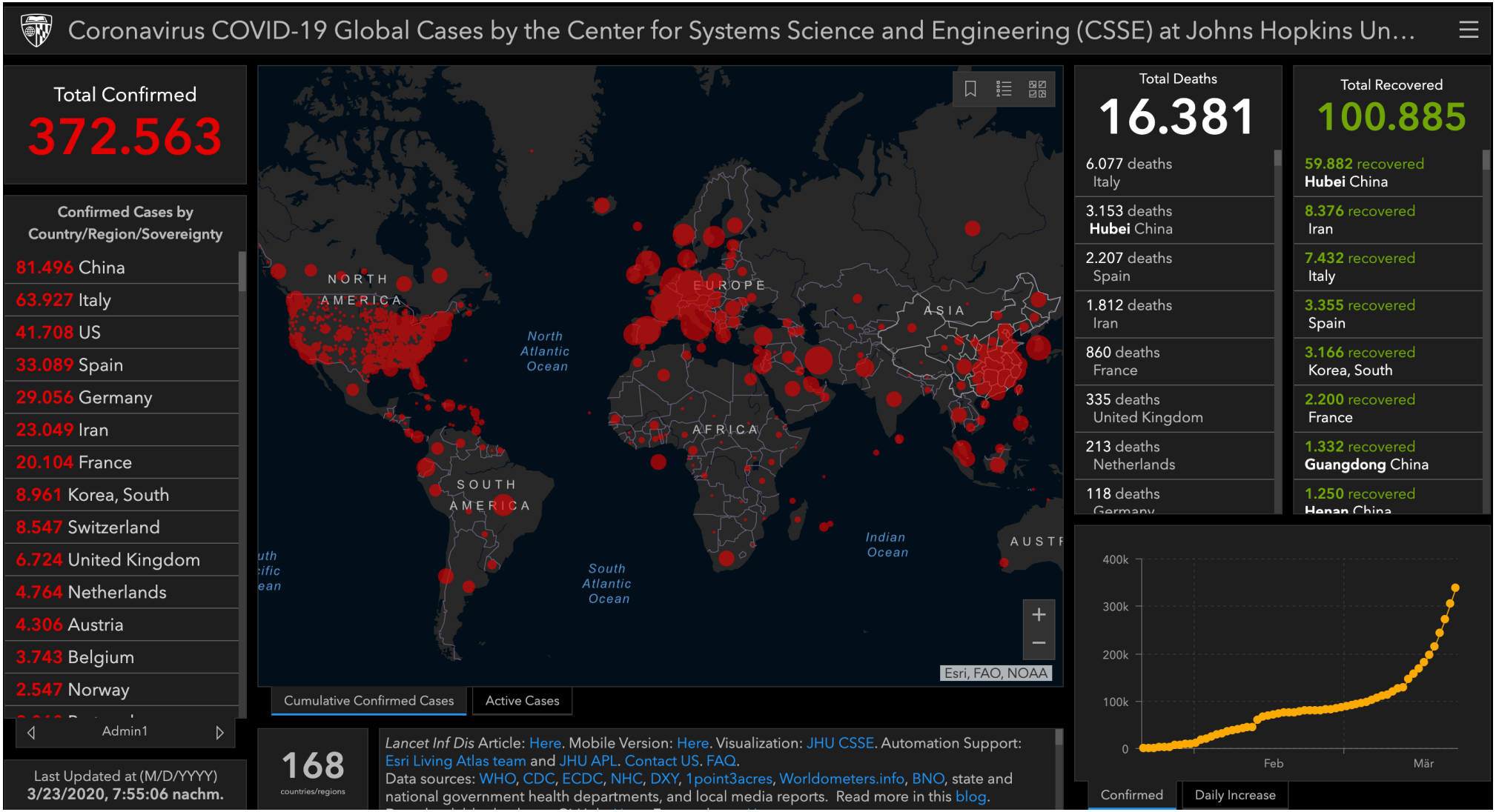
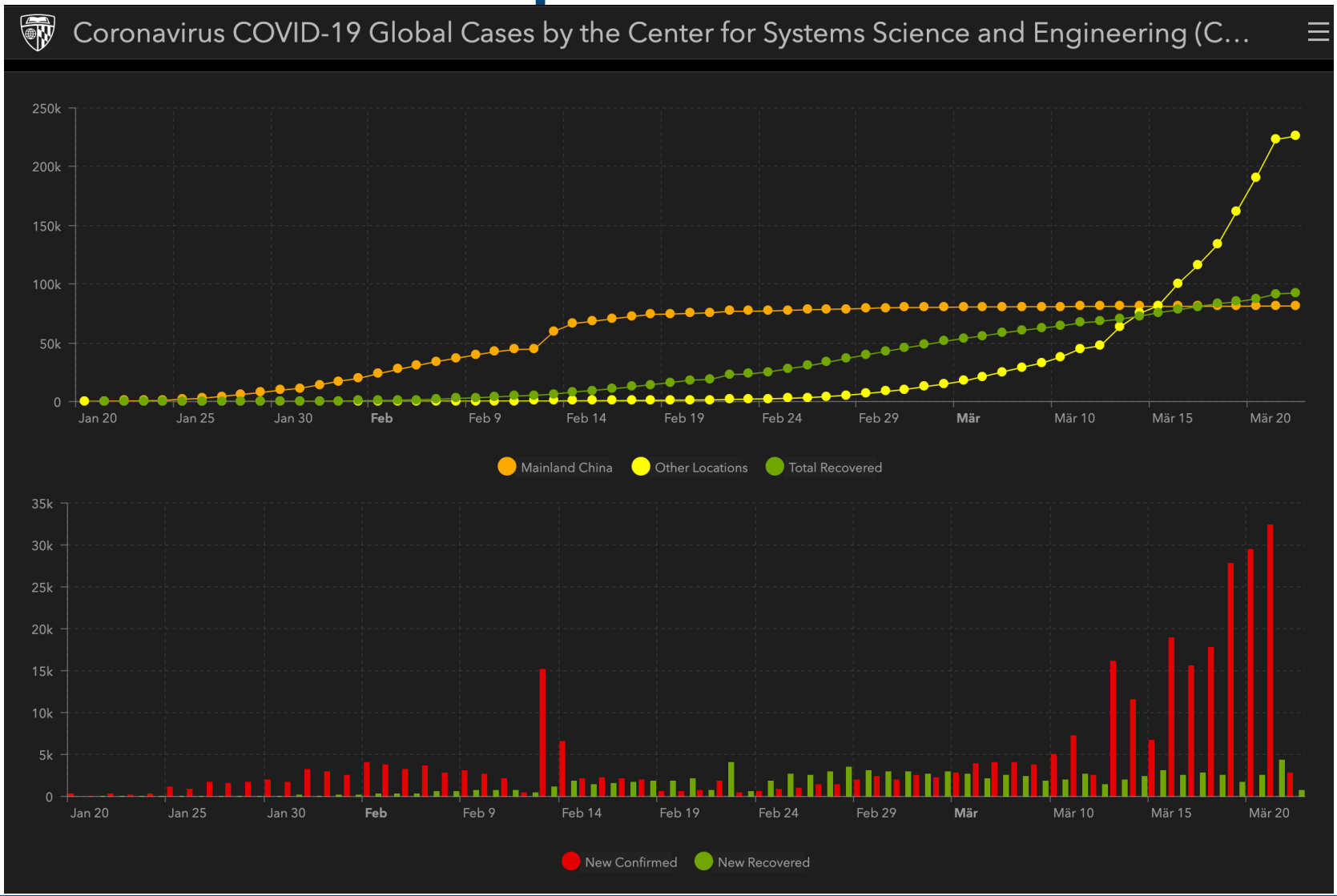
Developments in Euro and USD money market conditions since COVID-19 emerged

Sars-CoV-2 Development



Source: Center for Systems Science and Engineering (CSSE) at John Hopkins University, Update from 23rd March 2020 07:55 pm

Sars-CoV-2 Development



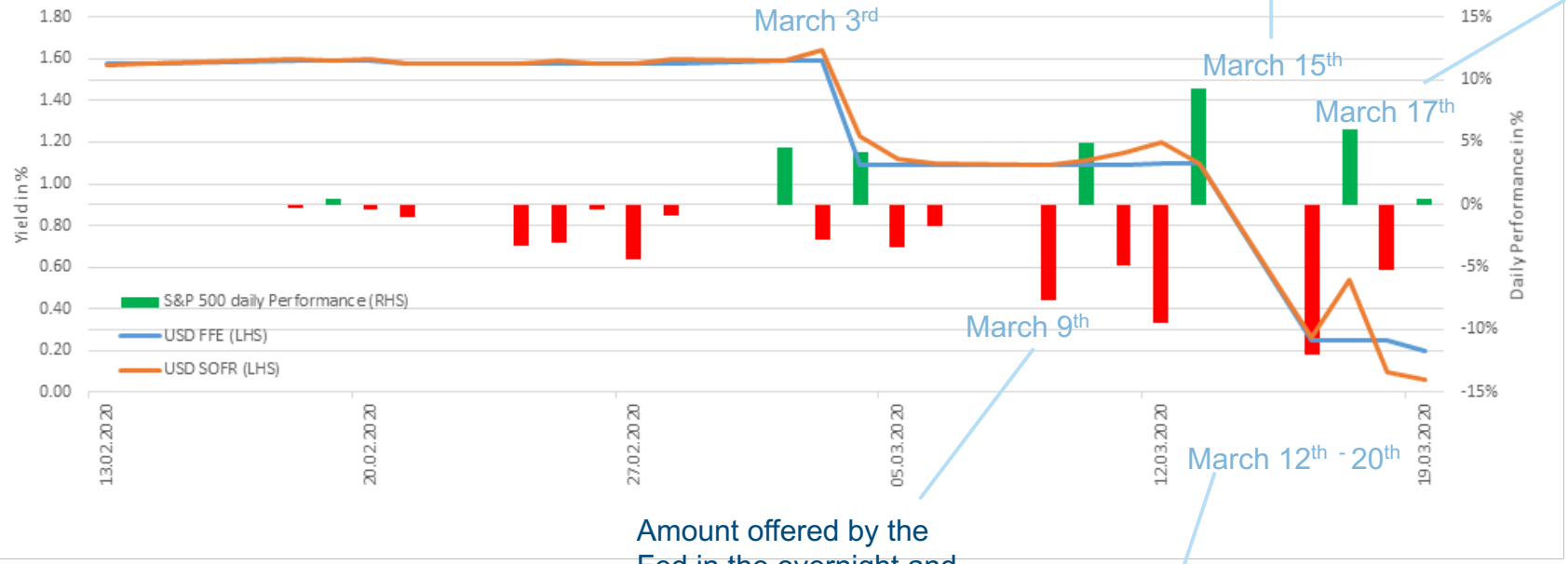
Source: Center for Systems Science and Engineering (CSSE) at John Hopkins University,
Update from 22nd March 2020 07:43 am

US Markets

50 BPs emergency rate cut in an unanimous decision

Fed Bazooka:
- 100-150 BPs emergency cut
- QE programme worth $700 billion
- 84Day FX Swaps lines
- Encourages banks to use the discount window (for up to 90 days)

Section 13(3) activated. Announcement of the Commercial Paper Funding Facility



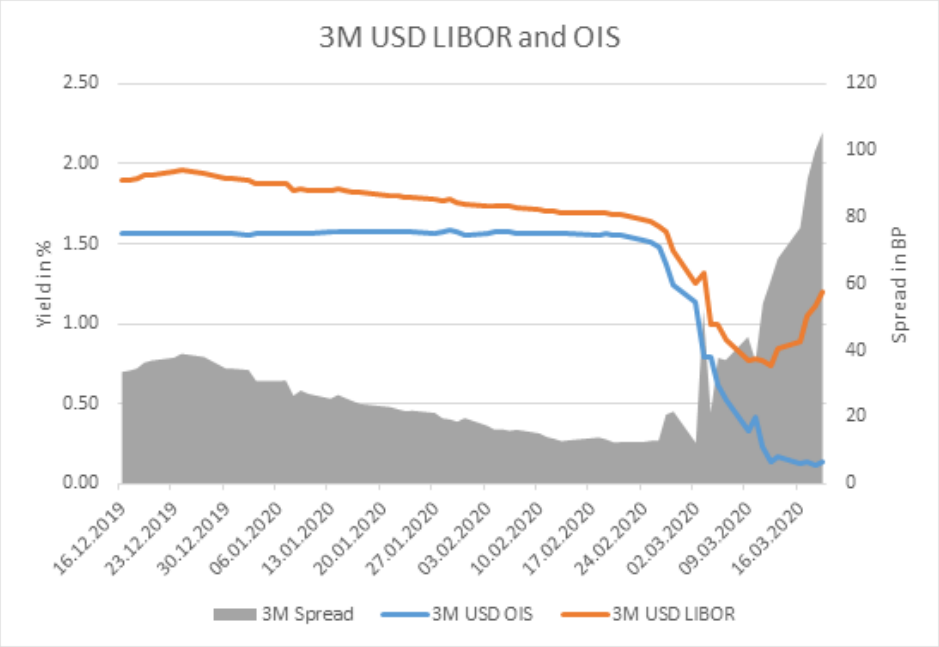
Amount offered by the Fed in the overnight and weekly repo increases to 150bio and 45bio respectively.

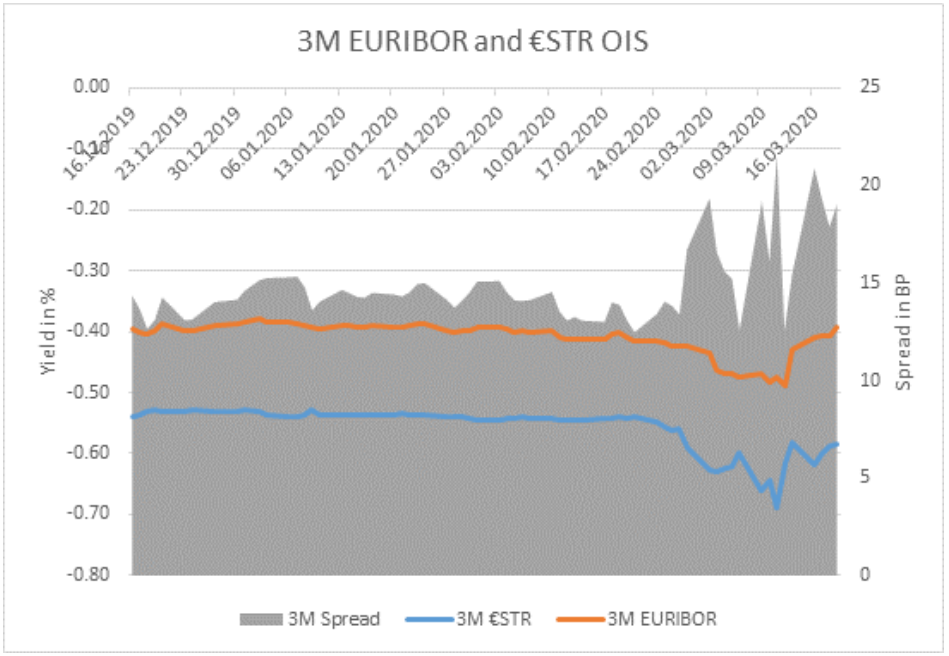
Daily repo auctions (O/N, 1M, 3M) in up to 500Bio USD but only very little take-up by primary dealers

Source: Reuters, NY Fed

Funding Squeeze // IBOR - OIS Spread

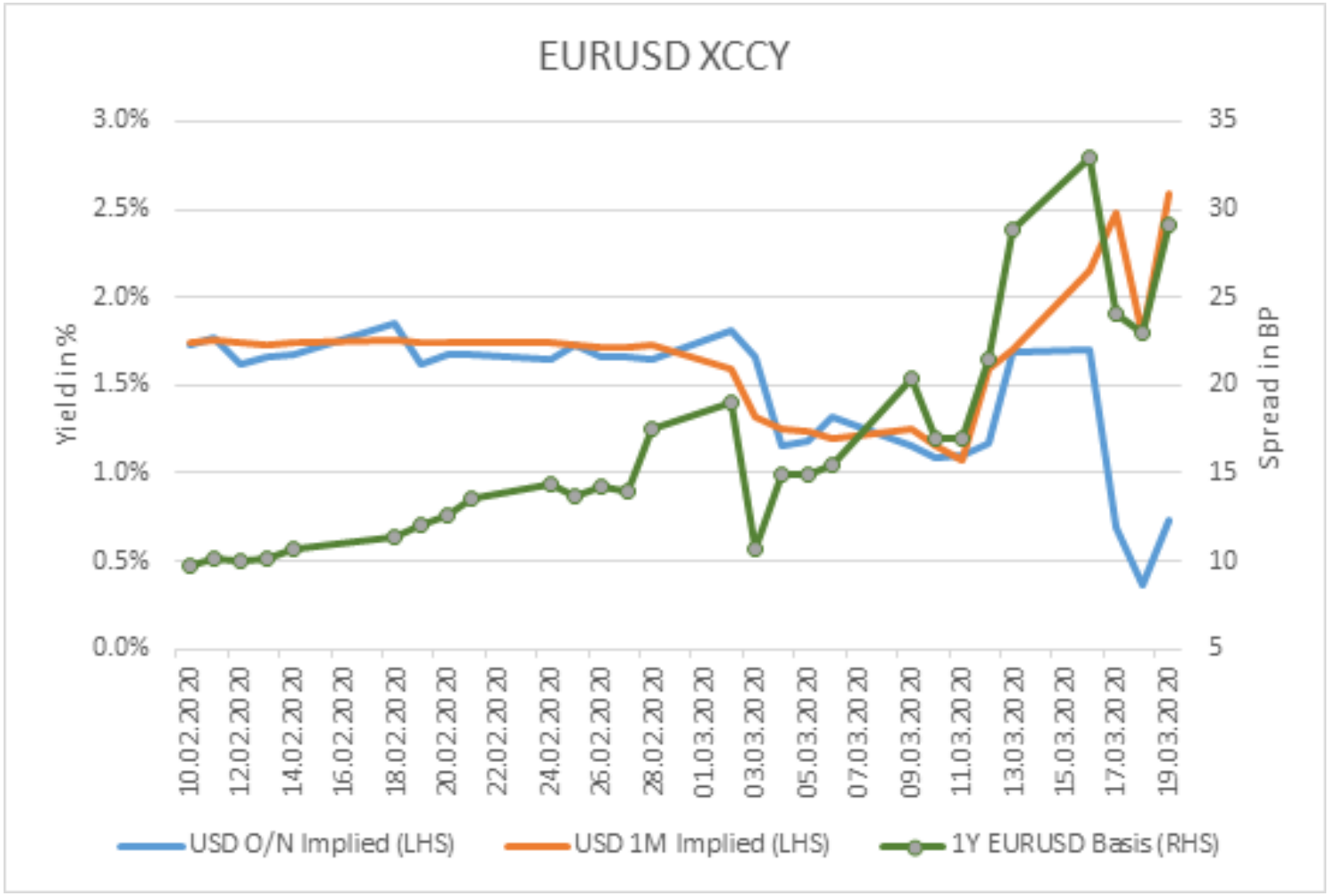
In USD LOIS spread widened significantly showing the stress in the market and difficulties to fund on term;
In EUR this widening so far is only marginal; it seems that additional ECB injections help although it need to be mentioned that term funding nearly stopped





Source: Reuters

Funding Squeeze – XCCY funding



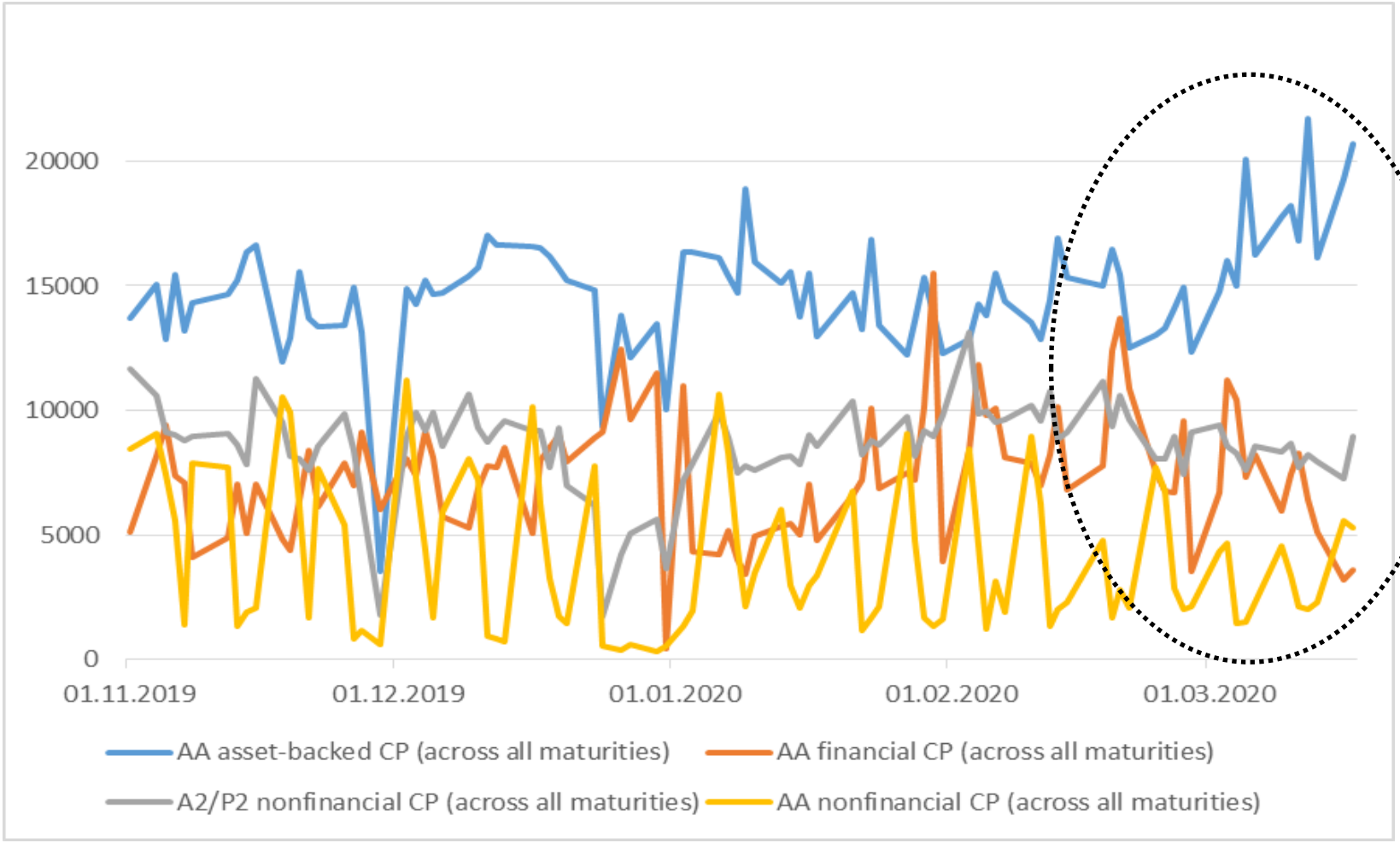
USD funding via swaps also showed significant stress levels

Coordinated announcement of central banks to support market via USD tenders show already positive effects on very short end

1-3Month still at elevated levels but off the highs

Source: Reuters

USD CP Issuance

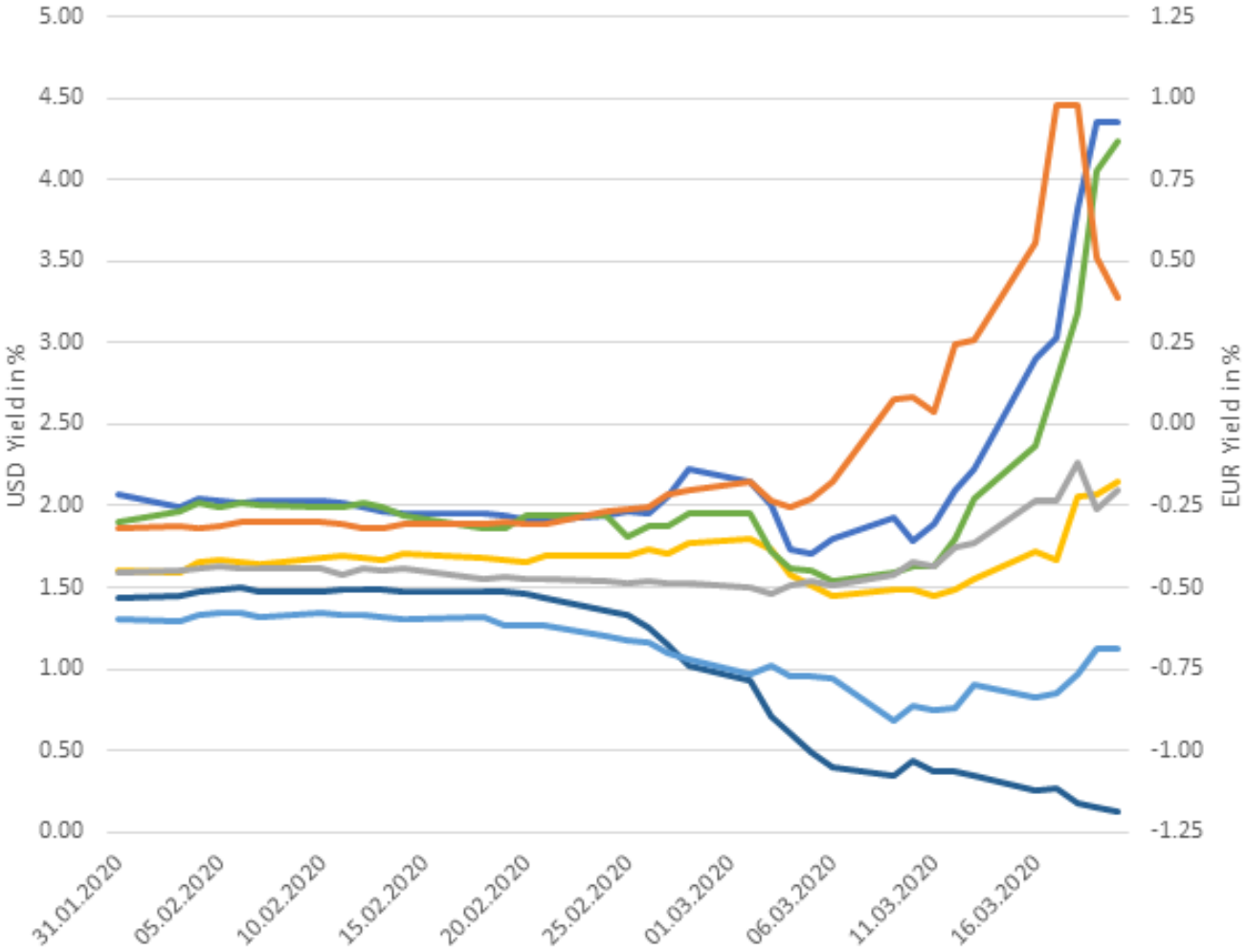


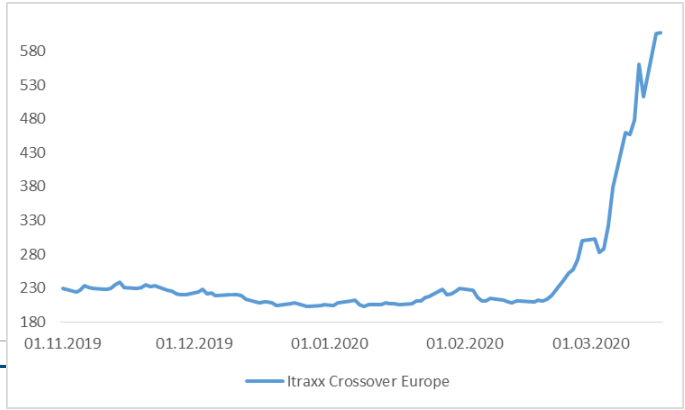
Overall volumes in USD CP issues are relatively constant but yields have increased and a shift from financial CPs into asset-backed CPs can be seen

Source: US Federalreserve

Funding and Credit Spreads

While US and German Bills are lower in yields or at least unchanged, spread to periphery widened significantly;
Even in longer dated UST selling pressure was seen





Source: Bloomberg

SUMMARY

- Market impact started with the spread of the virus outside China, especially once the first cases in Italy were spotted
- First reaction by central banks were rate cuts, but they seemed to create more panic than calming down the markets
- Worries on corporate funding caused a huge USD funding squeeze which could be halted by combined central bank action
- In EUR such a funding squeeze was not seen so far in the interbank market although term funding sems to be everywhere on hold
- Significant credit spread widening between different EU member states but especially in the lower rated corporate sector