

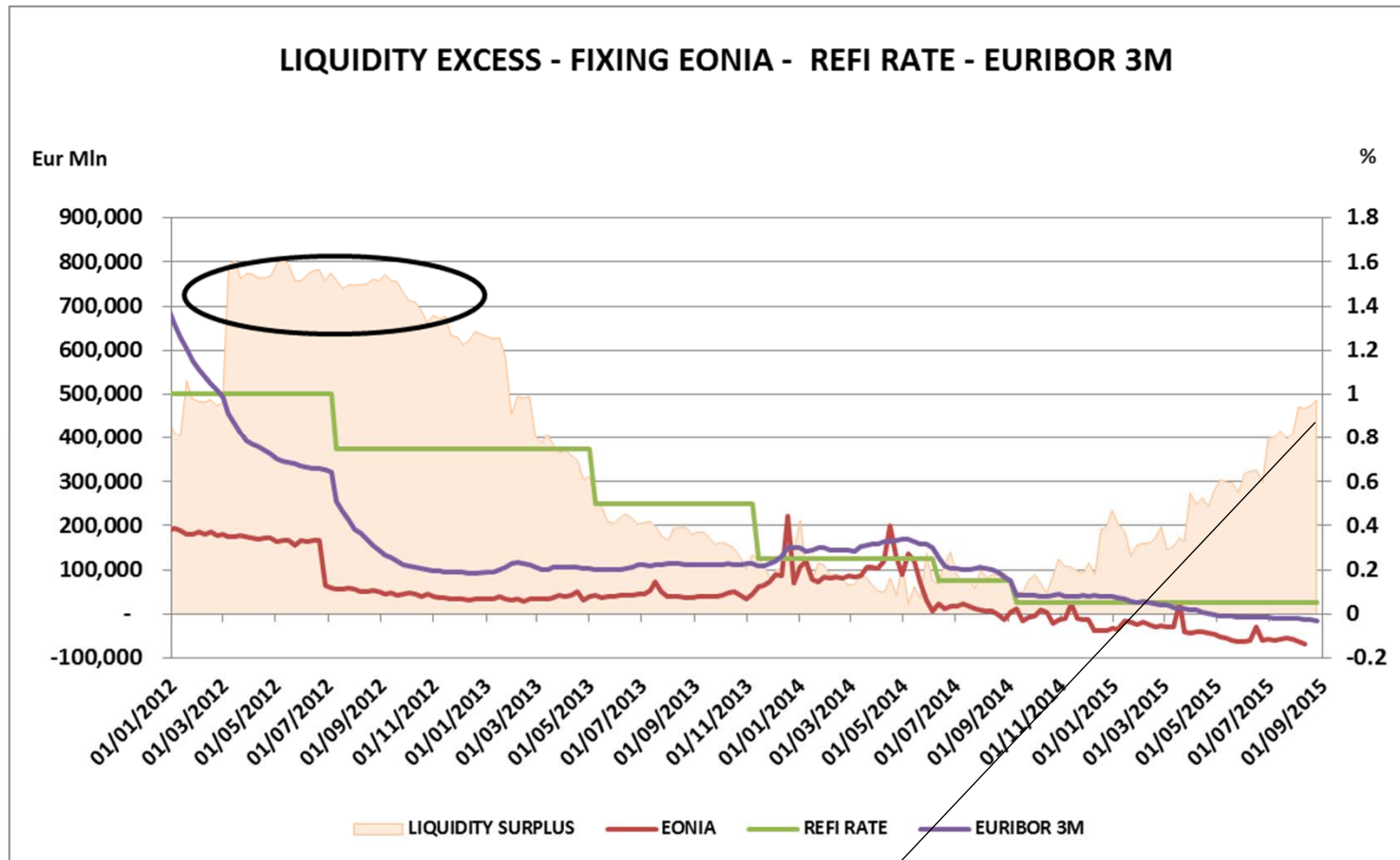
Money Market Contact Group

Market functioning in the environment of large excess liquidity

Items for discussion

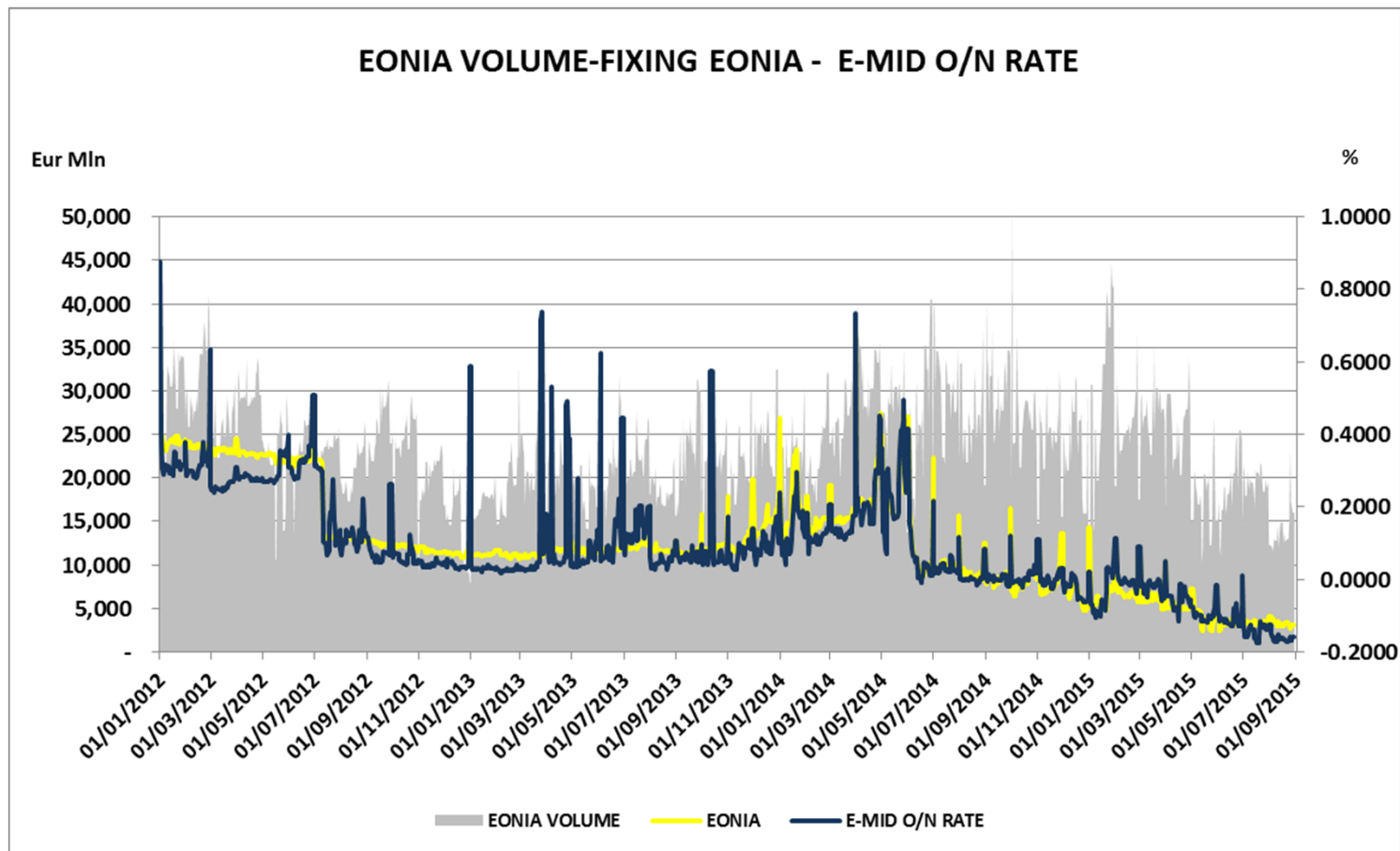
Frankfurt, 9th Sept 2015
Marco Bertotti

Eurosystem liquidity conditions: where do we stand now vs 2012/2013 ?



Last week, excess liquidity reached 500 eur/bln

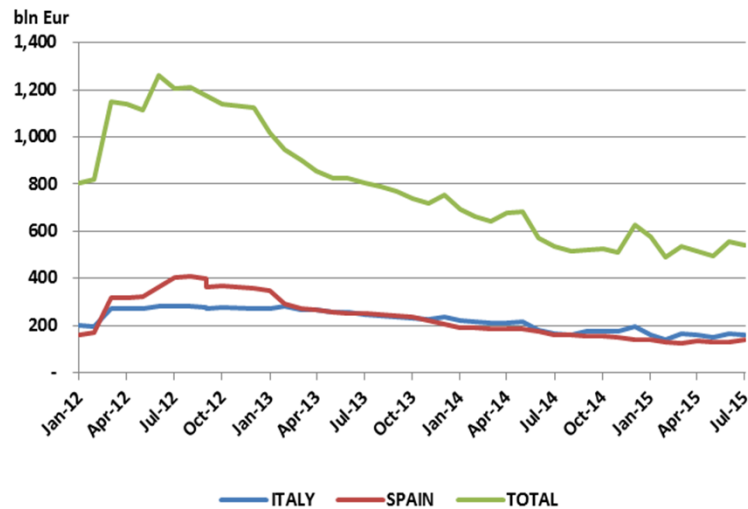
EONIA panel ongoing contraction: the «first victim» of sharply negative rates ?



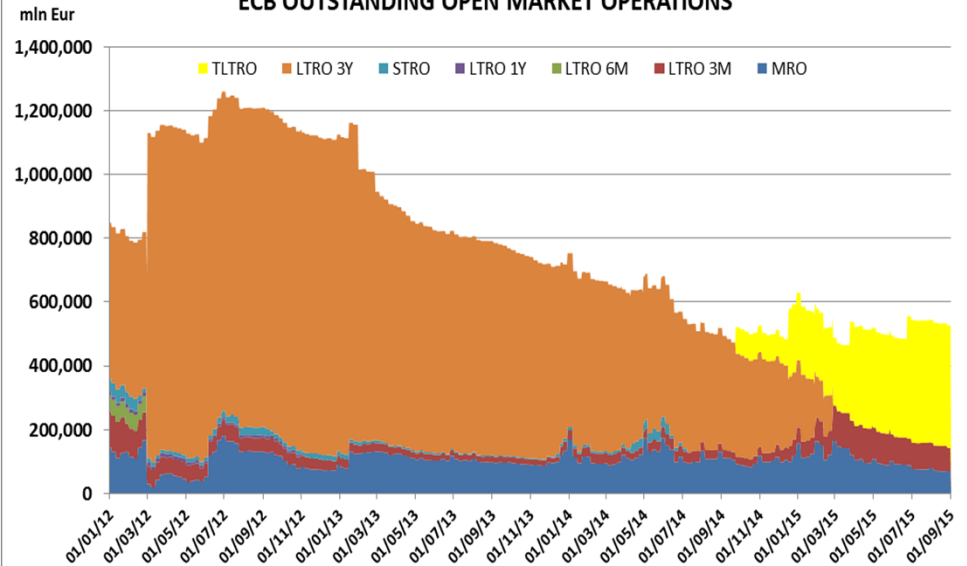
Last month has been marked by a decline in the volume of the EONIA panel; average volume observed have been 24.1 bln in 2012, 20.6 bln in 2013, 26.5 bln in 2014 , 22 bln in 2015 and **just 13.9** bln in August 2015.

Eurosystem liquidity provision

ECB OPEN MARKET OPERATION: ITALY AND SPAIN



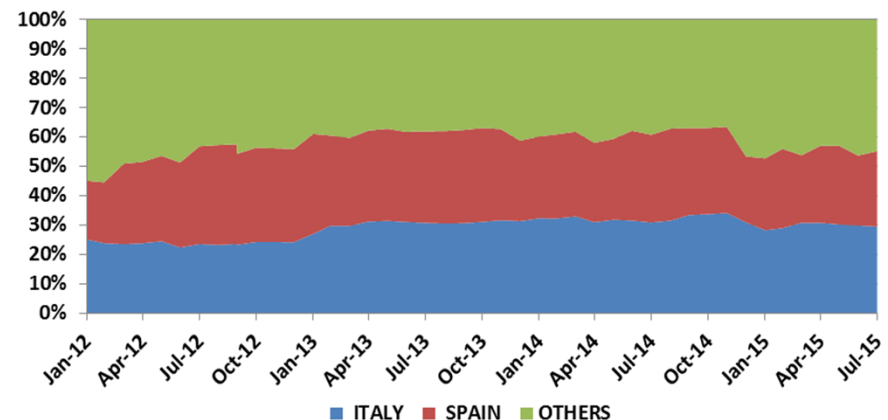
ECB OUTSTANDING OPEN MARKET OPERATIONS



Since March 2012, borrowing at the ECB by Italy and Spain has constantly exceeded 50% of the total outstanding.

How the ECB and the MFIs involved will handle such situation in the run-up to Sep 18 ?

ECB OPEN MARKET OPERATION COMPOSITION



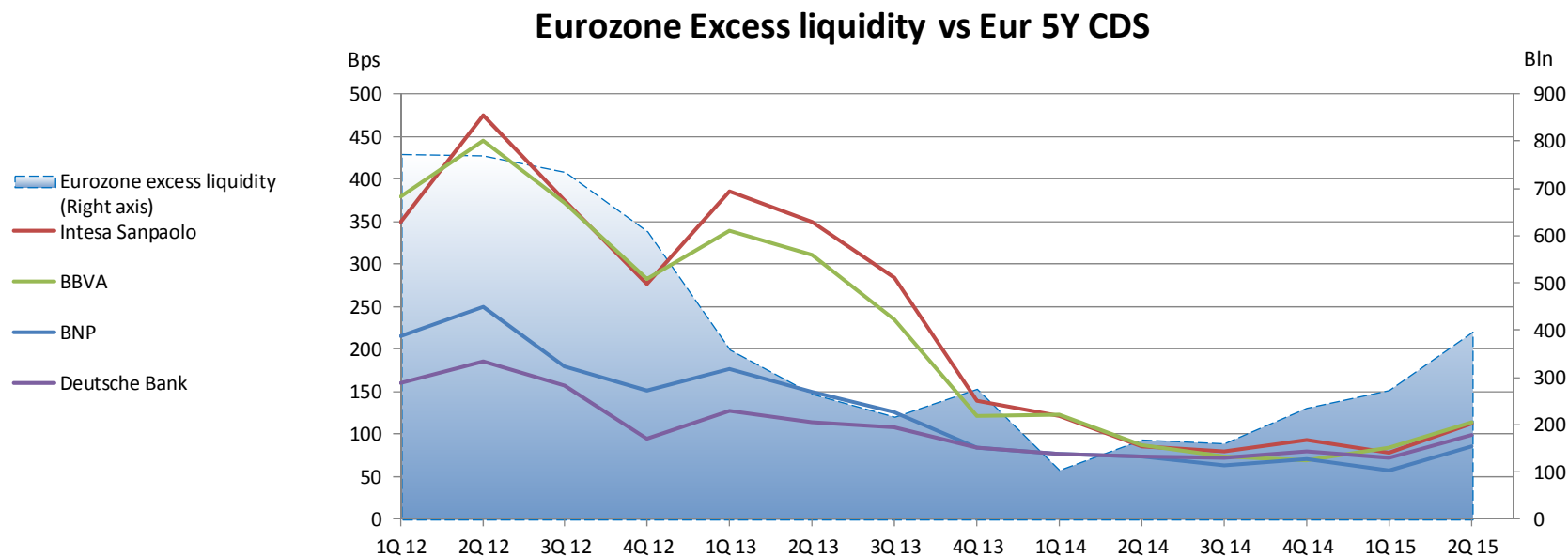
Excess liquidity and «yield compression» (1): the correlation looks counterintuitive but...



...its pretty straightforward that excess liquidity has played a role in driving down yields and spreads.

But, going negative, is still a big driver? or yields are becoming less and less “elastic” to liquidity changes ?

Excess liquidity and «yield compression» (2): how liquidity risk is interconnected with banks' credit risk...



Intesa Sanpaolo	S&P	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB	BBB	BBB	BBB	BBB	BBB-	BBB-	BBB-
	Moody's	A2*-	A3	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2*+	Baa1
BNP	S&P	AA-	AA-	AA-	A+	A+	A+	A+	A+	A+	A+	A+	A+	A+	A+
	Moody's	Aa3*-	A2	A2	A2	A2	A2	A2	A2	A2	A1	A1	A1	A1	A1
BBVA	S&P	A	BBB+	BBB+	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB	BBB	BBB	BBB	BBB
	Moody's	Aa3	A3	Baa3*-	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa2	Baa2	Baa2	Baa2*+	Baa1
Deutsche Bank	S&P	A+	A+	A+	A+	A+*-	A+*-	A	A	A	A	A	A	A*-	BBB+
	Moody's	Aa3*-	A2	A2	A2	A2	A2	A2	A2	A2	A2*-	A3	A3	A3*-	A3