted a number of recent tentatively positive economic developments in the euro area. Furthermore, the Eurosystem's measures, including the PSPP, have helped lower government bond yields, particularly at longer maturities. This has also led to a narrowing of intra-euro area government bond yield spreads.

While the programme has had a positive impact, several members of the MMCG reported some dislocations in market pricing (for example, as reflected in the relative development of German government bond yields and yields on securities issued by supranational agencies), which were attributed to the start of the PSPP.

The higher levels of excess liquidity since December have led to lower money market rates across all tenors. At short maturities, the decline was more pronounced in secured money market rates, whereas the decline in EONIA rates was rather limited. Several members of the MMCG considered that the EONIA rate was above their funding costs in the overnight market. Some suggested that a review of the definition of the EONIA rate could be envisaged to capture the cost of borrowing, rather than the lending rate as currently the case.

As regards longer money market tenors, EURIBOR rates have been trading in negative territory for tenors up to two months. Although the three-month EURIBOR rate remained positive, members of the MMCG mentioned that the consequences of three-month EURIBOR rates moving into negative territory were still a cause of uncertainty for market participants. This concerned issuers of floating rate notes (FRNs), where the floating rates were floored at zero, hedging their positions with interest rate swaps. Another source of uncertainty was related to the transmission of negative rates to bank customers and the impact on both the liability and asset side of the bank balance sheet.

Finally, with regard to the FX swap market, the diverging monetary policy stances of major central banks were considered to be the main source of the widening in the FX swap basis over the past three months. Unlike in the past, the most recent episode of widening was not driven by banks' funding needs. Furthermore, the euro/US dollar FX swap basis was expected to widen further in the future with the progression of PSPP purchases.

4. Update on developments in the short-term European paper market

Michael Schneider provided an overview of developments in the short-term European paper (STEP) market. The total outstanding amount of STEP securities continued its rising trend in the first months of 2015, largely driven by a higher issuance of US dollar-denominated securities. A search for yield in an environment of negative interest rates in the shortest segment of the STEP market led investors to switch to longer maturities in the euro segment, mainly during the course of 2014. More recently, this has been complemented by increased issuance in other currencies, in particular in the US dollar segment.

5. Update on regulatory developments relating to money market funds

Laurent Côte introduced recent developments relating to the European regulatory framework for money market funds (MMF). In the presentation, Côte explained the main differences between the MMF sector in the United States, which is primarily represented by constant net asset value (CNAV) funds, and in Europe, where the market is split almost evenly between variable net asset value (VNAV) and CNAV funds. In his assessment, those differences may call for a more customised regulatory approach to MMFs in Europe and the United States. Finally, Côte provided an overview of the main features of the Regulation on Money Market Funds proposed by the European Commission, as well as their likely impact on MMFs and the European banking sector.

6. Other items

a. Update on money market benchmarks and on the ongoing reform process

This item was not discussed at the meeting.

b. Date of the next meeting

The next meeting of the MMCG will take place on Wednesday, 17 June 2015 and will be hosted by HSBC Paris.