

Review of Bond Market Developments

(with a focus on market liquidity)

ECB Bond Market Contact Group

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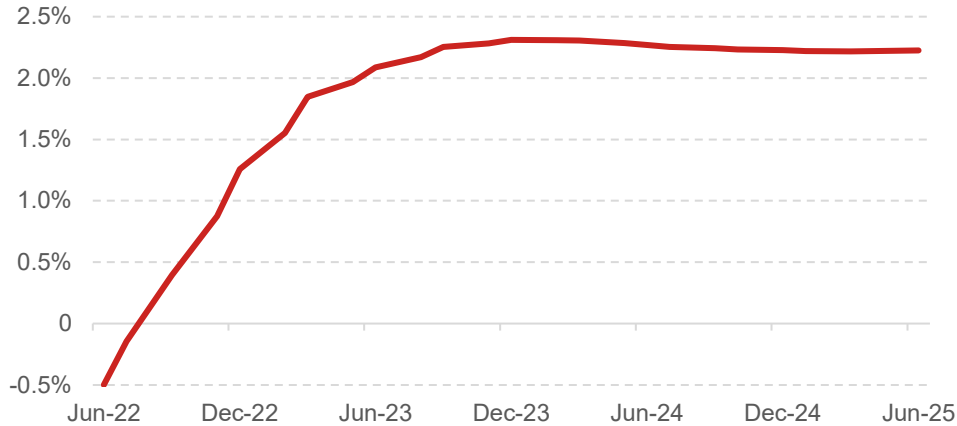
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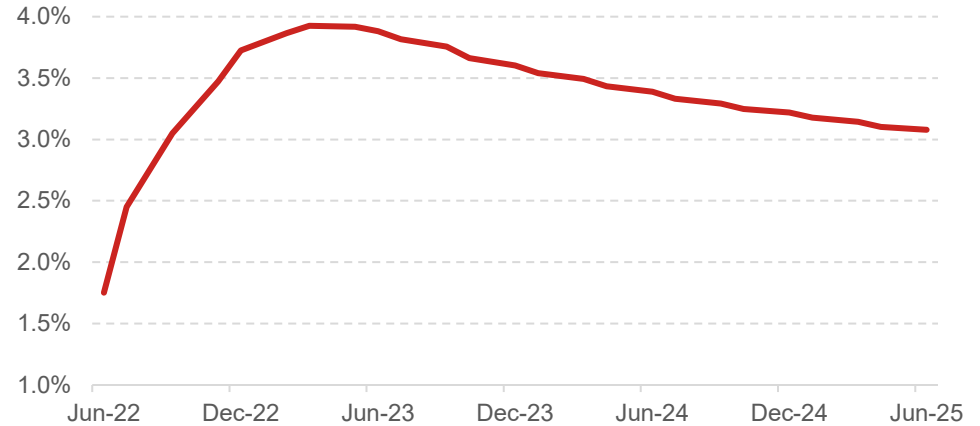
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A Reassessment of Short-Term Prospects

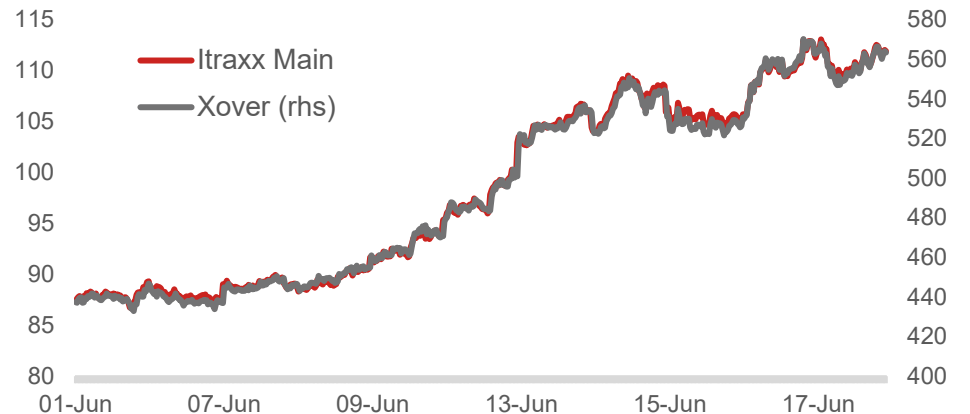
Markets are pricing 175bp of ECB hikes in 2022, 100bp in 2023



In the US markets are pricing cuts after March 2023



The ECB and Fed scheduled meetings have led to a reassessment of prospects for risk assets, both equity and credit



Unchained or Unanchored?

10y BTP spreads: no prizes for guessing the timing of the conventional and the 'ad hoc' ECB meetings

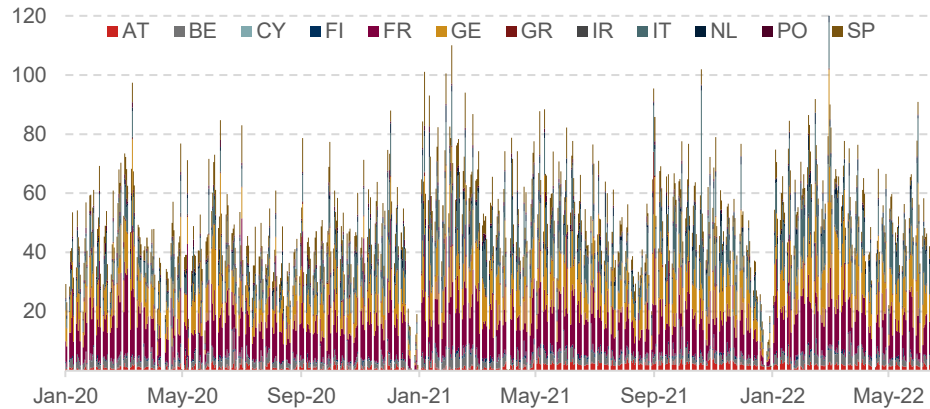


9f1y swaps and the quest for neutral

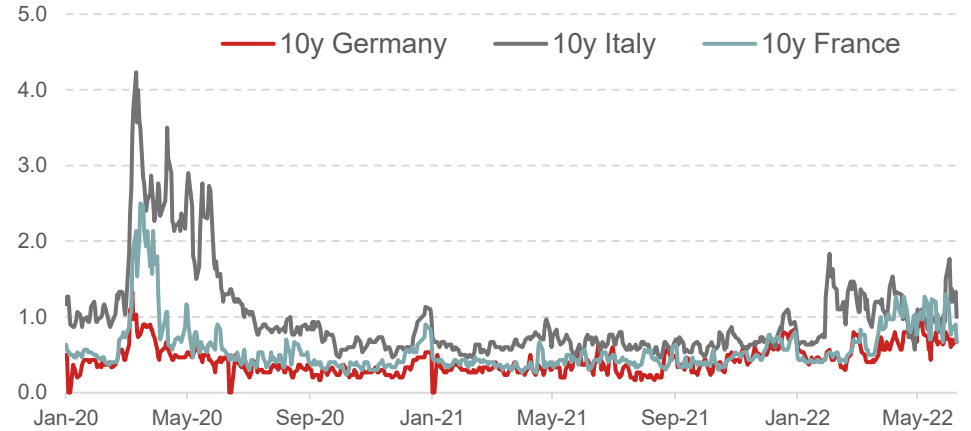


The Price for Liquidity

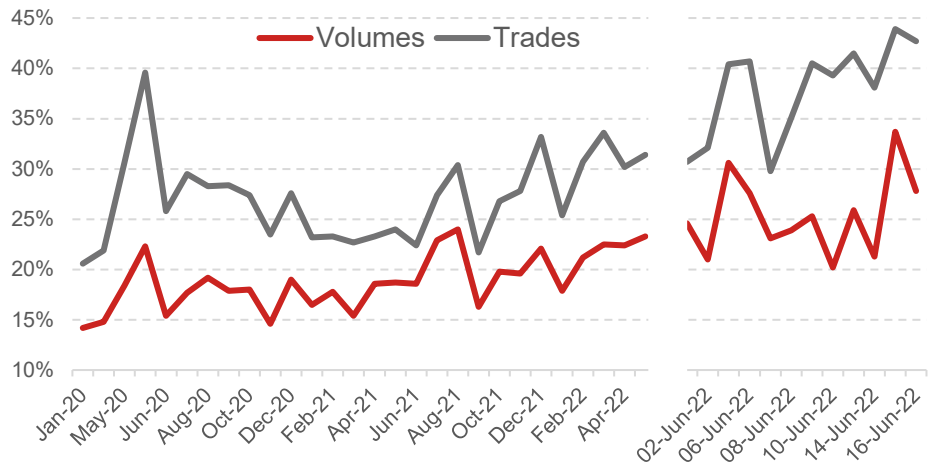
Government Bonds Traded in TRAX (€bn)



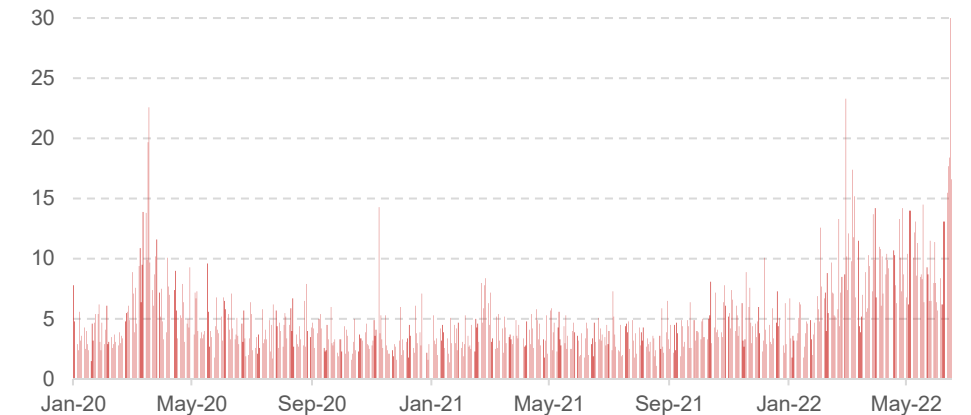
Bid/Ask Spread (in bp)



No Quotes (in % of total)



Intraday Volatility of 10y bonds (in bp)



Discussion Points

- Is the recent deterioration in market depth and volatility the temporary result of a macro transition or a persistent feature of a new regime without QE and more limited capacity for intermediation?
- Should central banks attempt to anchor the long end by discussing neutral rates? Is guidance on the terminal rate necessary?
- Is the main aim of recent ECB decisions to signal commitment to price stability or to deflate demand? Would a slowdown in economic activity slow or stop the tightening cycle?
- Is an anti-fragmentation tool necessary? If so, should the ECB respond to spreads widening too much or too disorderly? What communication would soothe markets? Will the tool be used?

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