

MMCG 18.03.14

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Recent Developments Money Market

MMCG Meeting 18.03.04



Landesbank Baden-Württemberg

LB≡BW

Schedule

Major Events

- Regulatory
- Monetary Policy
- Macro Developments

Capital Markets

- Credit Provision
- Equity Markets
- CDS Levels
- Target II Bal. Germany
- Sovereign Yields
- Asset Swap Levels

Money Market

- FRA EONIA
- Liquidity Provision
- Euribor Rates
- EONIA Rates/Vol.
- GC Polling Rates/Vol.

Outlook

- FWD EONIA
- Implied EURIBOR lvls.

Major Events

Regulatory

Recent developments

- EBA announces key features of the stress test
- Basel Committee
 - NSFR: Various revisions to Available stable funding and required stable funding
 - LR: Various amendments with regard to the treatment of several financial instruments

Monetary Policy

Central Banks keep accomodative stance

- No major amendments at any of the major central banks
 - FED starts tapering moderately
 - ECB strengthens forward guidance
 - BoE implements changes to existing forward guidance

Macro Developments

Early signs of possible recovery

- Encouraging signals from various areas
 - Ireland exited EFSF assistance programme
 - ESM's assistance programme for Spain expired
 - CPI mostly stable
 - PMI levels in the major economies above 50
 - Recent turmoil in EM and geopolitical tensions could hamper overall positive outlook

Regulatory - EBA

EBA

- **Main features of the 2014 EU wide stress test**
 - Exercise will be carried out on the basis of the consolidated year end 2013 figures
 - Capital hurdle set at 8% Tier for baseline scenario
 - Capital hurdle set at 5,5% for adverse scenario

Regulatory - Basel Committee Announcements

LR

LR “Capital measure/exposure measure“ expressed as percentage

- Capital measure is currently defined as Tier1 capital, minimum leverage ratios is **3%**
 - Amendments of the treatment of *securities financing transactions* (SFTs) will allow limited netting with same counterpart (clear advantage of CCP trading)
 - *Off balance sheet items* will not be treated uniformly with a 100% credit conversion factor and variation margin can possibly reduce exposure (central clearing)
 - Cash and other HQLA have not been exclude from the exposure measure (denominator)

NSFR

NSFR “Amount of stable funding relative to the amount of required funding“

- NSFR should be equal to at least 100% on an ongoing basis
 - Various measures to harmonize and generally strenghten the basis of ASF
 - Various measures to harmonize and slightly reduce the RSF

Regulatory - Basel Committee Possible Impacts

LR

- Overall the announced amendments should not have an immediate impact on repo and or derivatives markets as the adverse effects of the June consultation have been revised
- It is quite obvious that the regulatory pressure on banks to shrink and delever balance sheets is not over yet
- Repo and derivatives markets continue to shrink
- Current ratio of 3% will be monitored semianual / Unlikely that US regulators will back away from their original intention to impose a 6% ratio
- As cash and HLQA are not excluded banks are penalized for holding low risk assets – this could also interfere with attempts to strengthen LCR

NSFR

- „The main revisions to the NSFR seek to reduce cliff effects within the measurement of funding stability, improve its alignment with the Liquidity Coverage Ratio (LCR), and alter its calibration to focus greater attention on short-term, potentially volatile funding sources“(from the BIS web site)
- Overall whole sale funding has moderately been upgraded
- Operational deposits will be recognised with a 50% ASF compared to 0% previously
- At a first glance it seems as if the revisions leave the burden very high for most banks to reach the 100% benchmark

Monetary Policy – Central Bank Decisions

ECB

ECB

- No recent changes
 - Accomodative monetary policy in place
 - Emphasis on forward guidance
 - Implied 3 mth rate Mar 2016 approx. 0,55%

FED

FED

- Tapering has started in Dec 13
 - Further acceleration of tapering announced at January meeting
 - Implied 3 mth rate Mar 2016 approx. 1,30%

BoE

BoE

- No recent changes
 - About to amend parts of the recently implemented forward guidance
 - Implied 3 mth rate Mar 2016 approx. 1,75%

Macro Developments – Ireland & Spain

Ireland

- Ireland officially exited the EFSF assistance programme 8th Dec 2013
- Moody's raised the nation's credit rating back to investment grade Baa3 with a positive outlook
- Ireland was able to launch two ten year bonds EUR 3,75 bln in early January 2014 and another EUR 1 bln in mid March
- Current yields for the whole sovereign curve are below the ones of Italy and Spain
- Repo market levels for Irish GC are pretty much in line with GC levels of Portugal if traded through CCP – around 10 bp above Bunds

Spain

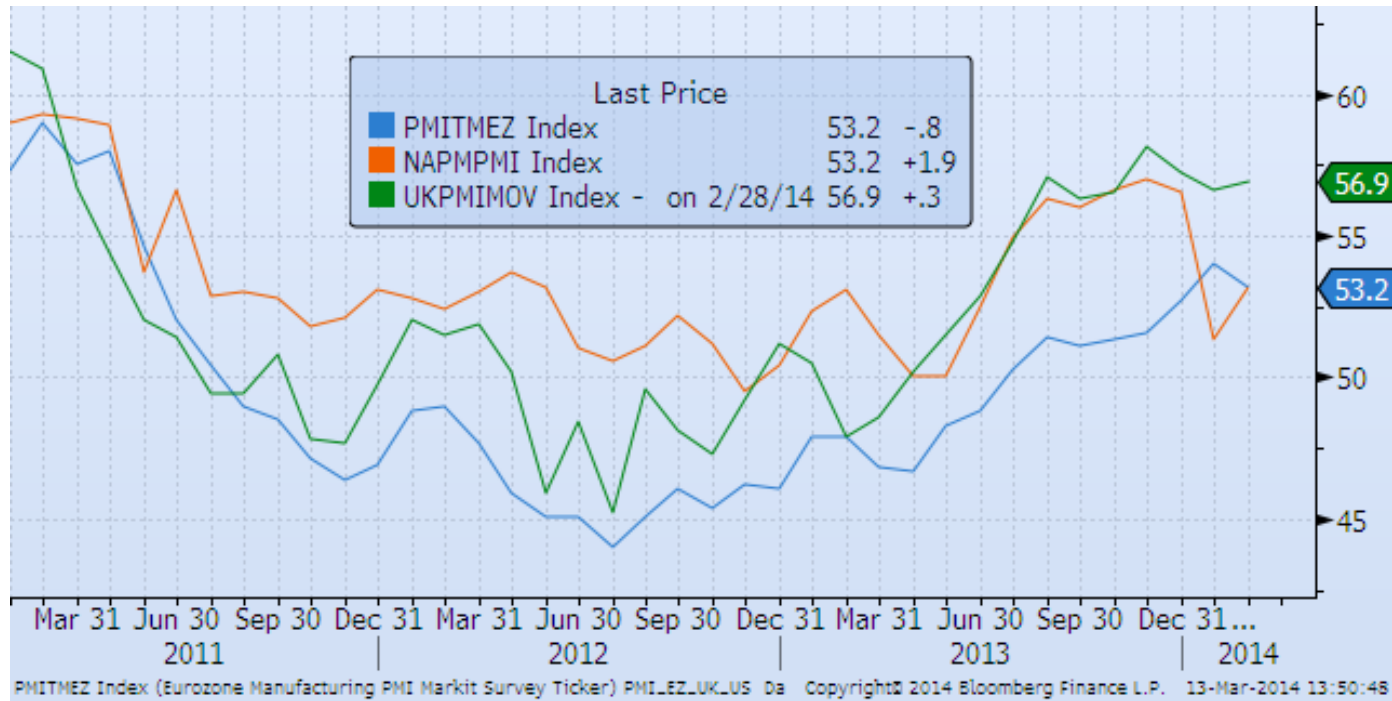
- The financial programme for Spain expired on 31st Dec 2013
- Spain was able to raise EUR 10 bln through issuing a 10 year note after receiving orders worth almost four times as much on the 22nd Jan
- Overall Spain had sold EUR 59 bln a quarter of the planned total 2014 gross issuance until the beginning of March
- Repo market levels for Spanish GC if traded through CCP is around 5 bp above Bunds and slightly higher if traded with 'wrong way risk'

Macro Developments - CPI YoY Eurozone, UK, US



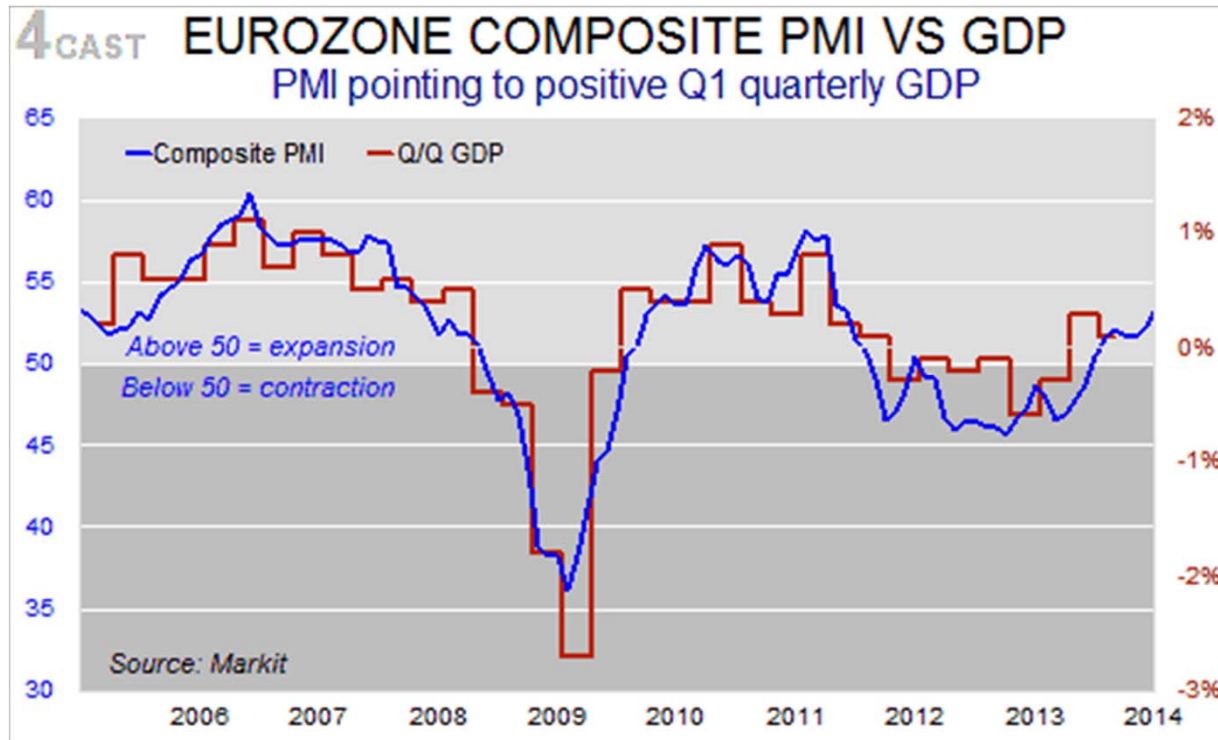
Source Bloomberg

Macro Developments - PMI Eurozone, UK, US



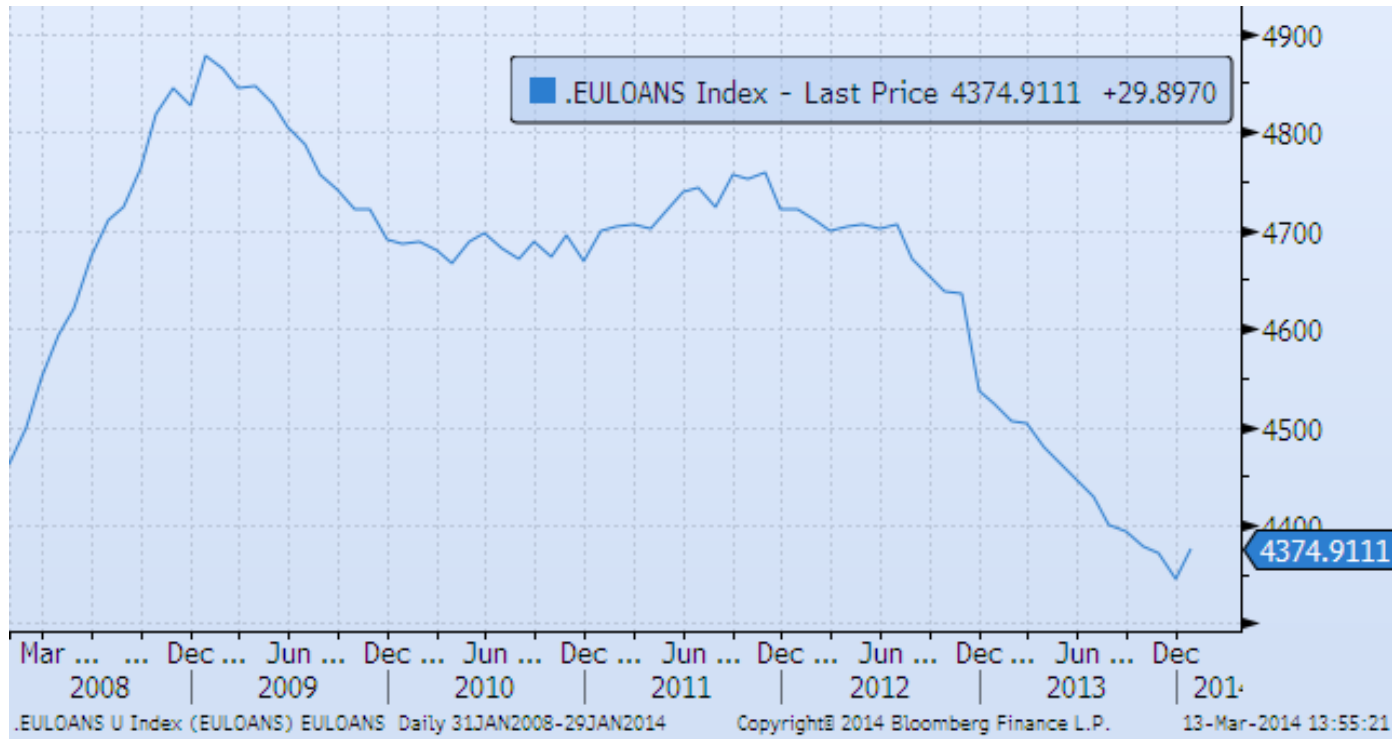
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Macro Developments - Convergence PMI / GDP Eurozone



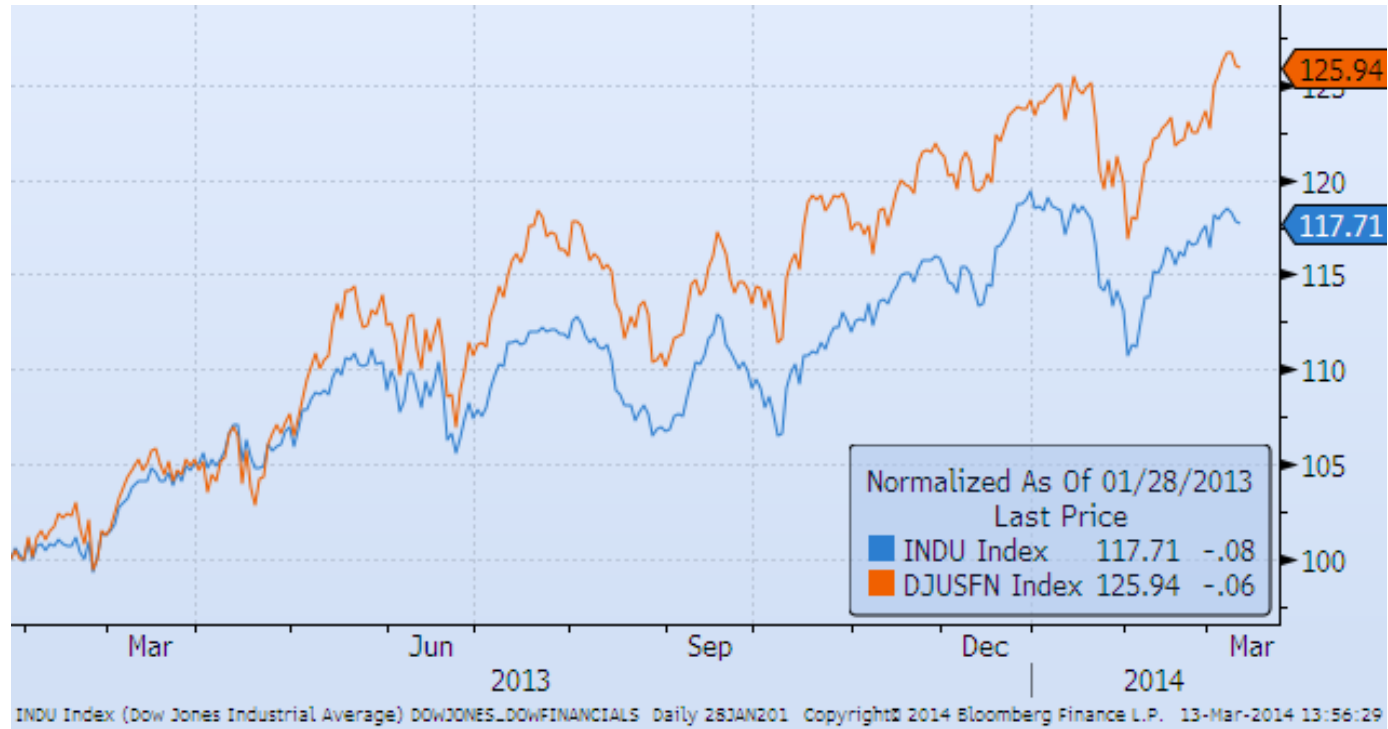
Source 4cast

Capital Markets - Eurozone Corporate Lending



Source Bloomberg / ECB

Capital Markets - Dow Jones vs. Dow Jones Financials



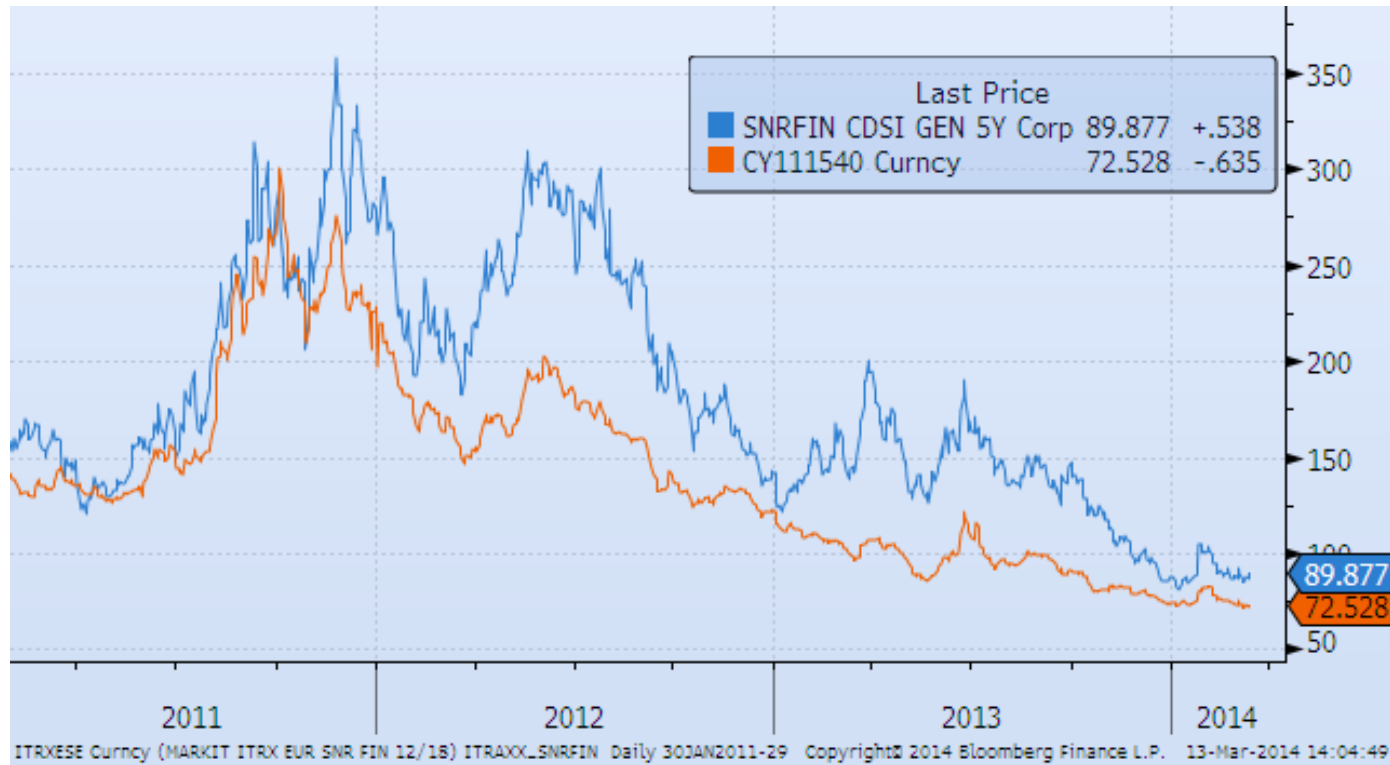
Source Bloomberg

Capital Markets – Euro Stoxx vs. Euro Stoxx Financials



Source Bloomberg

Capital Markets – CDS Senior Financials EU vs. US 5 Year Tenor



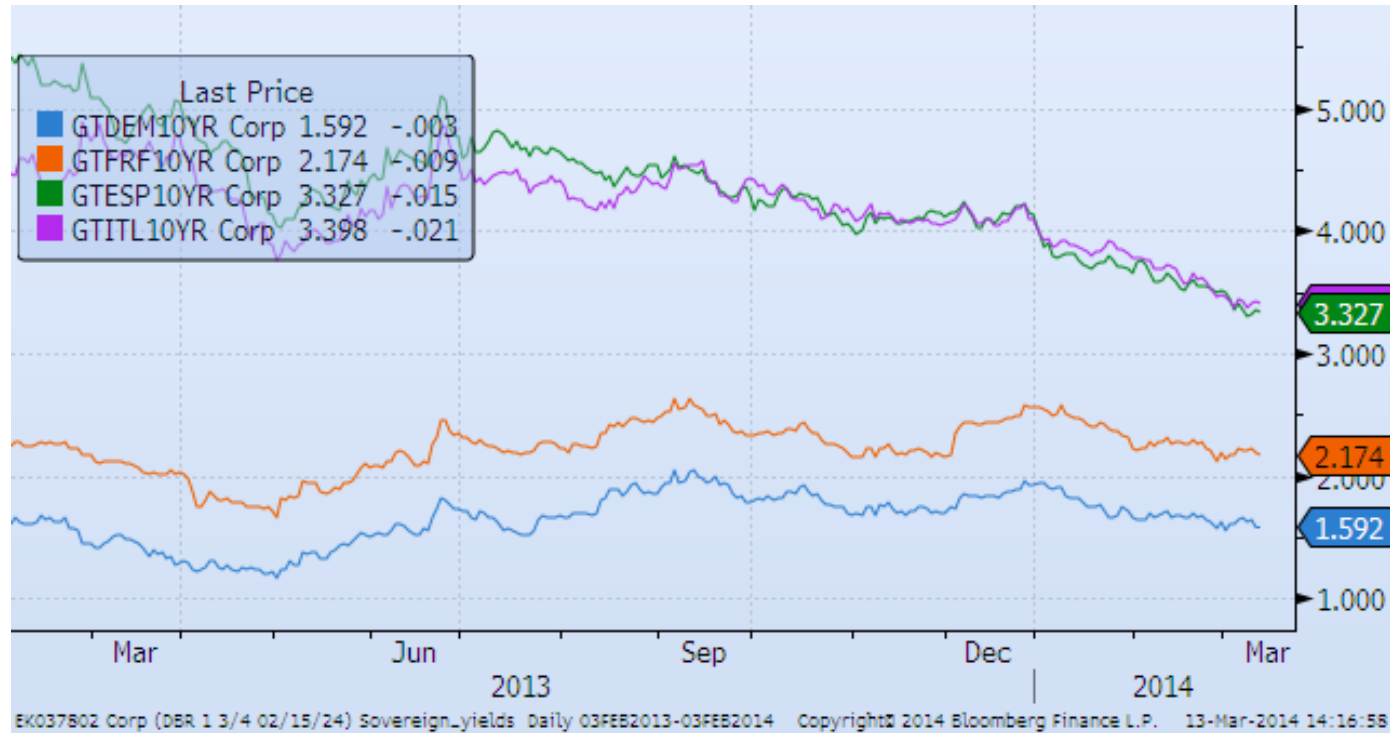
Source Bloomberg

Capital Markets – Fragmentation Target II Balance Germany



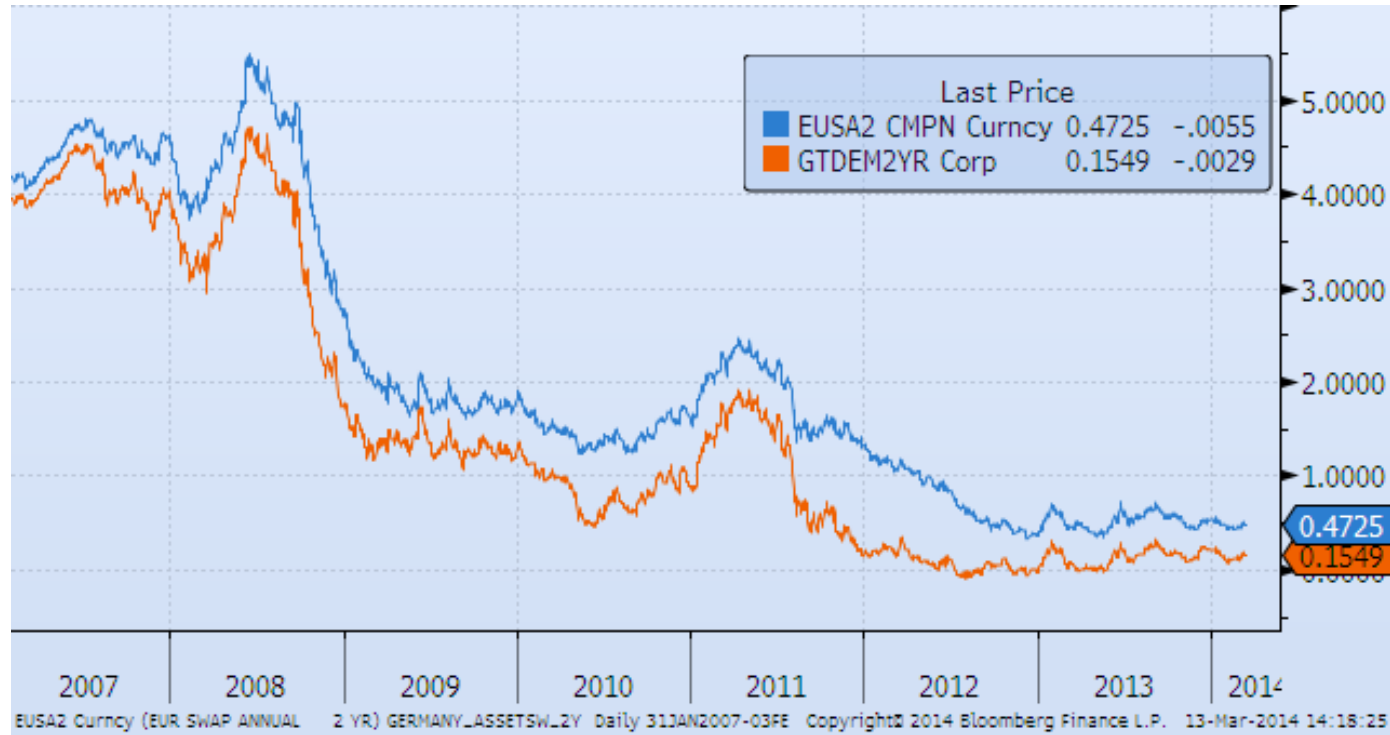
Source Bloomberg / ECB

Capital Markets – Fragmentation Sovereign Yields Euro Zone



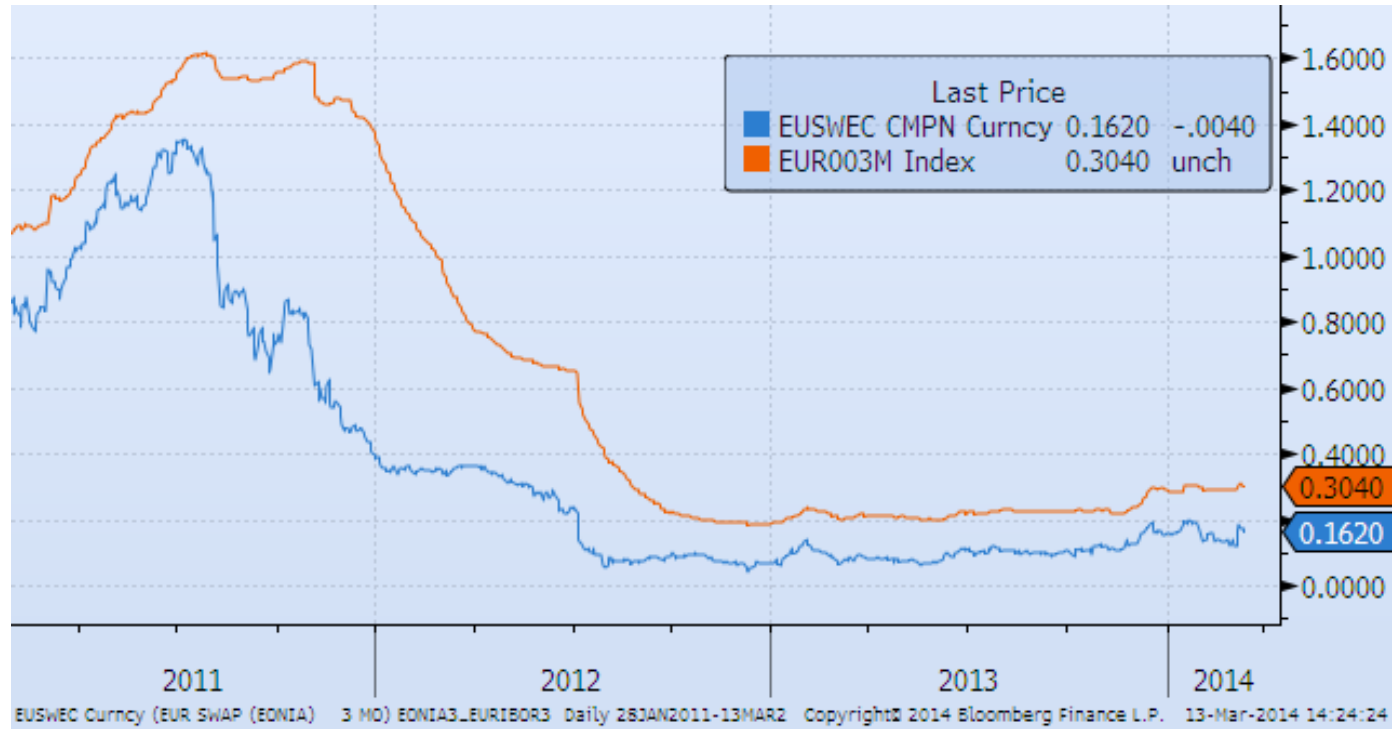
Source Bloomberg

Capital Markets – Fragmentation Asset Swap Germany 2 yrs



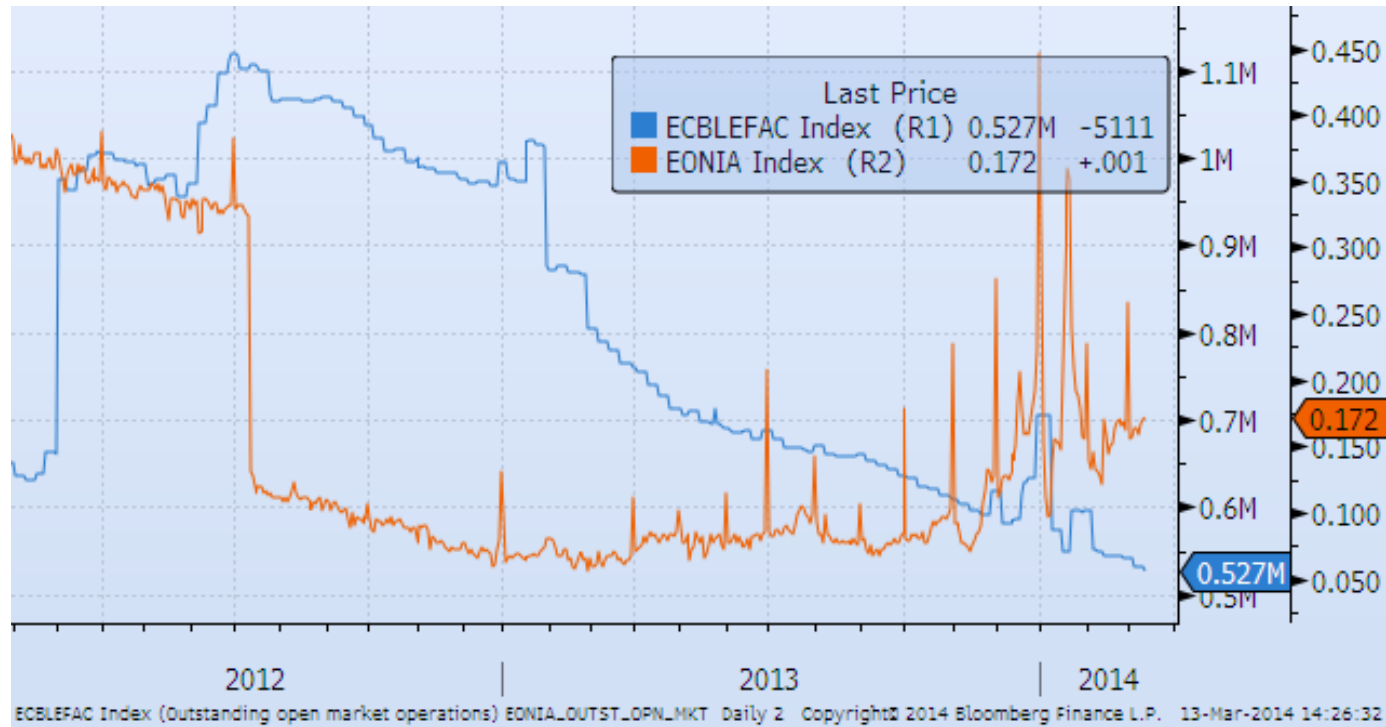
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Money Markets - EONIA 3 mths vs EURIBOR 3 mths



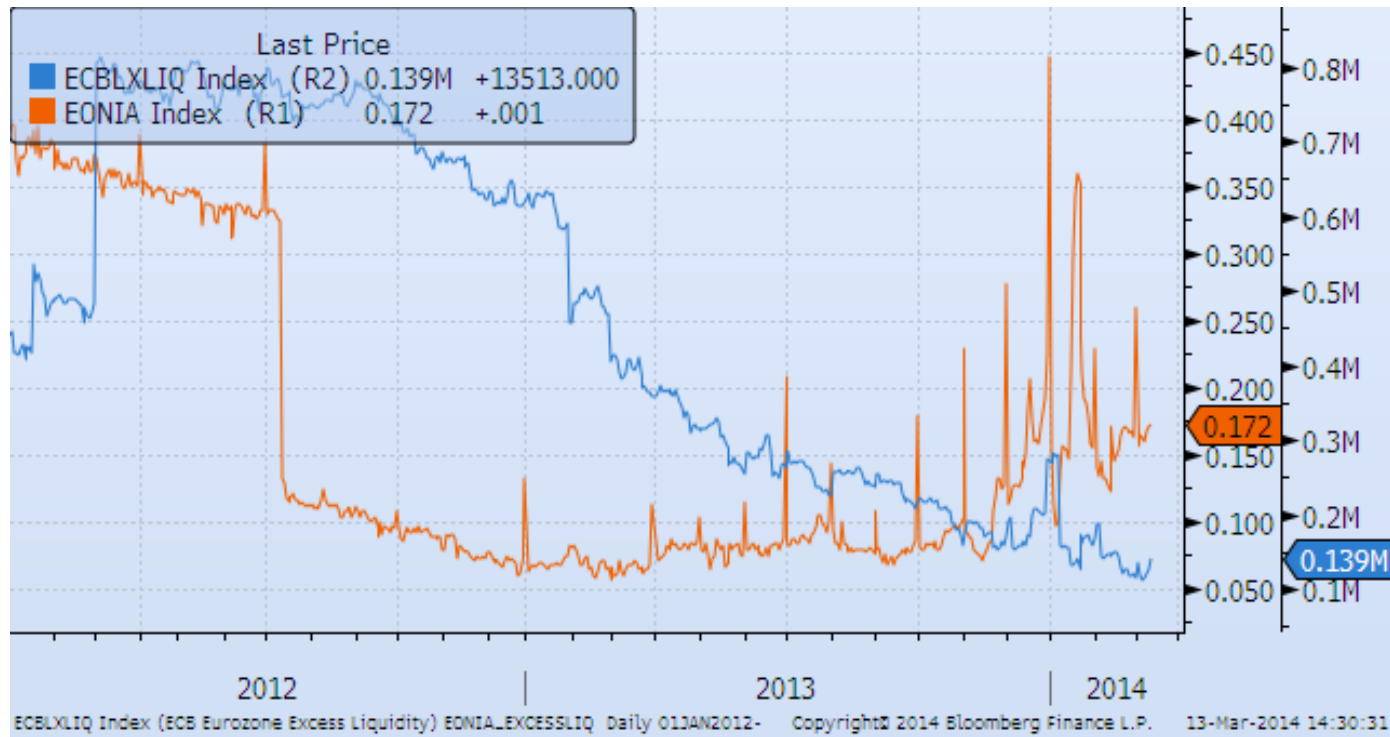
Source Bloomberg / ECB

Money Markets – EONIA Fixing vs Outstanding Open Market Operations



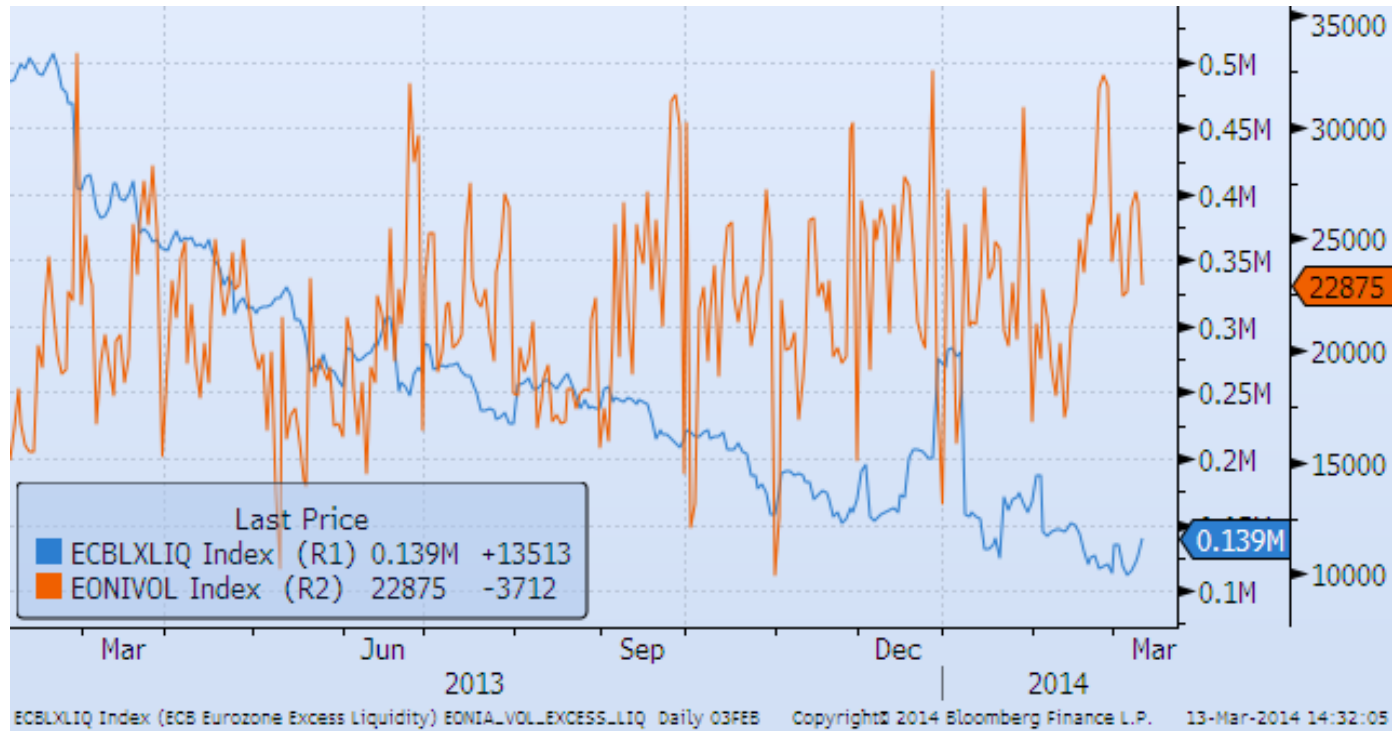
Source Bloomberg / ECB

Money Markets - EONIA Fixing vs. Excess Liquidity



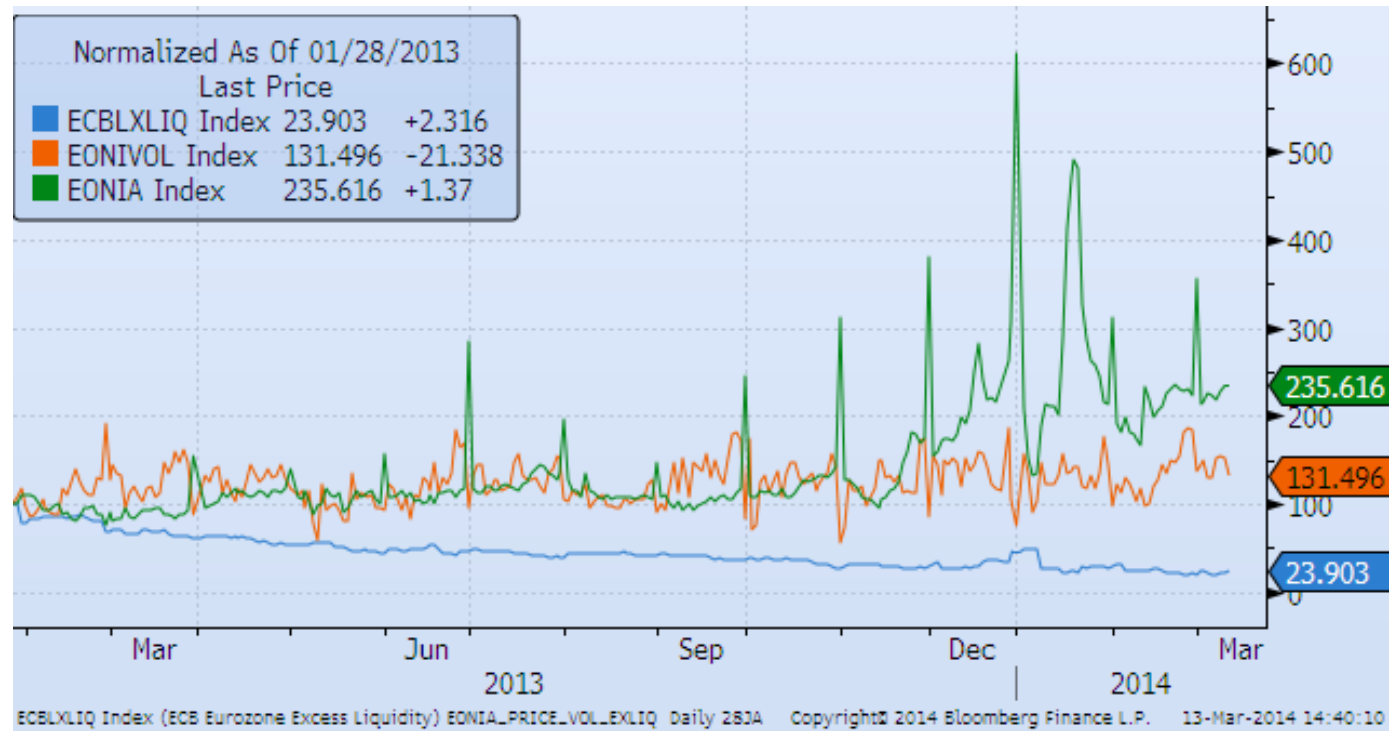
Source Bloomberg / ECB

Money Markets – EONIA Volume vs. Excess Liquidity



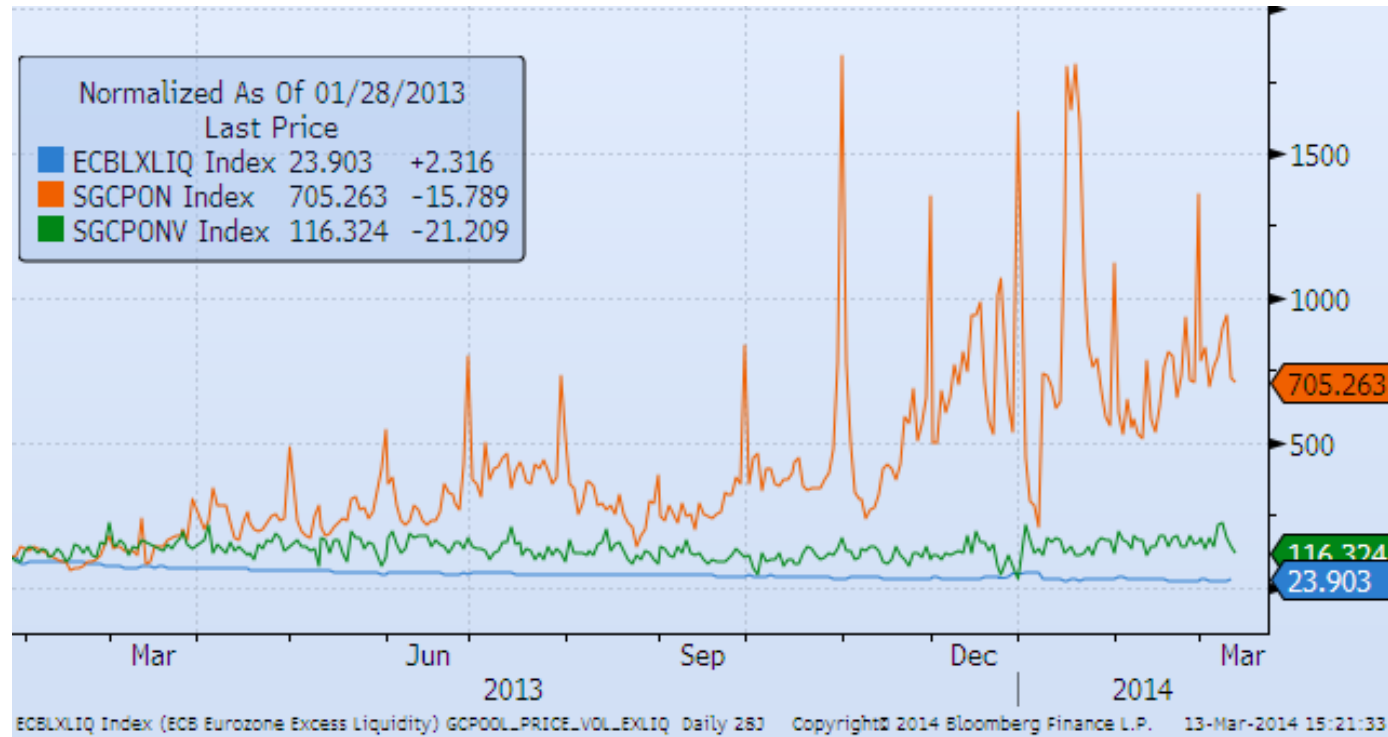
Source Bloomberg / ECB

Money Markets – EONIA Rate / Volume vs. Excess Liq.



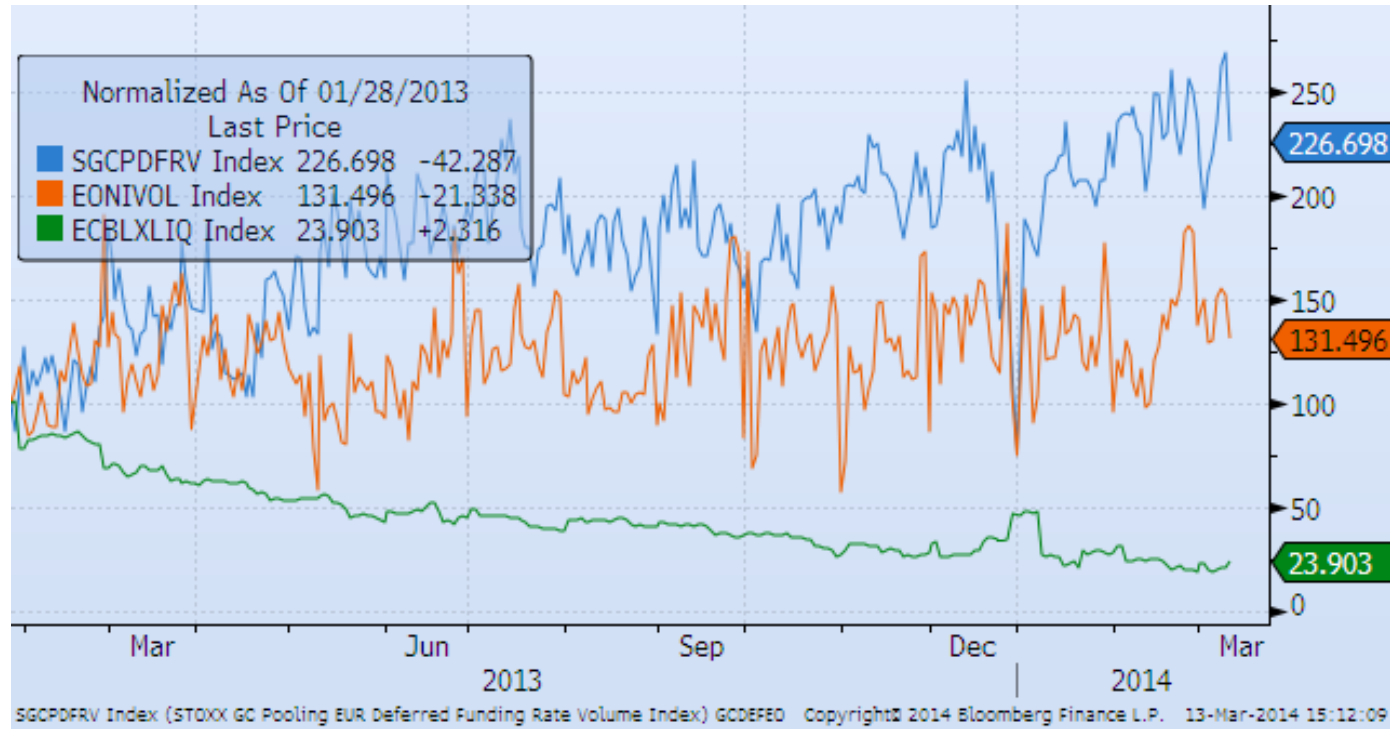
Source Bloomberg / ECB

Money Markets – GC pooling Rate / Volume vs. Excess Liq.



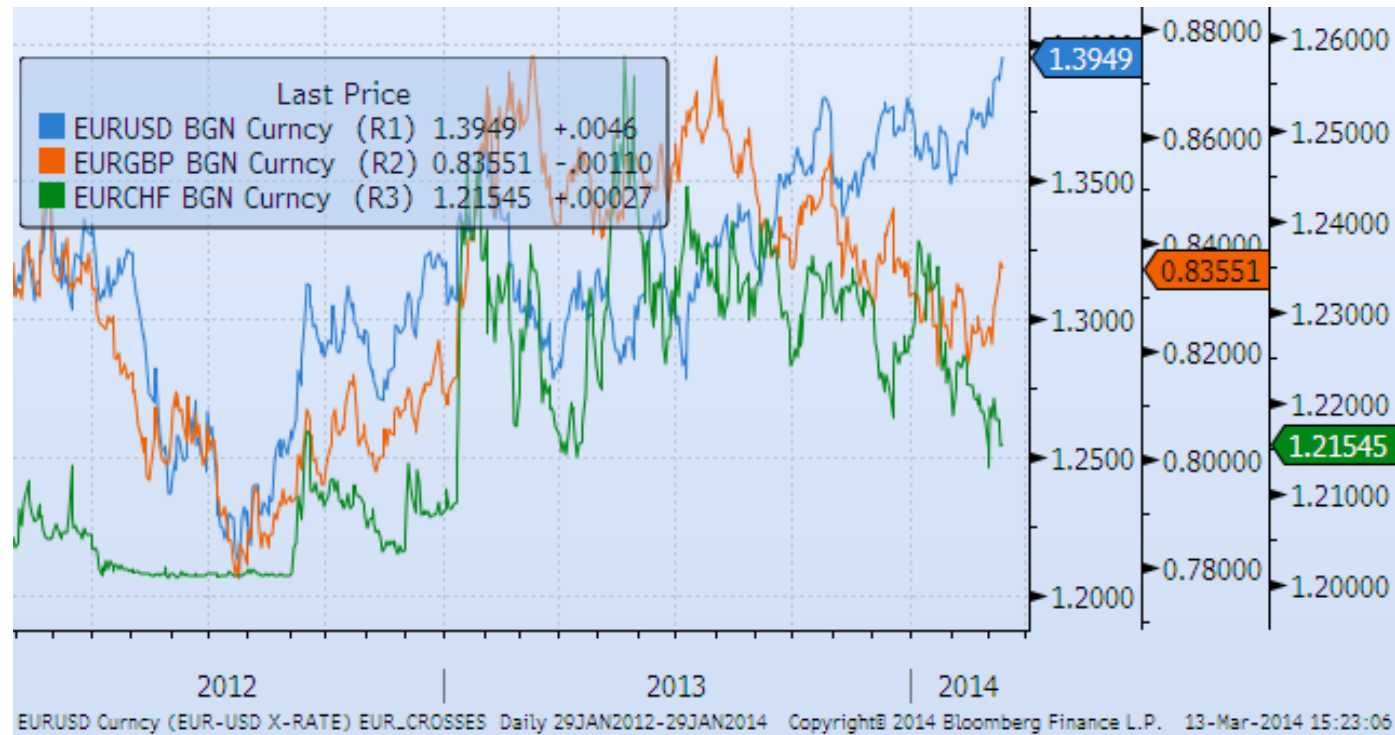
Source Bloomberg / ECB

Money Markets – Vol. GC pooling def.funding/EONIA vs. Excess Liq.



Source Bloomberg / ECB

Money Markets - EUR Spot Rates



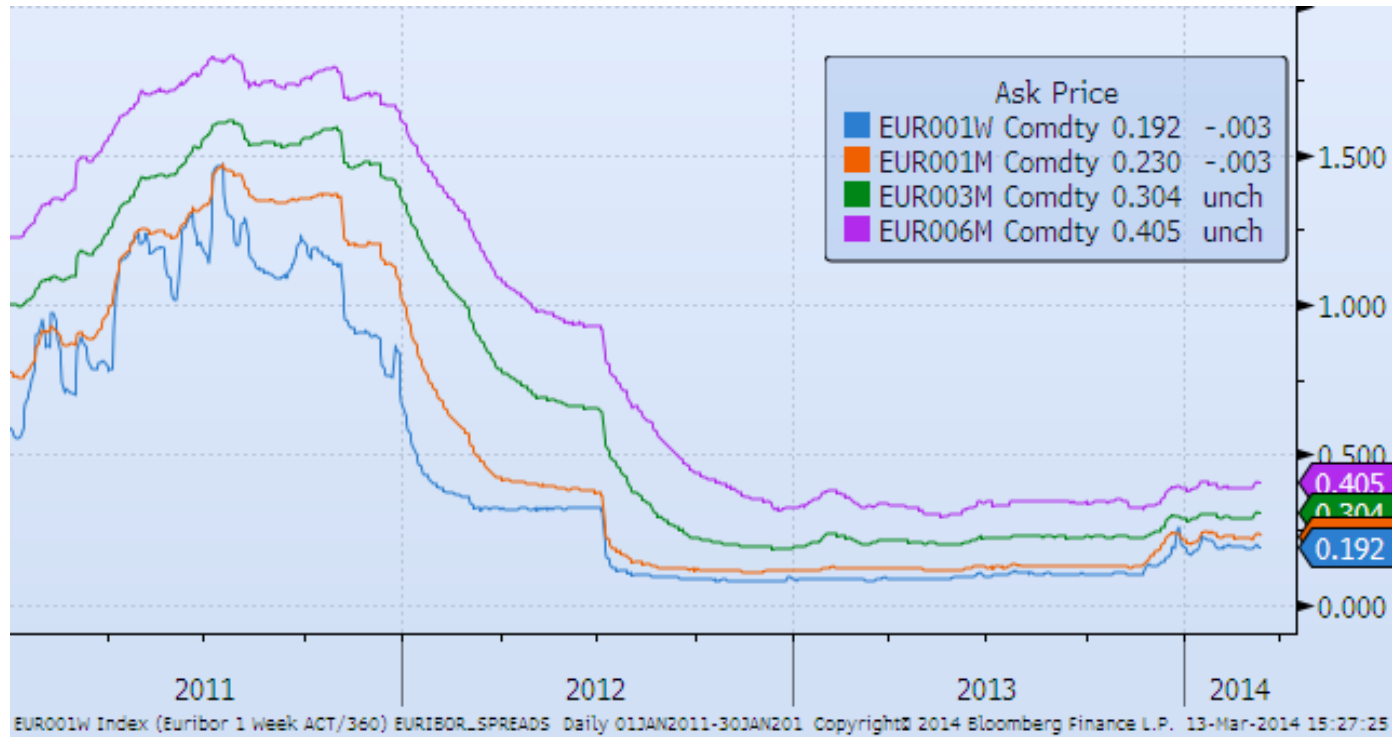
Source Bloomberg

Money Markets – EUR\$ cross currency swap 1 year



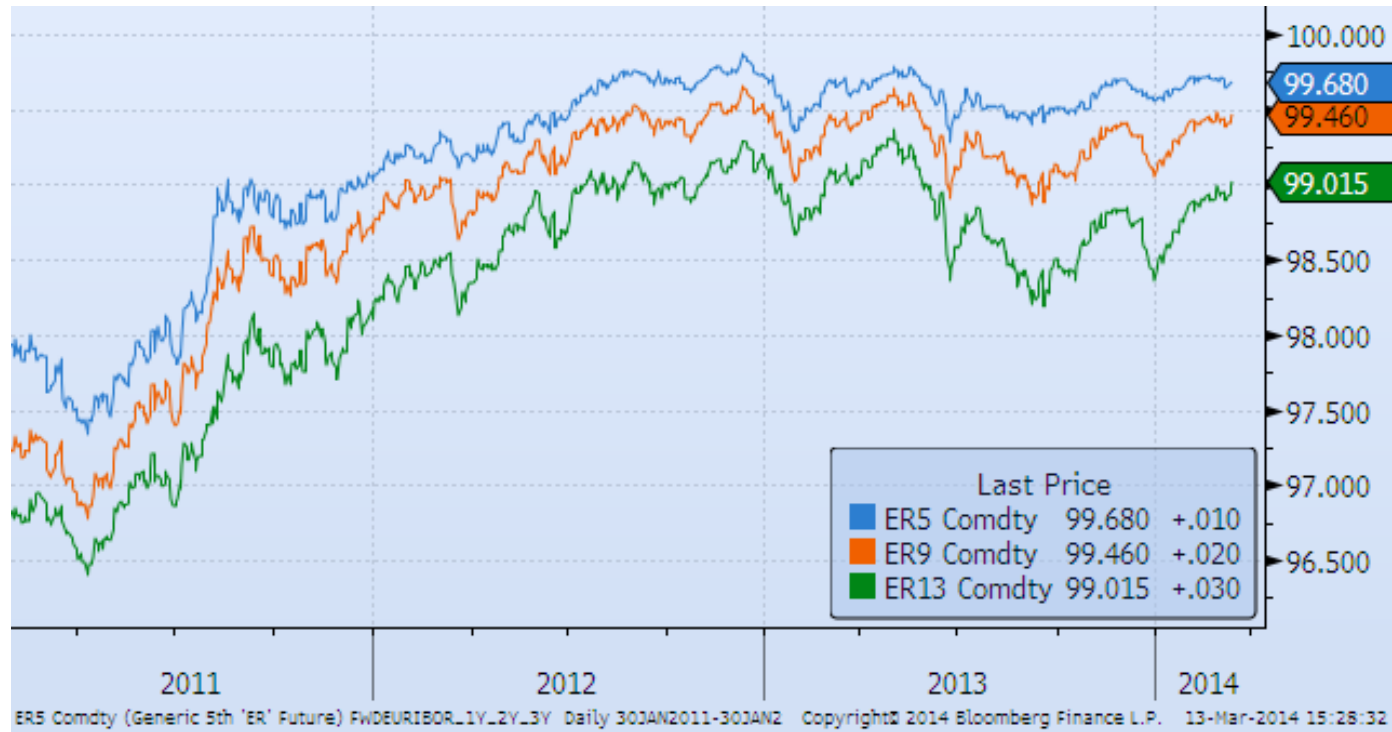
Source Bloomberg

Outlook - EURIBOR Spreads



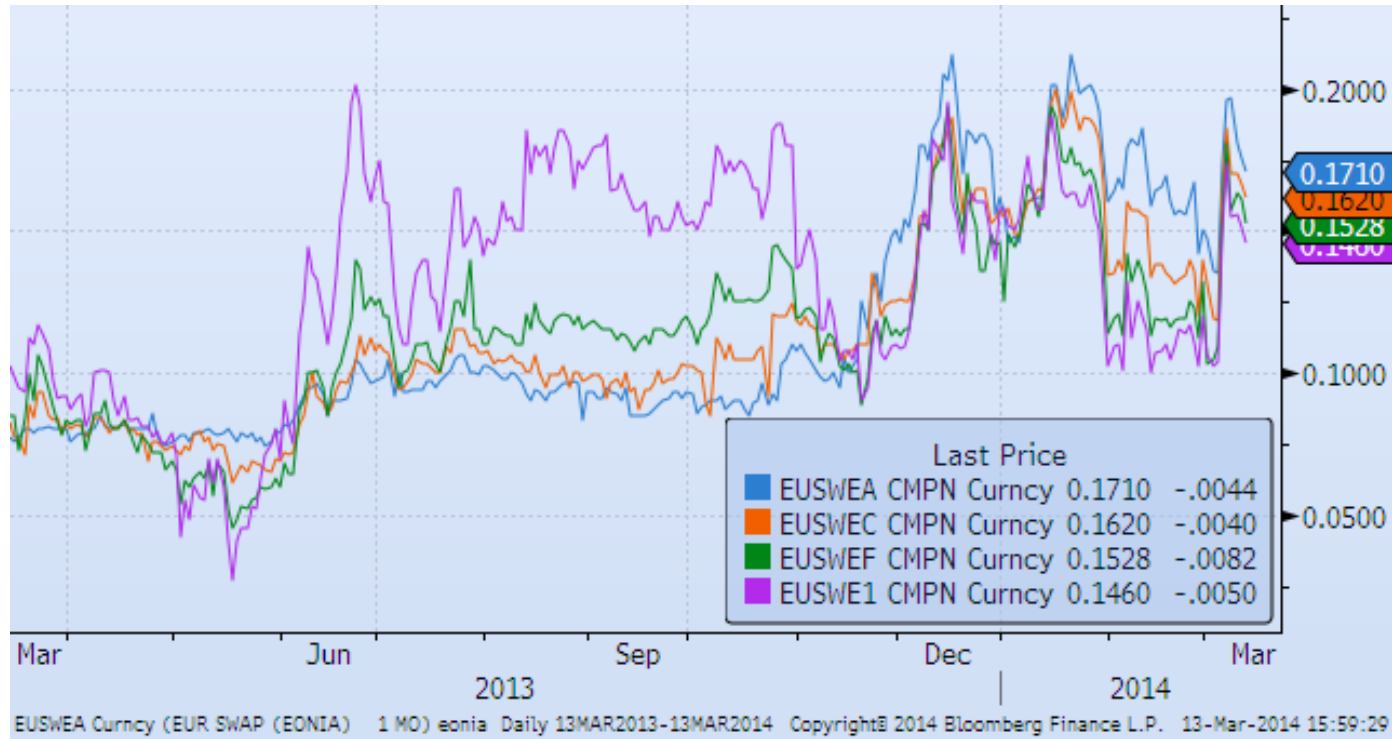
Source Bloomberg

Outlook - FWD EURIBOR 1Y 2Y 3Y



Source Bloomberg

Outlook – EONIA Curve



Source Bloomberg

Outlook - Forward Eonia 12*24



Source Bloomberg