EUROPEAN CENTRAL BANK

EUROSYSTEM

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Ad hoc teleconference of the ECB's Bond Market Contact Group – 9 March 2020

Summary of the discussion

Members reported that bond market liquidity had continued to deteriorate. The credit market was close to being dysfunctional, while the euro area sovereign bond market was experiencing a flight to safety. Nevertheless, several members reported modest trading activity in euro area government bonds. The derivative market was reportedly more liquid than the cash bond market.

Market participants were alleged to be increasingly concerned about outflows from investment funds. The latter had still not materialised to a substantial extent, possibly because the news flow had not yet focused on financial market volatilities, and possibly because of the expected ECB announcement and action on Thursday 12 March. Some credit funds had been building up cash buffers in expectation of outflows. If they were to materialise in volume, market conditions would deteriorate further. Several members voiced their concerns that a credit crunch and liquidity squeeze could develop in such a case.

There was widespread expectation of a strong policy response from the ECB. The following tools were mentioned by members: (i) a rate cut (members were divided on its usefulness), (ii) liquidity provision to the banking sector, (iii) an increase in asset purchase programme (APP) purchases, and (iv) the potential inclusion in the APP of corporate bonds below investment grade.