EUROPEAN CENTRAL BANK
EUROSYSTEM

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Ad hoc teleconference of the ECB's Bond Market Contact Group – 18 March 2020

Summary of the discussion

When asked about prevailing market conditions, members reported that European bond markets were under severe stress. Selling pressure was emerging from all market participants, including Asian investors and non-euro area central banks, amid forced deleveraging. This sell-off had led to outflows from bond funds and there was a very real possibility that they could spiral further. There was a sense that even positions in higher-rated jurisdictions did not provide protection for investors at this point. The tendency was for investors to sell now and ask questions later. Outflows from retail funds had been rather limited so far, but there was a danger that outflows would increase in the next few weeks.

The ECB's credibility was discussed. The Eurosystem communication was criticised for effectively removing the sovereign backstop for the euro area. Spreads of lower-rated jurisdictions would appear to suggest that the promise to combat market fragmentation did not hold true. There was an urgent need for a credible monetary backstop to complement fiscal measures. One member suggested that euro area sovereigns should jointly issue a 'Coronabond' to finance the costs of the crisis. Another member mentioned that the fact that a specific figure was attached to the envelope recently added to the ECB's asset purchase programme, together with the accompanying communication, undermined its impact.

Members mentioned a number of additional measures that the ECB could potentially implement. These included outright yield curve control, buying directly from asset managers, intervening in the futures and iTraxx markets, purchases of corporate bonds with BB rating, and further support for the credit market. There was also a suggestion that the ECB should start to offer daily foreign exchange (FX) swap line facilities with more tenors (the current tenors are one week and three months), owing to the continued high levels of stress in the US Treasury Market and in FX swap markets.

Implementation of business continuity plans with teleworking from home was likely to further exacerbate the deterioration in market liquidity. Some firms still had traders working in the office, but if they were to switch to teleworking market liquidity would be expected to deteriorate further, as communication between dealers and investors would become more challenging.