

Money Market Contact Group

Review of Recent Developments

Presented by:

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Presentation to:

MMCG

Date:

9 September 2014



Major Events

Macro Economic

Grounds for optimism on world growth (Europe lagging).....

IMF July Update: Global GDP to increase by 4% in 2015 (above trend)

Latest PMIs point to continued expansion

Employment rising strongly in US (NFP 2014 average 230k per month vs 194k in 2013)

Euro area Unemployment rate (July 11.5%) moving lower but from high level (12% peak in late 2013)

Political / Regulatory

With heightened political & regulatory event risk.....

War in Gaza / Ukraine / Middle East

No resolution to Argentinian default negotiations

Collapse of BES

Uncertainty ahead of SSM

LCR implementation delay to September?

Monetary Policy

And diverging trends in monetary policy

5th June: ECB announce rate cut, tLTRO, suspension of SMP sterilisation

20th August: BoE voting split with 2 votes for hike in August

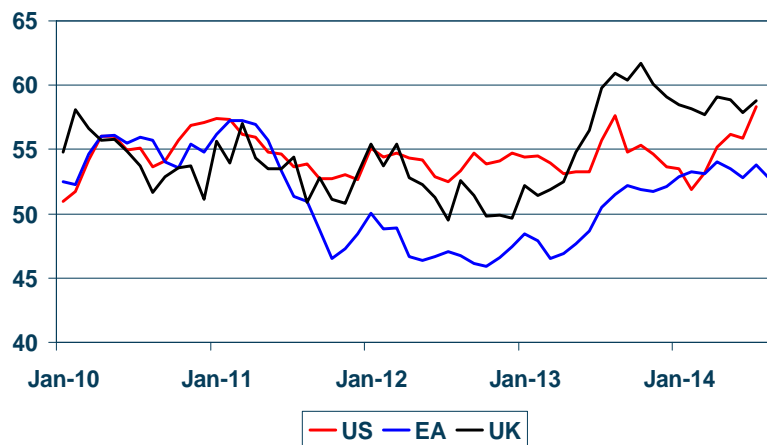
22nd August: Janet Yellen – “emphasis shifting to determining what labour market conditions would bring about less accommodation”

22nd August: Mario Draghi (Jackson Hole) “ECB stands ready to adjust policy further”

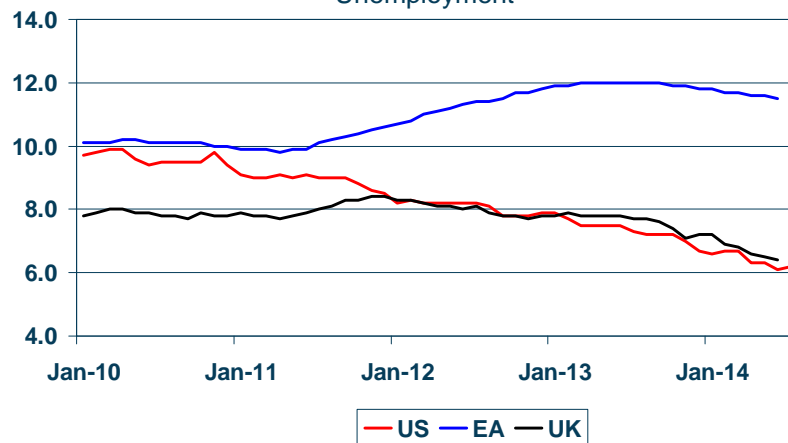
Major Events - Macroeconomic

Grounds for optimism on world growth - Europe lagging

Composite PMI



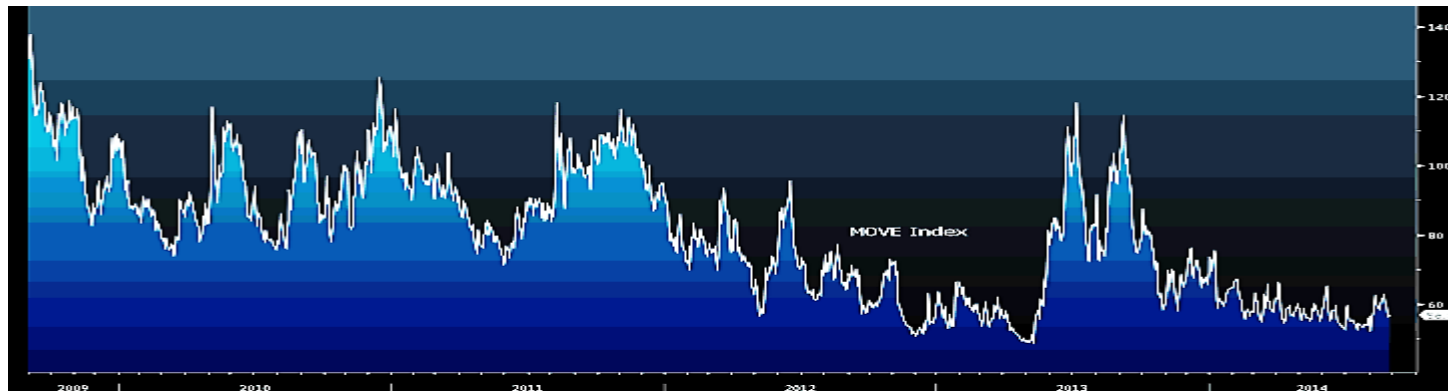
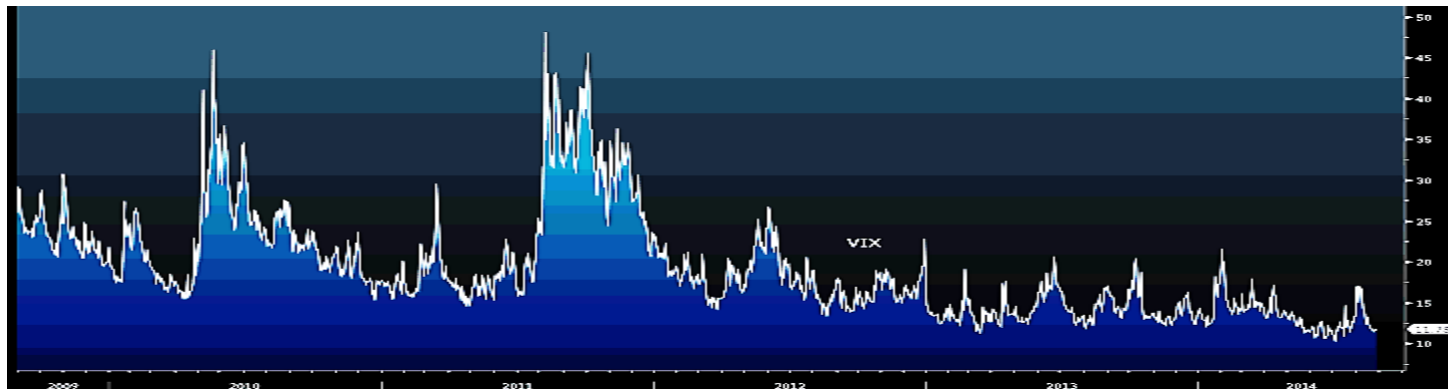
Unemployment



- PMIs point to continued expansion
- Strong rebound in US post weak Q1, sustained growth in UK
- Ongoing but moderate recovery in Euro area
- Unemployment falling steadily in the US and UK, but lagging in Euro Area

Major Events – Political / Regulatory

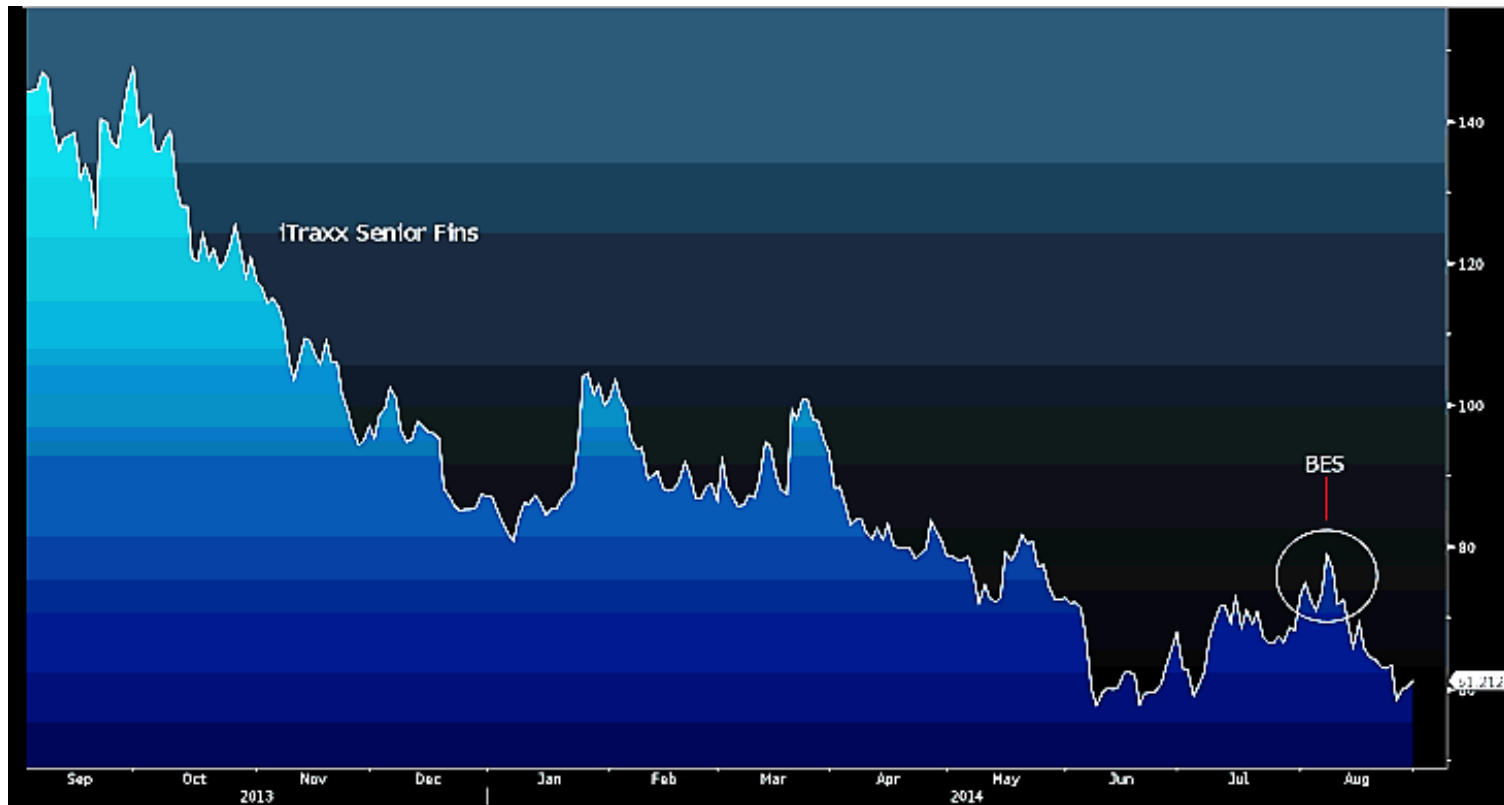
Growth projections and ample liquidity supporting risk appetite?



Source: Bloomberg

Major Events – Political / Regulatory

Growth projections and ample liquidity supporting risk appetite?



Source: Bloomberg

Major Events – Monetary Policy

Eurozone inflation expectations falling



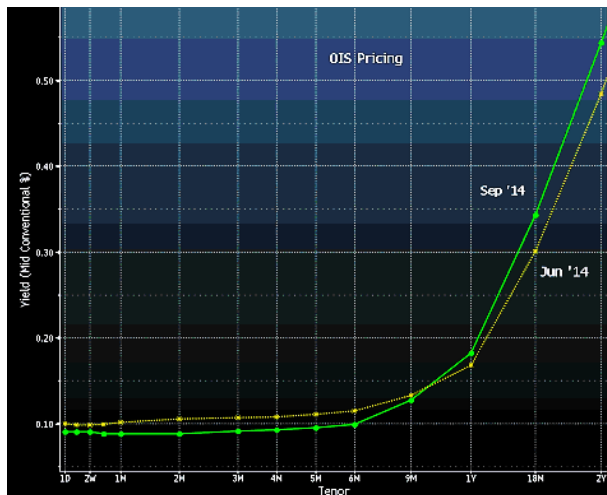
Source: Bloomberg

- 22 Aug 2014 - Mario Draghi
“The 5 year/5 year swap rate declined by 15 basis points to just below 2% - this is the metric that we usually use for defining medium term inflation.”
- Equivalent levels in US 2.50%, UK 3.25%

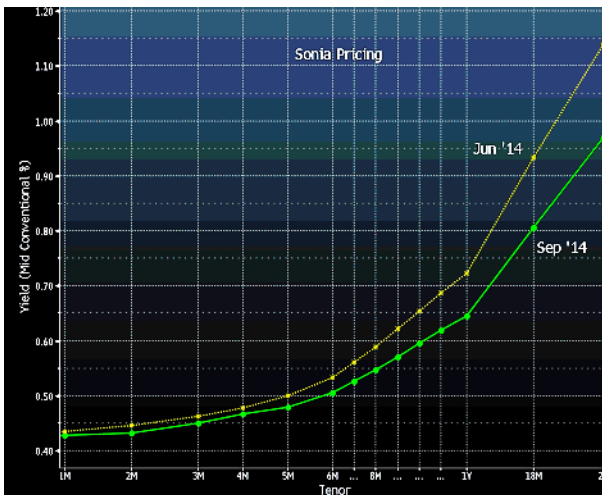
Central Bank Policy

Divergence in interest rate expectations reflected in \$OIS, SONIA & EOMA

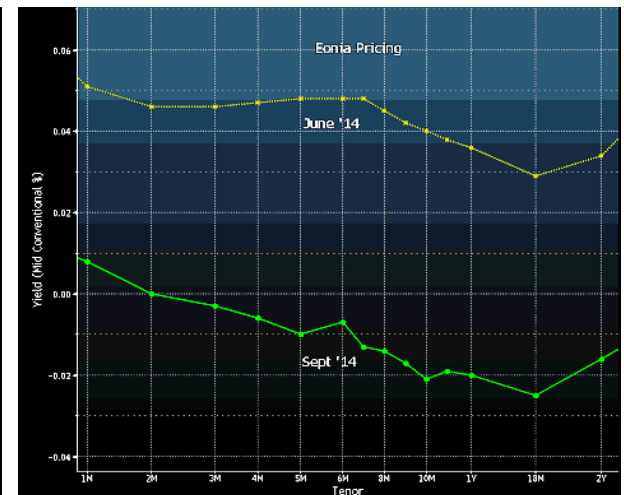
USD – Hike expectations / increasing pace



GBP – Hike expectations / moderation in pace



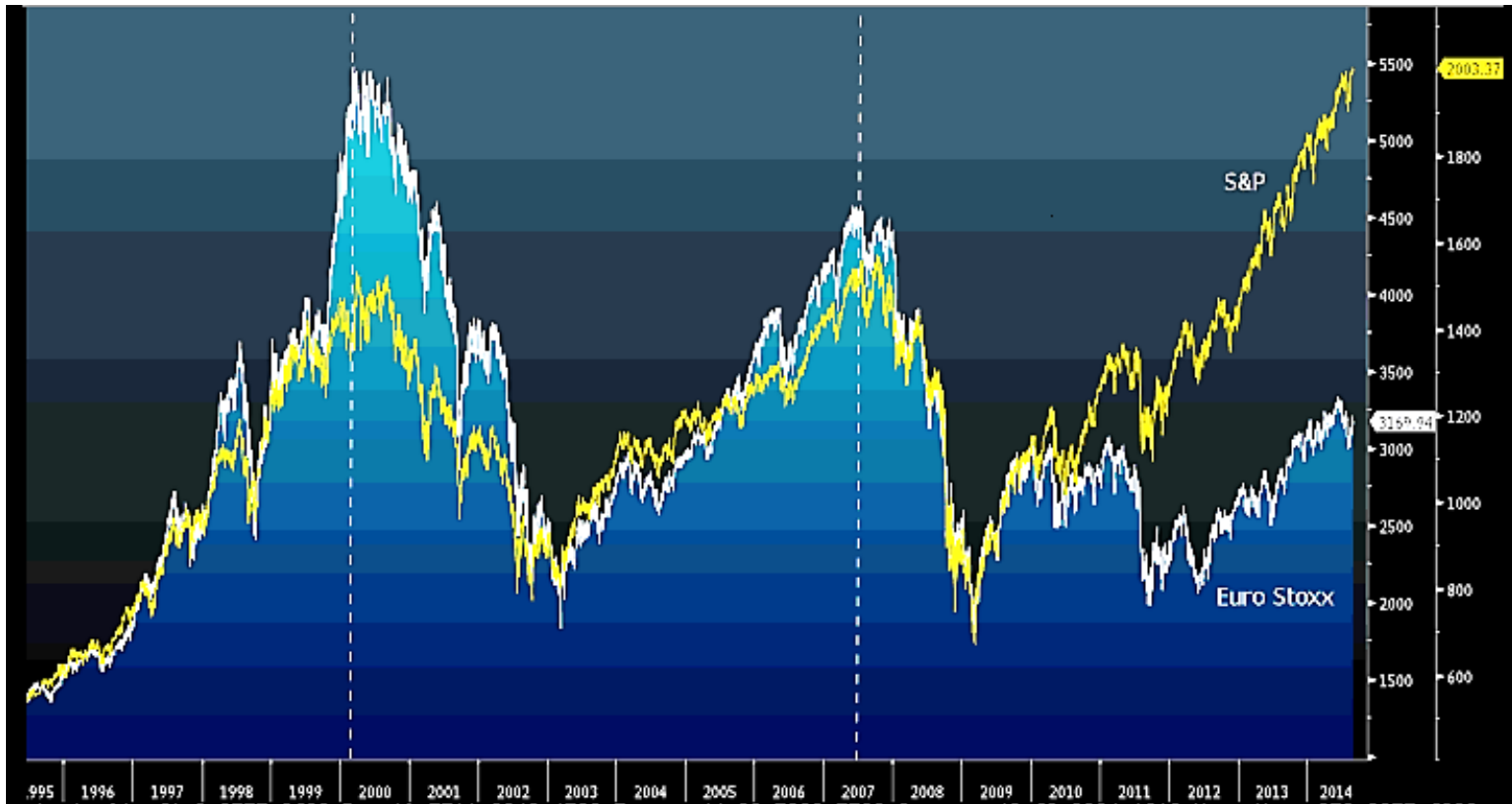
EUR – No hike expectations



Source: Bloomberg

Market Impacts – Cross Border Divergence

Multi-year US equity outperformance



Source: Bloomberg

Market Impacts – Cross Border Divergence

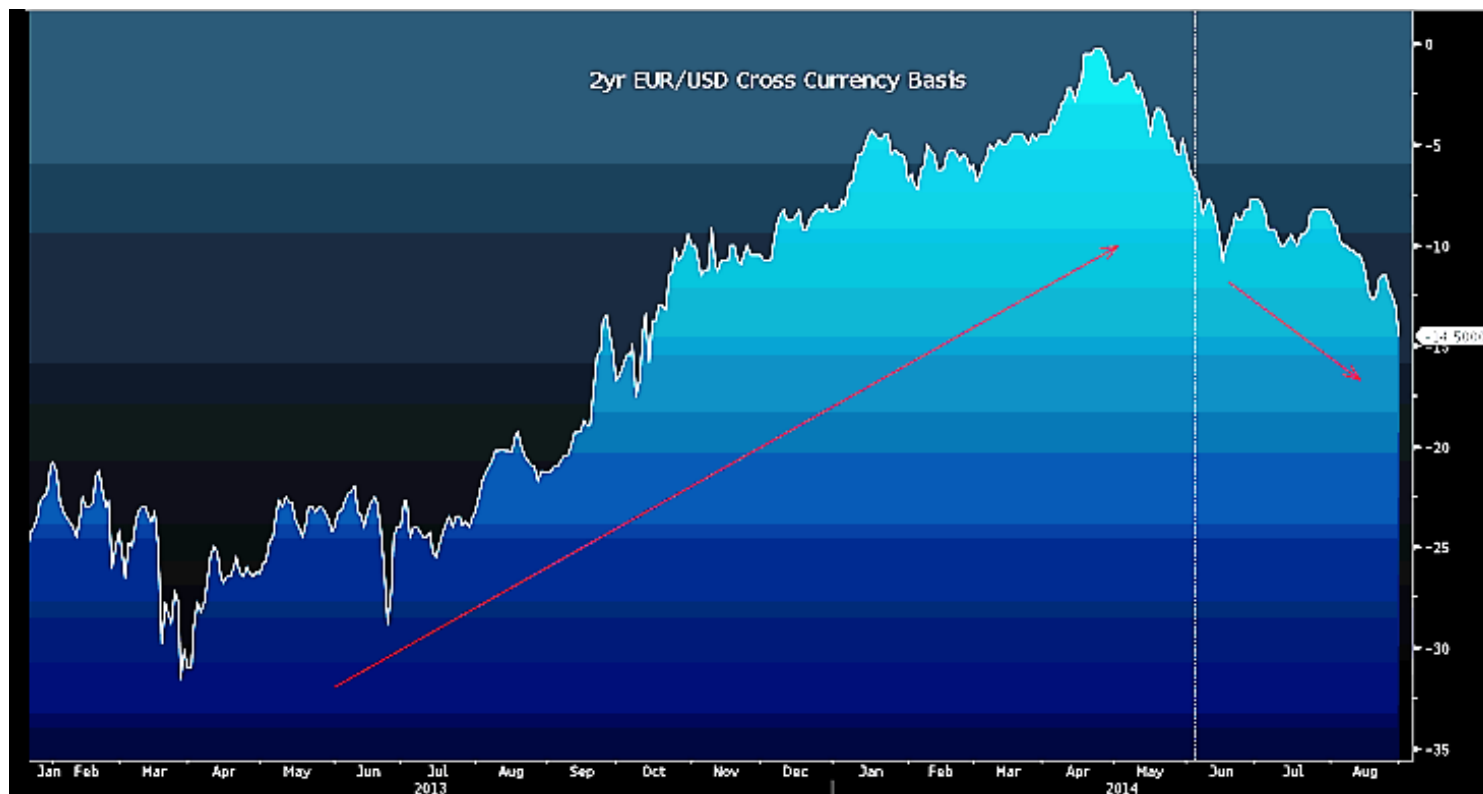
Macro underperformance feeding through to currency



Source: Bloomberg

Market Impacts – Cross Border Divergence

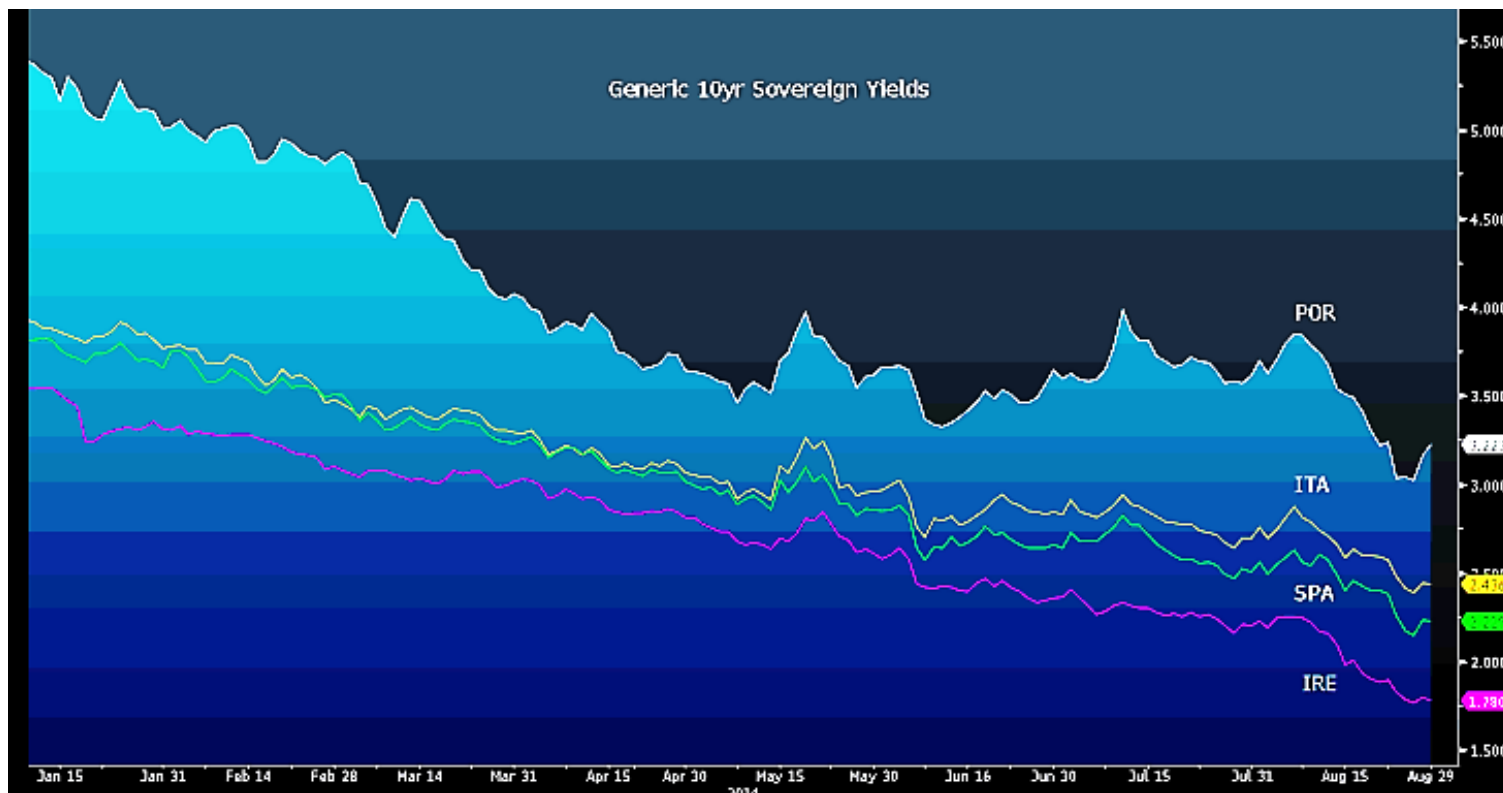
Euro becoming funding currency



Source: Bloomberg

Market Impacts – Risk Appetite

Peripheral bond markets continue to rally



Source: Bloomberg

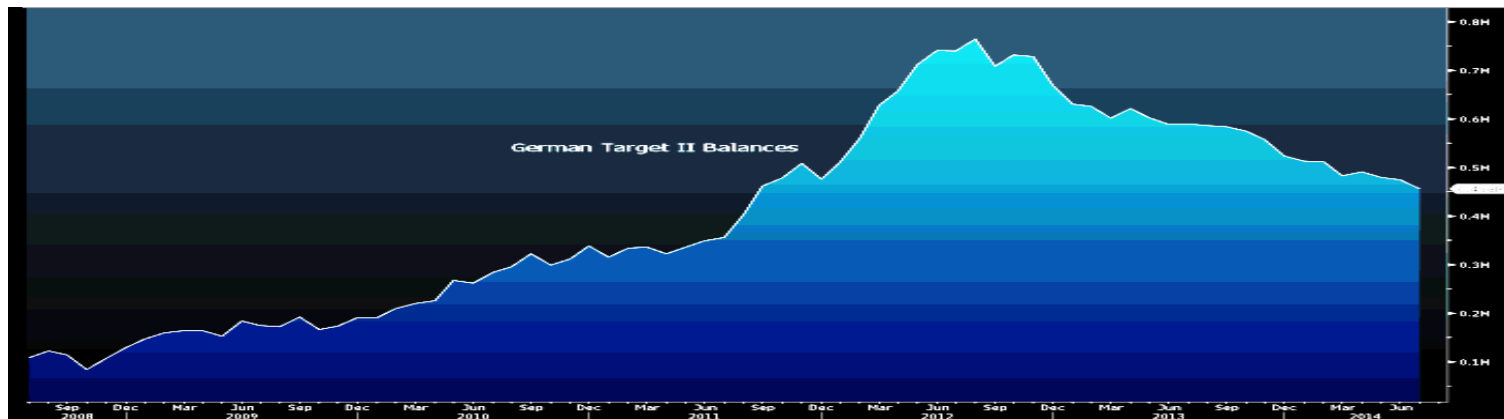
Bank of Ireland Group



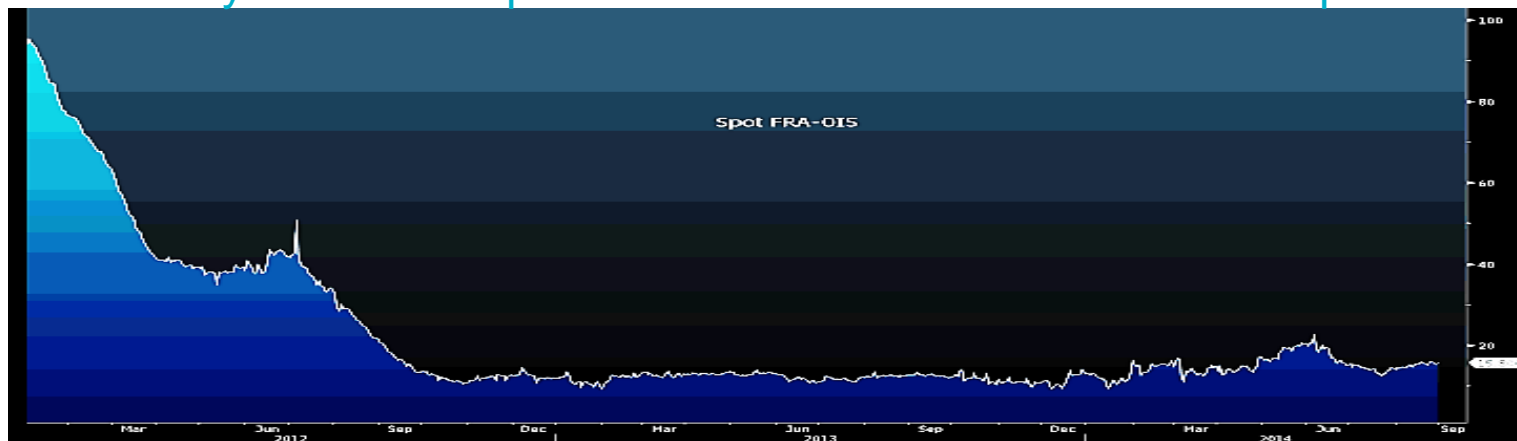
For small steps, for big steps, for life

Market Impacts – Risk Appetite

German Target II Balances continue to fall...



...and money market risk premiums remain low as reflected in Spot FRA OIS



Source: Bloomberg

Bank of Ireland Group 

For small steps, for big steps, for life

Money Markets

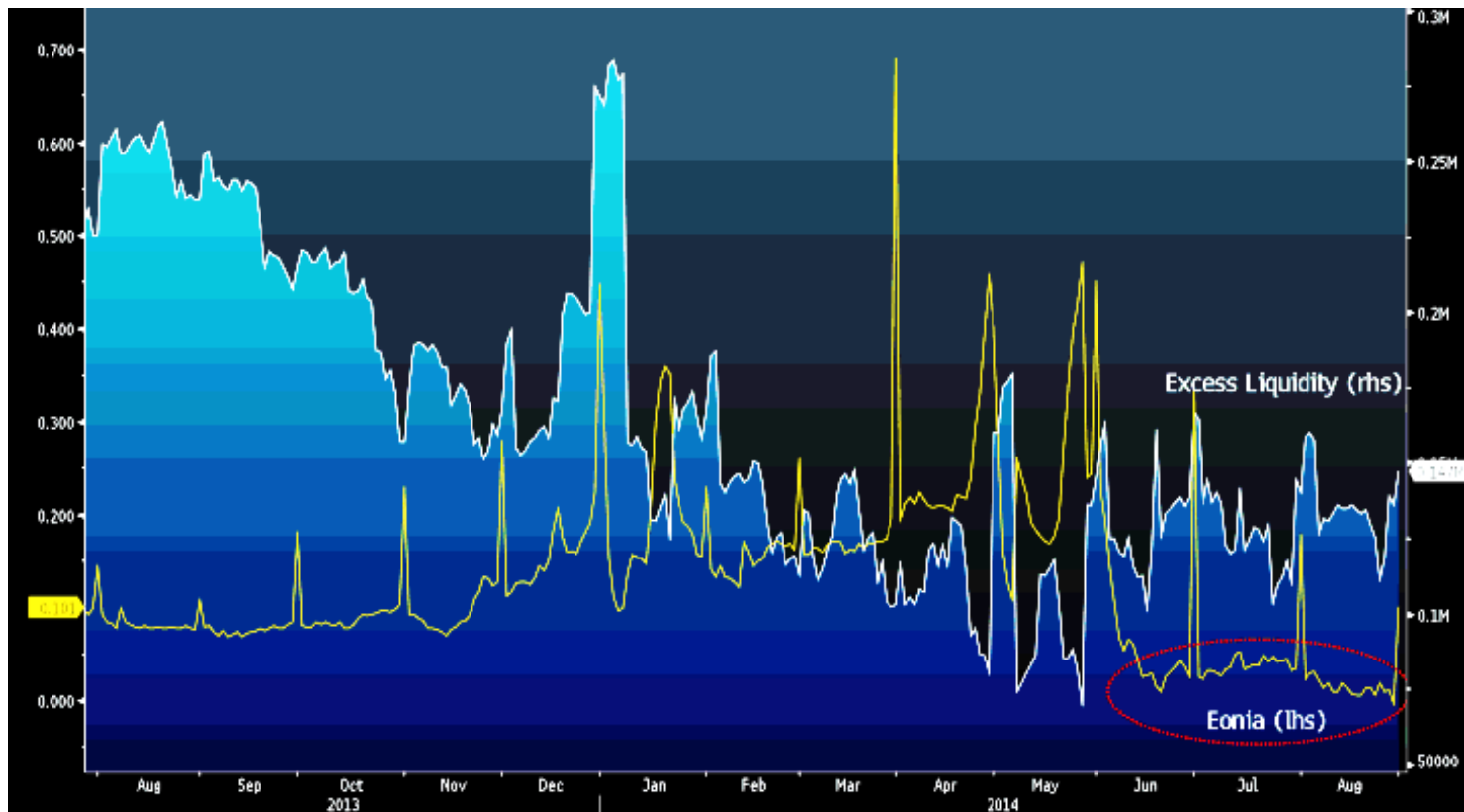
Eonia volumes increasing as ECB rates fall.



Source: Bloomberg

Money Markets

Recent evidence of Eonia being less sensitive to movements in excess liquidity



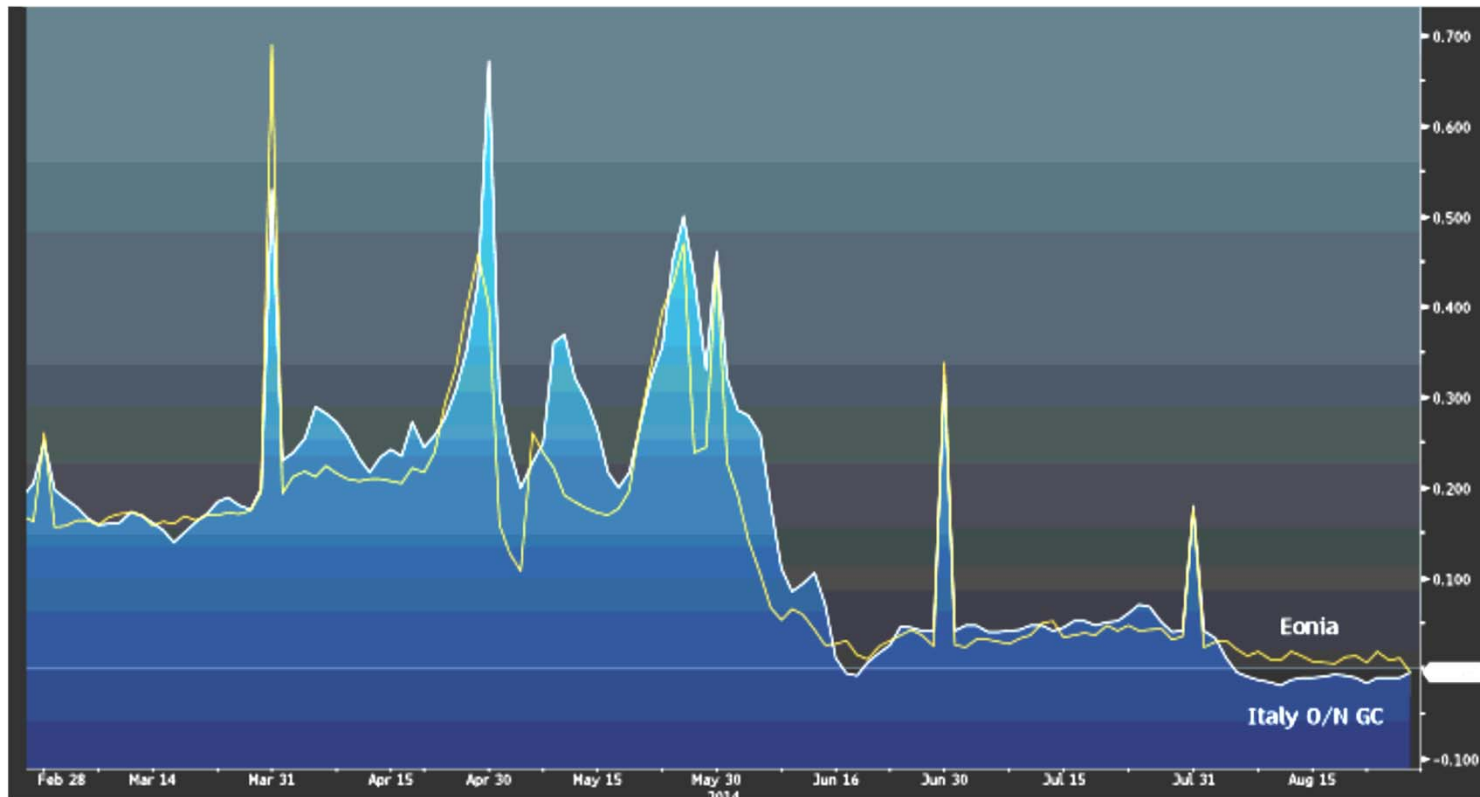
Source: Bloomberg

Bank of Ireland Group 

For small steps, for big steps, for life

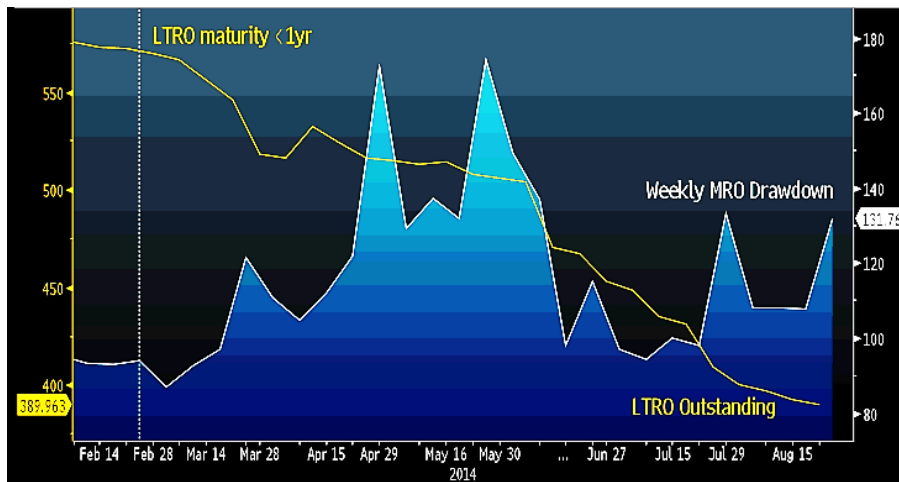
Money Markets

Overnight GC trading negative. Eonia first negative print 28th August 2014.

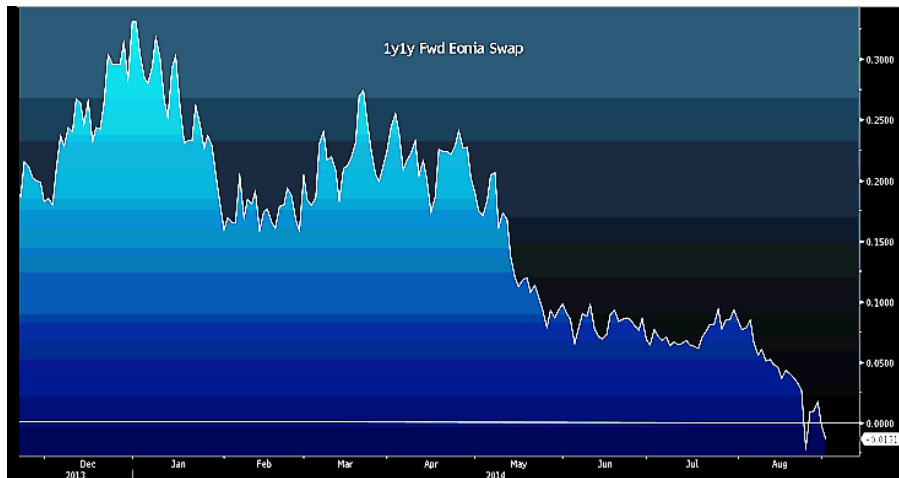


Source: Bloomberg

Money Markets



Markets preparing for tLTRO - evidence of switching LTR0 funding for MRO funding?



Forward Eonia rates below zero. Markets expecting period of negative rates?

Source: Bloomberg