



EUROPEAN CENTRAL BANK
EUROSYSTEM

DG MARKET OPERATIONS

28 September 2015

Money Market Contact Group

Frankfurt, Wednesday, 9 September 2015, 15:00 – 19:00 CET

Summary of the discussion

1. A session with the representative of the Single Supervisory Mechanism

Giuseppe Siani, Deputy Director General in the Directorate Microprudential Supervision IV of the European Central Bank (ECB) shared his experience of the first year since the establishment of the Single Supervisory Mechanism (SSM) and answered questions from the members of the Money Market Contact Group. Giuseppe Siani mentioned various dimensions of interactions of the SSM with the relevant supervisory and resolution authorities in both the international and euro area context. In response to the MMCG members' questions on the nature of the interaction of the SSM with the resolution authorities with regard to a common approach towards individual institutions, Giuseppe Siani mentioned that the SSM interaction with these authorities can relate to three main dimensions: policy matters, information sharing and risk assessment of methodologies.

2. Euro Money Market Survey 2015: main findings

Pascal Nicoloso presented some preliminary findings of the Euro Money Market Survey conducted in the second quarter of 2015. The survey showed that overall money market turnover declined by 12% in 2015, with the most noticeable declines in the secured and unsecured market segments. The switching of funds into longer maturities on account of value or regulatory considerations contributed to the decline in turnover. The qualitative part of the survey also showed that perceived market liquidity had generally worsened compared with last year. Finally, compared to previous years, in the 2015 survey respondents did not expect a further expansion of credit limits, which in turn could have led to a corresponding increase in market turnover. In the view of MMCG members, no recovery in interbank unsecured lending should be expected in 2016, as (i) unsecured transactions were not seen as profitable compared to the operational costs and their capital consumption; (ii) unsecured lending was strongly affected by the adjustment of banks' balance sheets on reporting dates; and, finally, (iii) the high amount of excess liquidity reduced the number of trading opportunities in the interbank money market.

3. Review of the latest market developments and other topics of relevance

Neil Mcleod reviewed the main developments in the euro money market since the last meeting. The presentation was followed by an exchange of views on those developments as well as on a set of items that had been submitted to members prior to the meeting. Issues for discussion covered, among other things, (i) market functioning in an environment of large excess liquidity: a comparison between 2012-2013 and 2015; (ii) drivers of divergences in repo market rates and the spread to the ECB deposit facility; (iii) FX

swap market developments; and (iv) implications of the monetary policy tightening expectations in the United States for euro area financial markets.

During the discussion, MMCG members underlined that the higher volatility of financial and commodity markets experienced during the summer period, notably on the back of developments in China, did not affect the funding situation of euro area banks and the levels of rates in the euro money market.

The resilience of short-term markets in the euro area to the global developments was also reflected in the relative stability of the EUR/USD FX swap basis. In the view of MMCG members, the recent re-widening of the basis was mostly driven by expectations of monetary policy actions in both currency areas. Recent comments by the President of the ECB, Mario Draghi, which were perceived as more dovish, reportedly led to some re-widening of the FX swap basis. Other factors, such as demand for US dollar funding by euro area banks, and their access to it, still played a role, but were no longer seen as stress indicators in the current environment.

Comparing the situation in the euro area money market in 2015 to an earlier period with similar levels of excess liquidity in 2012-2013, the MMCG noted that, in the current environment, the excess liquidity was no longer driven by bank demand in Eurosystem credit operations and, unlike in 2012-2013, was expected to increase further. High excess liquidity in combination with negative rates was seen as an important driver of low EONIA trading volumes in August 2015, compared to the levels seen in 2012-2013. On a more structural level, owing to regulatory requirements, banks were no longer operating with the same amount of short-term liabilities as some years ago, which also affected turnover in the unsecured market. Looking at credit premia, money market spreads tightened significantly with the increase in excess liquidity. In the view of MMCG members, the scope for further compression of credit spreads in shorter-term instruments has been largely exhausted.

In the secured market, MMCG members attributed the divergence of short-term repo market rates and their spread to the ECB deposit facility to a different value of the collateral and the ability to re-use the collateral for other purposes, such as margining and as cheapest-to-deliver for futures contracts. In that case, higher economic value of collateral led counterparties to accept significantly negative repo rates.

With regard to the expected tightening of US monetary policy and its potential impact on euro area markets, the market's base scenario was that of a decoupling between the euro area and the United States, as, in the euro area, the large amount of excess liquidity continued to be the main driver of money market rates. In the view of MMCG members, the pace of monetary policy normalisation in the United States compared to market expectations and its potential impact on emerging economies and global growth will be crucial.

4. Other business

a. Update on the ECB's Money Market Statistical Reporting Regulation

Pascal Nicoloso informed the MMCG about the Eurosystem's progress in implementing money market data reporting under Regulation (EU) No 1333/2014 of the European Central Bank of 26 November 2014 concerning statistics on the money markets (the Money Market Statistical Reporting Regulation or MMSR). Members raised a number of points, including the possible use of MMSR data for money market benchmark purposes. The ECB representatives noted that this point should be discussed with the benchmark administrator, the European Money Markets Institute (EMMI), and that synergies could be exploited once the reporting is under way and is of sufficient quality.

b. Update on Eurosystem securities lending arrangements

Roberto Schiavi provided an overview of the status of securities lending conducted by the Eurosystem for marketable debt instruments purchased under the public sector purchase programme (PSPP), noting that lending volumes have continued to be on the low side until now, which may indicate that those assets are not urgently needed in the market. In the subsequent discussion, members of the MMCG agreed that they had seen no imminent signs of a scarcity of collateral in the market so far.

c. Eligibility of uncollateralised debt securities for central bank funding

The MMCG discussed the provisions of the German draft law adapting the national banking resolution law to the Single Resolution Mechanism (SRM) and the Union provisions on the bank levy, which foresee a statutory subordination of senior unsecured debt instruments issued by credit institutions, and in particular the possible impact on the eligibility of those debt instruments as collateral for Eurosystem credit operations. In this context, the ECB referred the MMCG to the [ECB legal opinion on bank resolution of 2 September 2015 \(CON/2015/31\)](#). The eligibility of the above instruments was a concern for parts of the German banking community, as it could have an impact on the banks' liquidity buffers and might eventually also increase the cost of issuing such instruments. The MMCG members were also concerned about the level playing field consideration across the euro area.

d. Date of the next meeting

The next meeting of the MMCG will take place on 8 December 2015 in Frankfurt am Main, starting at 13:00.