Money Market Contact Group

Frankfurt, Tuesday, 15 March 2016, 13:00 – 17:00 CET

Summary of the discussion

1. Presentation of the main results of the quarterly MMCG Euro Money Market Survey

Julija Jakovicka presented the main findings of the Money Market Contact Group's (MMCG) Euro Money Market Survey conducted in the fourth quarter of 2015. The quarterly survey showed a further decline in the unsecured interbank market in the euro area, whereas the secured market turnover increased slightly. Subsequently, Marco Antonio Bertotti informed the MMCG about the Fed's Overnight Bank Funding Rate (OBFR), which was launched at the beginning on March 2016, alongside the Effective Federal Funds rate (EFFR). The new rate aims to capture a wider selection of money market trades and counterparties. During the discussion, MMCG members noted that the new benchmark better reflects the reality of the unsecured money market, which moves away from being solely an interbank market.

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

Jan Misch reviewed the market reaction following the meeting of the ECB's Governing Council on 10 March 2016 and its subsequent decisions to lower the rate of the main refinancing operations, the marginal lending facility and the deposit facility to 0.00%, 0.25% and -0.40% respectively; to increase the ECB's monthly purchase programmes' target to EUR 80 billion as of April; to include Investment Grade euro-denominated bonds issued by non-bank corporations established in the euro area in the list of assets that are eligible for regular purchases; and to launch a new series of four targeted longer-term refinancing operations (TLTRO II), each with a maturity of four years, as of June 2016. MMCG members viewed this package of measures as comprehensive and effective. In particular, the TLTRO II were perceived as a powerful measure, combining an attractive funding opportunity for banks that will help to limit the impact of negative rates on banks' margins with a strong incentive to increase lending to the real economy. The flattening of the curve indicated lower market expectations of further rate cuts by the ECB. Finally, MMCG members thought that the extension of the Asset Purchase Programmes to the corporate sector (CSPP) should be beneficial to corporates' funding costs.

Geert Wijnhoven reviewed the impact of the negative interest rate environment on banks and other market participants, based on ING's international survey of a large sample of customers. The anticipated changes in saving and consumption behaviour in the event of the negative rates being passed on to retail accounts are subject to uncertainty. In this context, banks could be reluctant to pass on negative rates to retail savings and seek compensation by increasing margins and fees, as well as by undertaking cost reductions and closing branches. In addition, some MMCG members shared their concerns about the effect of the negative interest rate policy on pension and insurance funds.

Sascha Weil introduced the topic of developments in the foreign exchange swap market and foreign currency funding, focusing on the increasingly negative cross-currency basis for most currencies against the US dollar. This was mainly attributed to several reasons, including the divergence in monetary policy between the United States and most other large economies, the general scarcity of USD liquidity outside of the United States, and the low level of US dollar issuance. During the MMCG discussion, members also pointed to the likely impact of the US regulations reportedly limiting the provision of US dollar by US banks.

3. Distribution and circulation of excess liquidity in the euro area

Olivier Vergote presented some key facts regarding the distribution of excess liquidity within the Eurosystem. The main part of the MMCG discussion focused on the issues of regulation and low money market rates, and how these put constraints on the redeployment and circulation of excess reserves. Several MMCG members explained that leverage and capital ratios were raising the cost of trading, compared with placing the cash surplus with the central bank. The limited trading that is continuing to take place in the market despite the associated high costs could be partly attributed to banks' willingness to maintain relations with their existing customers.

4. Update on Eurosystem's securities lending arrangements

Cornelia Holthausen updated MMCG members on developments in the securities lending arrangements of the Eurosystem. Since the Group's meeting of December 2015, the Oesterreichische Nationalbank, Lietuvos bankas and Národná banka Slovenska had launched new securities lending arrangements. These facilities would provide a backstop to the market demand for holdings of securities purchased by these central banks under the Public Sector Purchase Programme (PSPP). As in previous months, no particular scarcity of collateral had been observed, suggesting that the programme had hitherto not disrupted market functioning.

5. Update on the ECB's Money Market Statistical Reporting Regulation and relevant milestones

Holger Neuhaus updated the MMCG on the progress made and relevant milestones reached in the implementation of the ECB's Money Market Statistical Reporting Regulation. Implementation was said to be on track. The first transmissions are due as of 1 April; the mandatory reporting of daily data is scheduled as of 1 July 2016. MMCG members stressed the need to inform those banks included in the second reporting wave as soon as possible in order to be able to start preparations for the reporting.

6. Other business

a. Update on money market benchmarks and on the ongoing reform process.

Cornelia Holthausen updated the MMCG on the status of Euribor reform. In particular, MMCG members took note of the fact that the outcome of the public consultation on Euribor reform will be discussed on 22 April 2016 during the panel bank workshop arranged by the Euribor administrator, the European Money Market Institute (EMMI).
The intended launch of the Euribor benchmark based on real transactions could be delayed to allow for the "pre-live verification" suggested by respondents to the EMMI's public consultation: the EMMI would use the additional

time to raise public awareness of the features of the reformed rate and the reliability of the infrastructure and data. MMCG members shared their concerns about the operational burden on the banks reporting, asking for synergies with the ECB's Money Market statistical reporting, both in terms of infrastructure and eligible transactions. Moreover, some MMCG members emphasised that expert judgment should be completely removed from the new Euribor benchmark based on real transactions, even for contingency purposes, in order to make the reform complete. Some members once more underlined the need to enlarge the Euribor panel, possibly through mandatory contributions to Euribor. The implementation of the EU Regulation on benchmarks should provide a legal basis to enforce mandatory contributions to the critical benchmark.

b. Finalisation of MMCG work programme for 2016 and implementation details

The draft work programme for 2016 was circulated to MMCG members for comments.

c. Next meeting

The next meeting of the MMCG will take place on 9 June 2016 in Munich.