



# ECB BMCG

## The role of repo in stressed markets

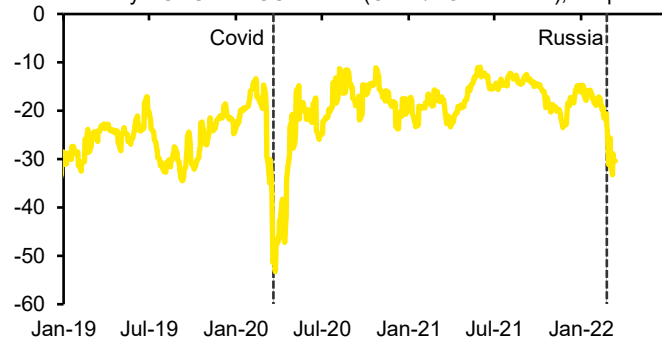
---

Christoph Rieger, 17 March 2022

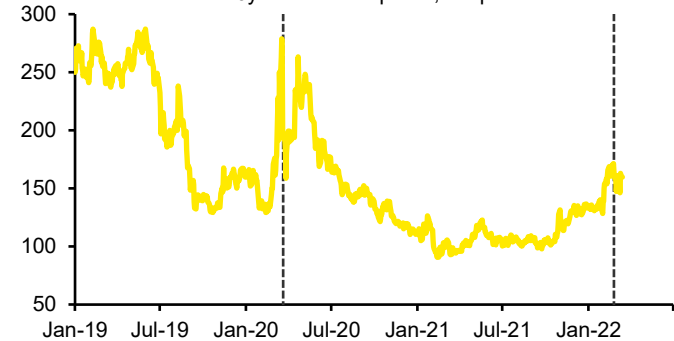
# Each crisis is different!



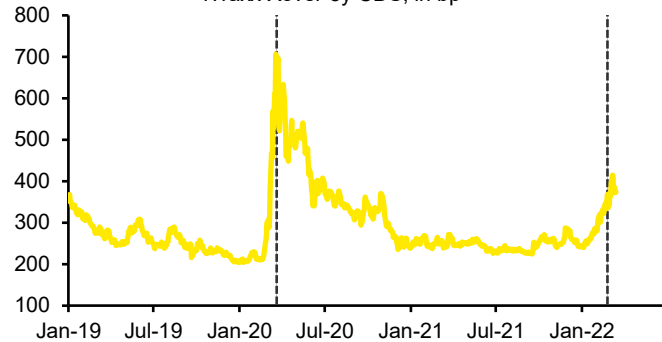
**Dollar funding more expensive, but not impaired**  
1y EURUSD XCCY basis (€STR/SOFR based), in bp



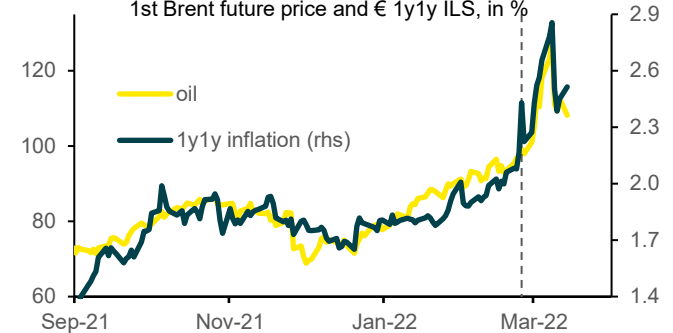
**Periphery more afraid of ECB than Putin**  
10y BTP-Bund spread, in bp



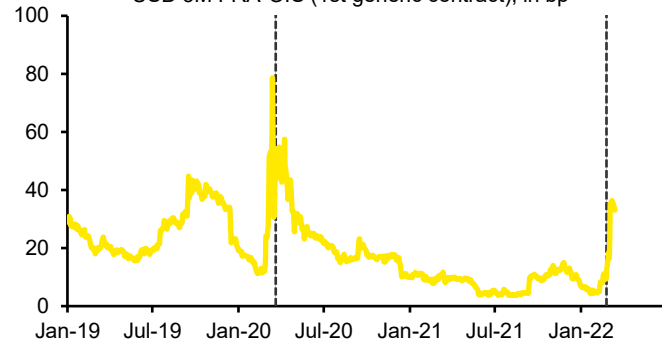
**€ Credit most affected, but from low levels**  
iTraxx Xover 5y CDS, in bp



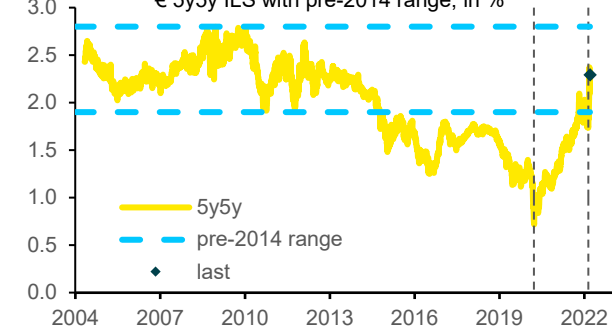
**Short-end break-evens pressured by energy...**  
1st Brent future price and € 1y1y ILS, in %



**Money markets still protected from excess liquidity**  
USD 3M FRA-OIS (1st generic contract), in bp



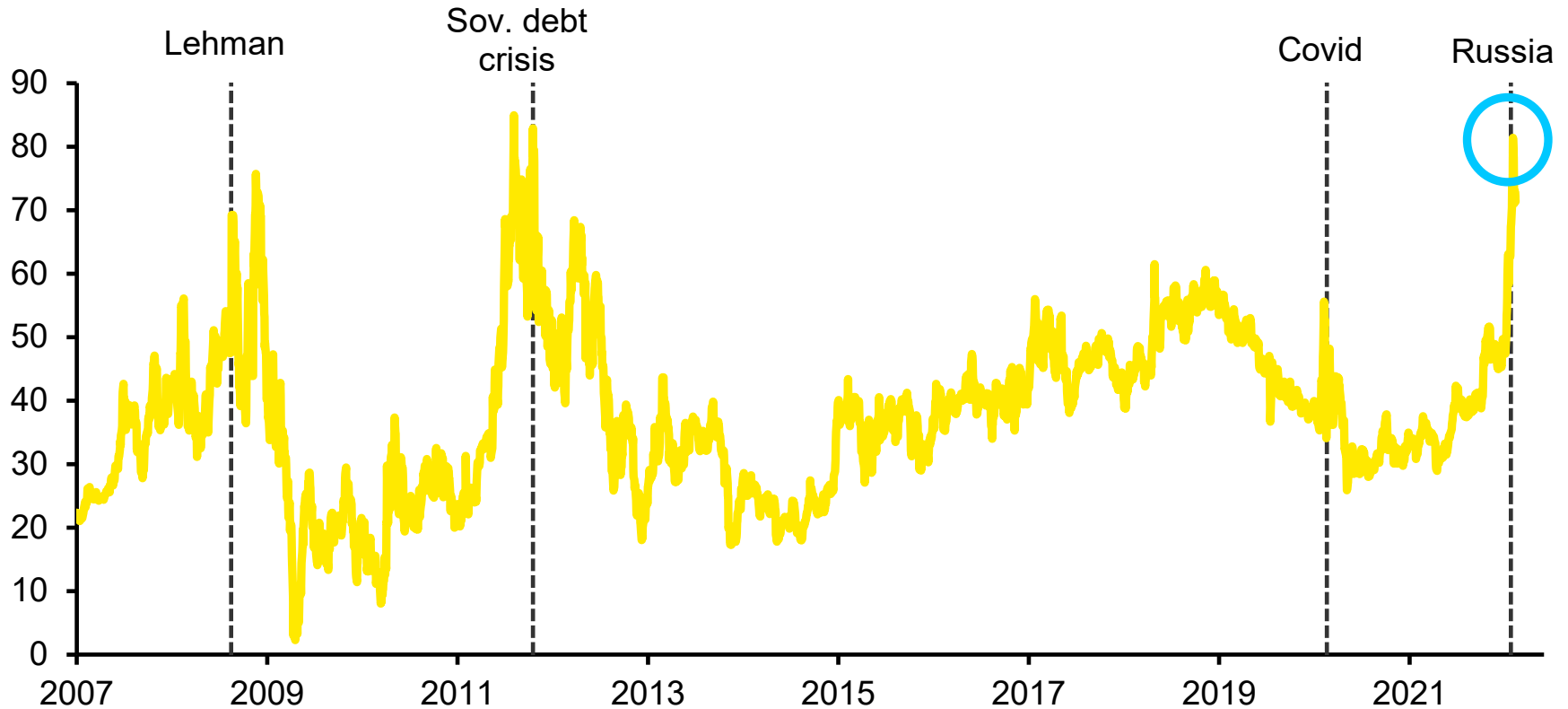
**... but long-term break-evens still anchored!**  
€ 5y5y ILS with pre-2014 range, in %



# Bund asset swap spreads rise to record!



10y Bund asset swap spread vs 1<sup>st</sup> generic future, in bp

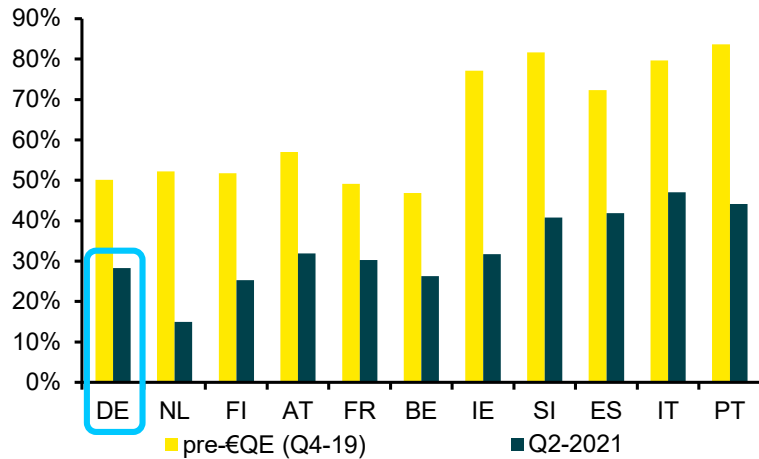


Source: Bloomberg, Commerzbank Research

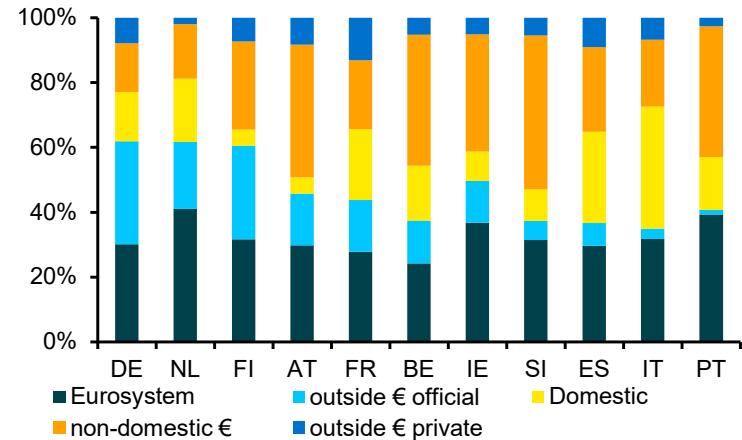
# The structural view: Bund scarcity



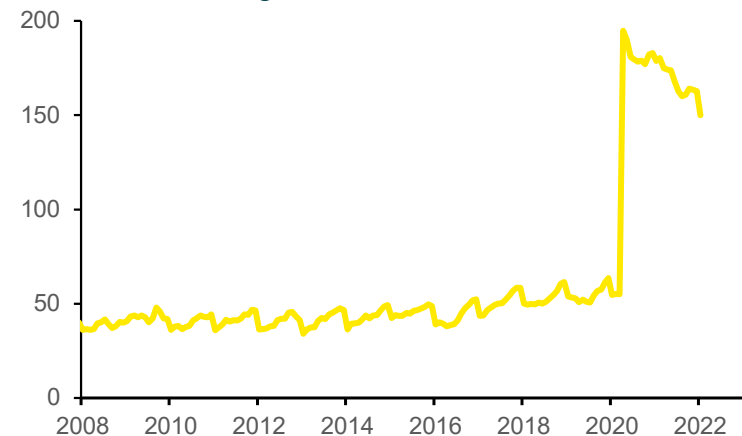
**Free float of German paper has fallen below 30%**  
 Estimated EGB free-float\*, in % of outstanding



**Largest holders are Buba + foreign central banks...**  
 Sovereign bond holdings\*\* by investor type, as of Q2-2021



**... and the German Finanzagentur (DFA)**  
 DFA own holdings, in € bn



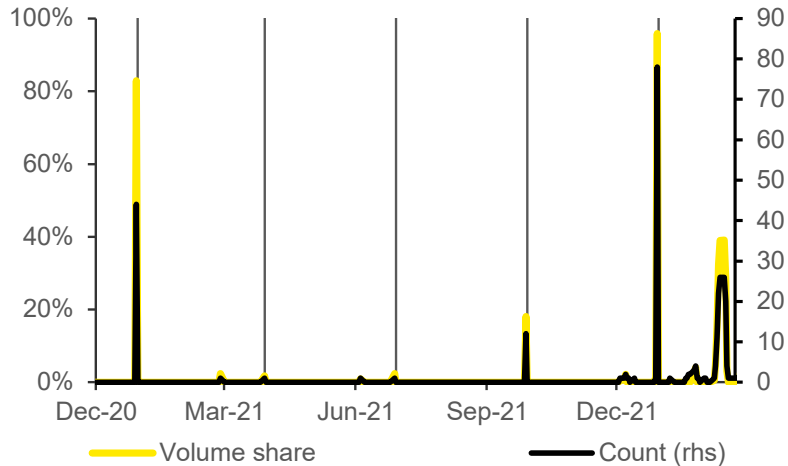
Sources: Bloomberg, ECB, IMF; World Bank, DFA, Commerzbank Research  
 \*) free float defined as 1y+ general government holdings excluding foreign official sector, Eurosystem, pension funds and insurance industry.  
 \*\*) 1y+ general government holdings

# February was “special” ...



## Year-end dynamics in mid-February

Bunds below -1% in repo (S/N), vertical lines: q-end

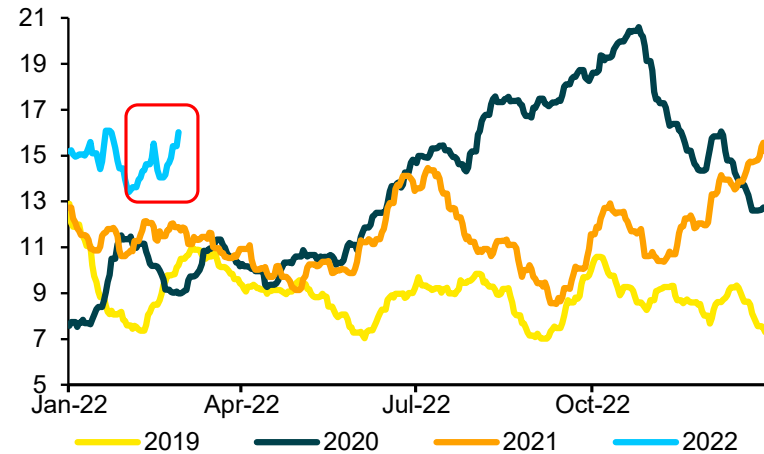


Source: Commerzbank Repo Desk and Research

- Repo valuations turned extreme in February with more than a third of outstanding Bunds trading at repo levels below -1%, but market was functioning
- Main reasons were significant short base and prevailing short ASW positions after year-end. Adjustment to the new CSDR settlement regime only played a minor role in our view. More arguments, see *Rates Radar, The crux with asset swap spreads*, 17 February.

## Bund short base unusually high

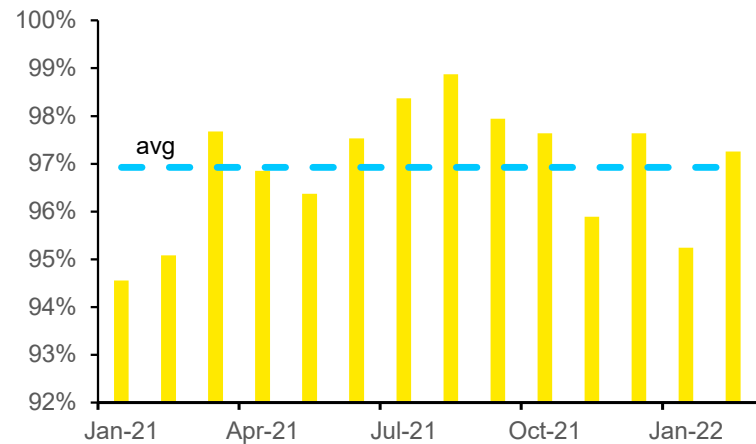
Eurex Repo traded volume in Bund specials, in € bn



Source: Eurex Repo

## No increase in fails during February

Eurex Repo settlement efficiency

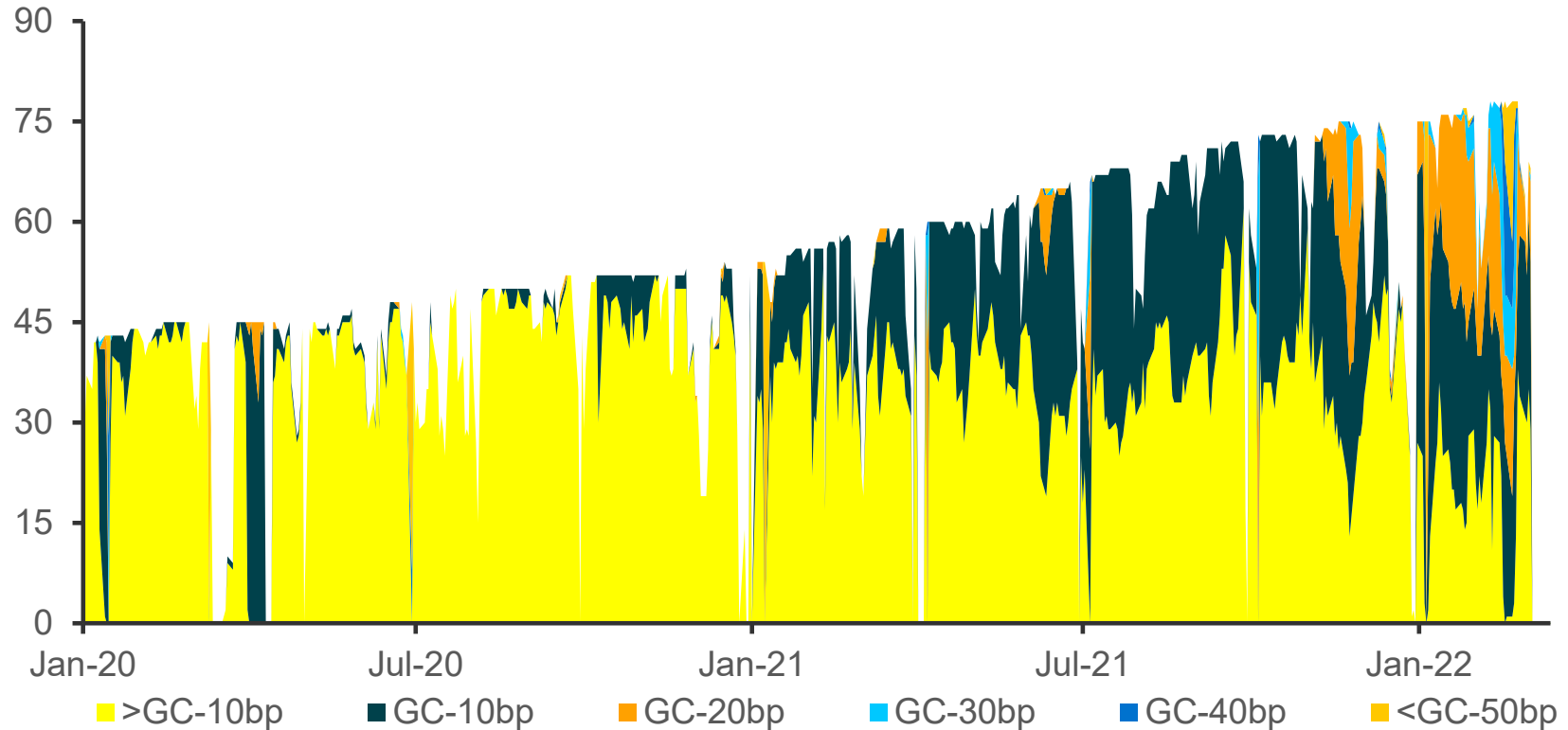


Source: Eurex Repo

# ...but specialness has been increasing for some time



Distribution of German specials (number of bonds per spread against GC)



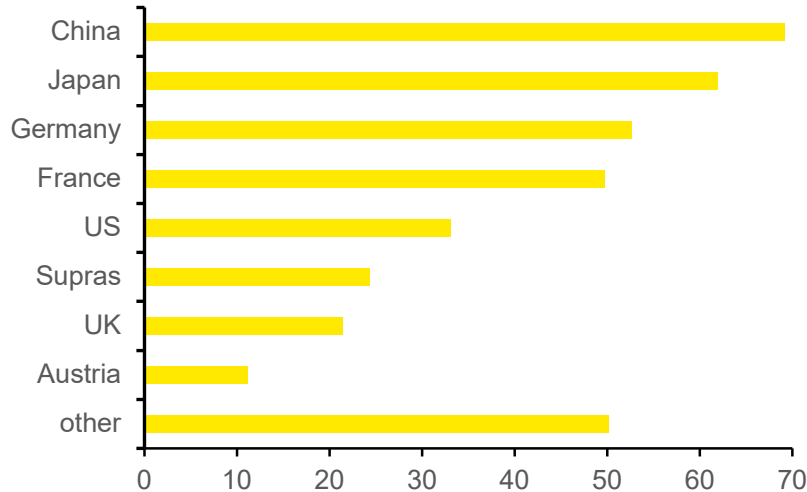
Source: Commerzbank Repo Desk and Research

# Ukraine impact underlines role of DFA



## Central Bank of Russia holds up to €50bn in Bunds

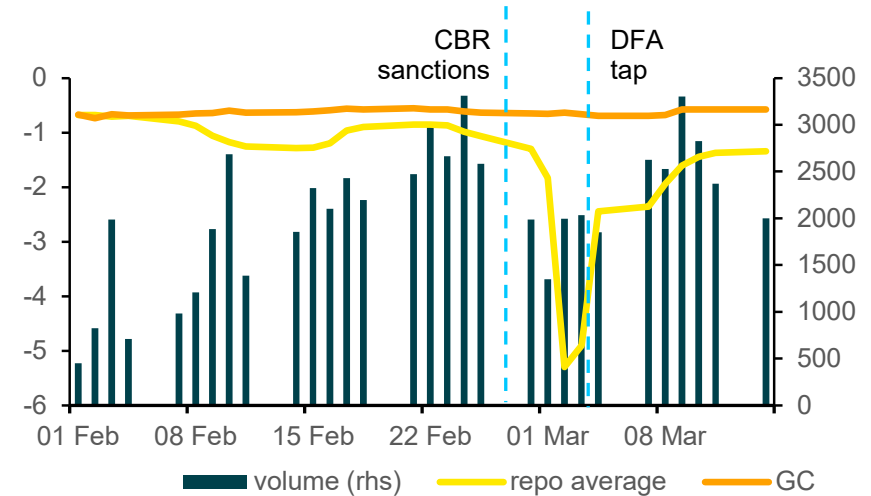
CBR assets in foreign currency by country, 1Jan21, in € bn



Source: Central Bank of Russia, Commerzbank Research

## Schatz Mar24 falls victim to CBR sanctions

BKO Mar24 repo and GC averages, in %, and traded volumes, in € bn



Source: Commerzbank Repo Desk and Research

- As market trading became impaired with repo bids below -6% and no offers, DFA took unusual step of tapping BKO Mar24 by €2.5bn into own holdings
- DFA can otherwise only provide backstop via own holdings if it owns the bonds
- DFA is not concerned about market prices resulting from supply and demand
- It will not compromise on secondary trading liquidity or settlement efficiency though

# Repo and ASW

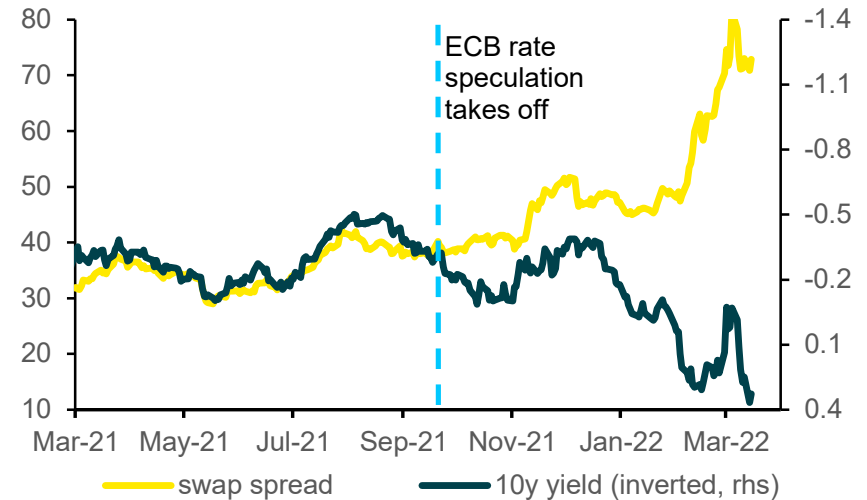


**Higher funding spreads – higher asset swap spreads**  
 Spread of 10 most special DBRs against €STR and 10y Bund asset swap spread, in bp



Source: Bloomberg, Commerzbank Research

**Rate hedging adds to swap spread widening**  
 10y Bund swap spread, in bp, and 10y yield, in %



Source: Bloomberg, Commerzbank Research



# Discussion points:



- Which market segments are at risks from further dislocations due to the Russian war against Ukraine?
- What difference could a Russian default make?
- How can bond markets cope with larger crisis-related funding needs at times when the ECB is buying less?
- Do repo markets need more support?
- How could more harmonisation in lending criteria from DMOs and NCBs be achieved?

# Disclaimer



In accordance with ESMA MAR requirements this report was completed 16 March 2022 and disseminated 16 March 2022.

In respect to Article 4 of ESMA MAR, for an overview of recommendations made in the previous 12 months on any instrument or issuer covered in this report as well as an overview of all recommendations made by the producer(s) of this report in the previous 12 months, please follow this link: <https://research.commerzbank.com/RecommendationHistoryCredit>; <https://research.commerzbank.com/RecommendationHistoryInterestRates>

This document has been created and published by the Group Research department (GM-R) within the Group Management division of Commerzbank AG, Frankfurt/Main or Commerzbank's branch offices mentioned in the document. Commerzbank AG is a provisionally registered swap dealer with the CFTC.

**If this report includes an analysis of one or more equity securities, please note that the author(s) certify that (a) the views expressed in this report accurately reflect their personal views; and (b) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document. The research analyst(s) named on this report are not registered / qualified as research analysts with FINRA. Such research analyst(s) may not be associated persons of Commerz Markets LLC and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.**

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

## Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document\*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts:

<https://commerzbank.bluematrix.com/sellside/Disclosures.action>\*

\*Updating this information may take up to ten days after month end.

## Recommendation Key

### I) Recommendations versus benchmarks:

Overweight (OW) We expect outperformance versus the benchmark in spread and/or total return terms

Marketweight (MW) We expect performance in line with the benchmark in spread and/or total return terms

Underweight (UW) We expect underperformance versus the benchmark in spread and/or total return terms

**Benchmark:** Unless stated otherwise, the benchmark is the iBoxx € Corporate for IG-rated names/instruments, and the iBoxx € High Yield core cum crossover LC for HY-rated names/instruments

### II) Outright recommendations:

Buy We suggest entering / expanding positions in the relevant names/instruments

Sell We suggest reducing / closing positions in the relevant names/instruments

**Time Horizon:** Unless stated otherwise, the time horizon for our recommendations is three months.

## Risks related to these recommendations

A variety of factors and events may adversely affect the performance of any recommendation, and in case of investment in bonds can also lead to the non-payment of coupons as well as principal losses.

These risk factors include general macroeconomic and political conditions, central bank action, or any other factor directly affecting overall risk sentiment.

In addition, industry or sector specific legal frameworks and regulation, as well as rating or rating methodology changes and any other factors directly or indirectly influencing the credit quality, the operating and/or refinancing environment of the specific issuer may also affect performance.

# Disclaimer



## Distribution of Commerzbank AG credit research recommendation as of 31 December 2021

	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Overweight	70%	0%
Marketweight	0%	0%
Underweight	30%	0%

Source: Commerzbank Research

## Distribution of Commerzbank AG rates research recommendation as of 31 December 2021

	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Long/Buy	43%	0%
Neutral	16%	0%
Underweight	41%	0%

Source: Commerzbank Research

## Disclaimer

This document is for information purposes only and does not take into account specific circumstances of any recipient. The information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

In order to address potential conflicts of interest Commerzbank's Research department operates independently of other business units of the bank. This is achieved by way of physical and administrative information barriers and separate reporting lines as well as by written internal policies and procedures.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and or its affiliates may act as a market maker in the instrument(s) and or its derivative that has been mentioned in our research reports. Employees of Commerzbank and or its affiliates may provide written or oral commentary, including trading strategies, to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

# Disclaimer



Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

## **Additional notes to readers in the following countries:**

**Germany:** Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by both the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany.

**United Kingdom:** This document has been issued or approved for issue in the United Kingdom by Commerzbank AG London Branch. Commerzbank AG, London Branch is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority and with deemed variation of permission. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. This document is directed exclusively to eligible counterparties and professional clients. It is not directed to retail clients. No persons other than an eligible counterparty or a professional client should read or rely on any information in this document. Commerzbank AG, London Branch does not deal for or advise or otherwise offer any investment services to retail clients.

**United States:** This document has been approved for distribution in the US under applicable US law by Commerz Markets LLC ('CMLLC'), a wholly owned subsidiary of Commerzbank AG and a US registered broker-dealer. Any securities transaction by US persons must be effected with CMLLC. Under applicable US law; information regarding clients of CMLLC may be distributed to other companies within the Commerzbank group. This research report is intended for distribution in the United States solely to "institutional investors" and "major US institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. CMLLC is a member of FINRA and SIPC. Banking services in the US. will be provided by Commerzbank AG, New York Branch. Securities activities in the US are conducted through CMLLC and swap transactions with Commerzbank AG. Commerzbank AG is not a member of SIPC and is a provisionally registered swap dealer with the CFTC. Any derivatives transaction with US persons must be effected in accordance with the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Some products or services may be unavailable in the United States.

**Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerz Markets LLC deals pursuant to the international dealer exemption. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities may not be conducted through Commerz Markets LLC. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

**European Economic Area:** Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA. Commerzbank AG, London Branch is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority and with deemed variation of permission. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. **Switzerland:** This is an advertisement in the meaning of FIDLEG. The financial instruments mentioned in this publication do not constitute a participation in a collective investment scheme in the sense of the Swiss Collective Investment Schemes Act (CISA). This publication, the information contained herein as well as any other publication in connection with the financial instruments mentioned herein may be distributed exclusively to qualified investors as defined in the CISA and may only be made available to such qualified investors.

**Singapore:** This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor or an accredited investor as respectively defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA") pursuant to section 274 or section 275 (as applicable) of the SFA. Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication. Further, the communication/information provided herein does not constitute a "financial advisory service" within the meaning of the Financial Advisers Act, Chapter 110 of Singapore ("FAA") and therefore, the regulatory requirements and duties that may be owed to a client pursuant to or in connection with the FAA are not applicable to the recipient in connection with this communication. Recipients are advised to seek independent advice from their own professional advisers about the information contained herein.

**Hong Kong:** This document, may only be made available in Hong Kong by Commerzbank AG, Hong Kong Branch to 'professional investors' within the meaning of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made there under, and persons whose ordinary business is to buy or sell shares or debentures.

# Disclaimer



**Japan:** This information and its distribution do not constitute and should not be construed as a "solicitation" under the Financial Instrument Exchange Act (FIEA). This information may be distributed from Commerzbank international branches outside Japan solely to "professional investors" as defined in Section 2(31) of the FIEA and Section 23 of the Cabinet Ordinance Regarding Definition of Section 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation. The instruments recommended in this report cannot be introduced by the Branch. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

**Australia:** Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

**People's Republic of China (PRC):** This document is furnished by Commerzbank AG and is only intended for institutions that are eligible for financial transactions. No-one else may rely on any information contained within this document. Any derivative transactions by PRC persons may only be entered into by PRC financial institutions which are permitted to conduct derivatives business in the PRC and have obtained all necessary regulatory approvals in the PRC.

© Commerzbank AG 2022. All rights reserved. Version 22.01

## Commerzbank Offices

<b>Frankfurt</b> Commerzbank AG	<b>London</b> Commerzbank AG	<b>New York</b> Commerz Markets LLC	<b>Singapore</b> Commerzbank AG	<b>Hong Kong</b> Commerzbank AG
DLZ - Gebäude 2, Händlerhaus Mainzer Landstraße 153 60327 Frankfurt	PO BOX 52715 30 Gresham Street London, EC2P 2XY	225 Liberty Street, 32nd floor, New York, NY 10281-1050	71, Robinson Road, #12-01 Singapore 068895	15th Floor, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000	Tel: +852 3988 0988



**COMMERZBANK**