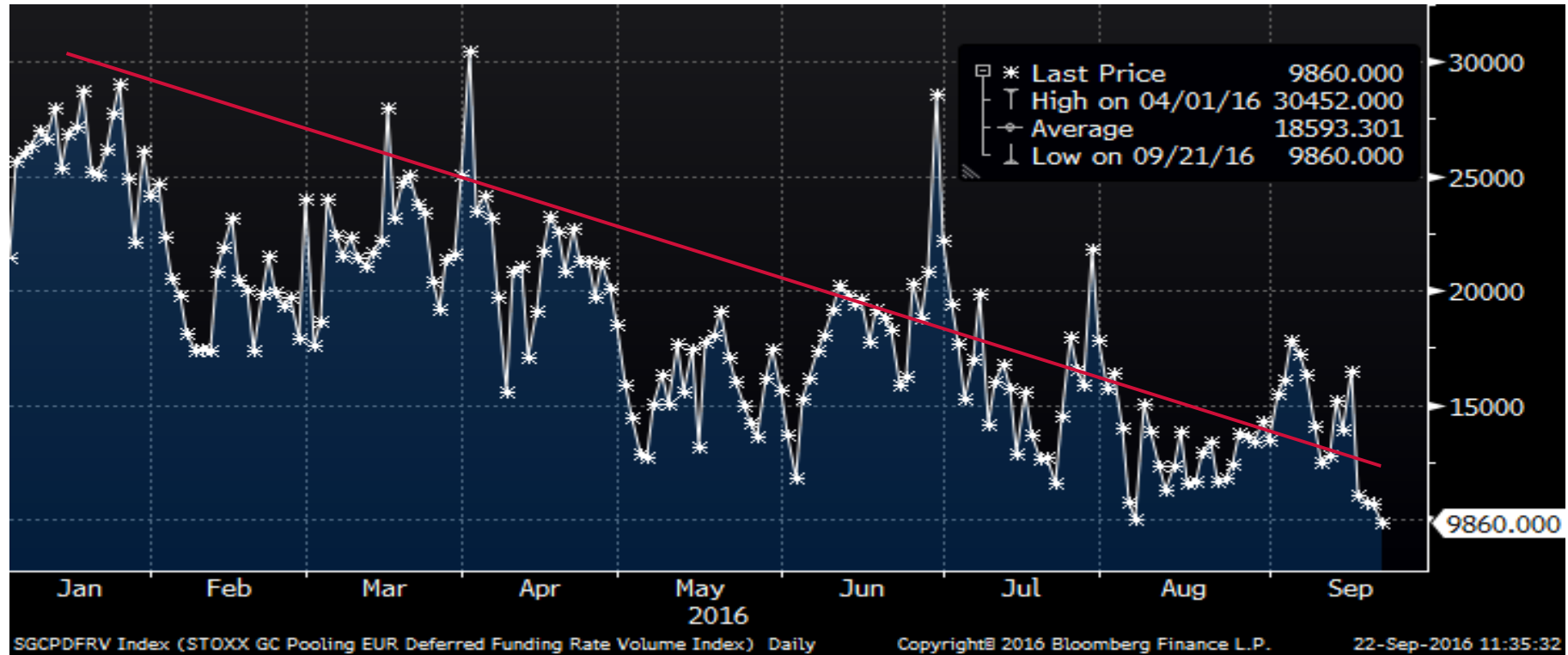




ECB Money Market Contact Group Tuesday, 27 September 2016

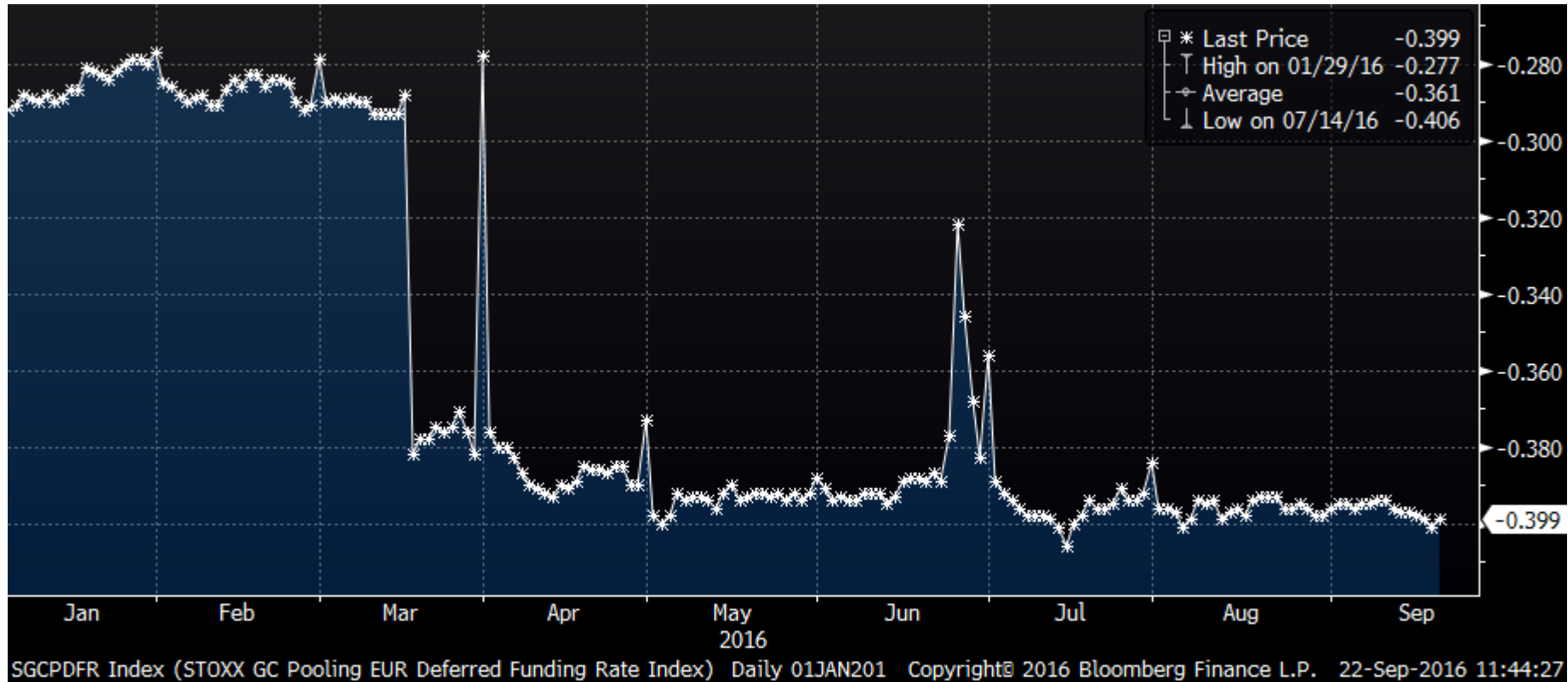
Recent trends in the evolution of the repo rates in the euro area: possible drivers and implications for banks' liquidity management

First observation:
Repo market in the asset class non Government collateral is shrinking...



Source: The STOXX GC Pooling EUR Funding Rate Volume represents the total traded volume of all EUR ON TN SN transactions in the GC pooling ECB and ECB Extended Basket with same settlement day.

**First observation:
....and rates are coming close to the deposit rate**



First conclusion:

Asset class is no longer interesting for a cash investor (e.g. treasury departments)

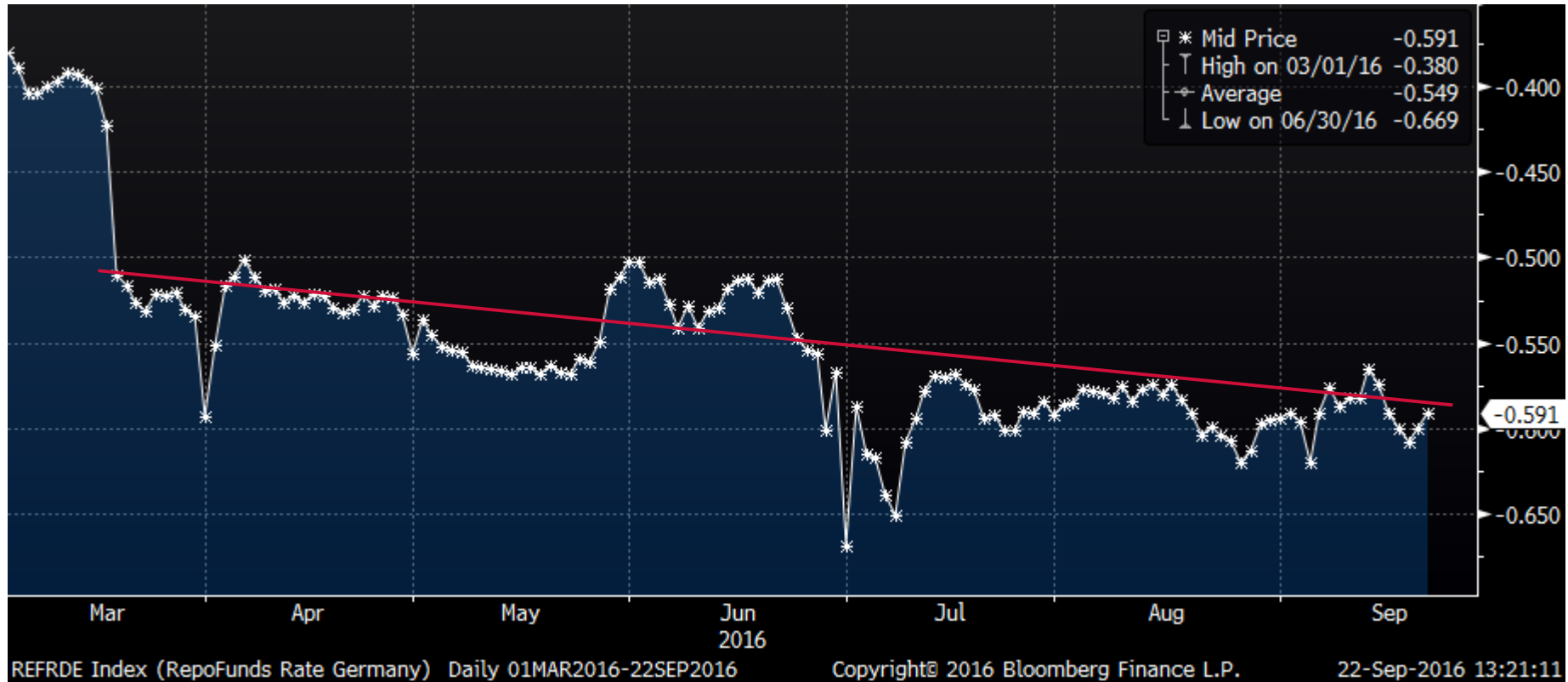
**Second observation:
Spread 3M FRA vs. OIS shrinks**



Second conclusion:

Term trades are not attractive not only as the EONIA curve is flattish (no term premium) but also because of the shrinking FRA – OIS spread. (Trades with a repo rates above EURIBOR are getting unusual, therefore the absolute return of the repo investment is limited).

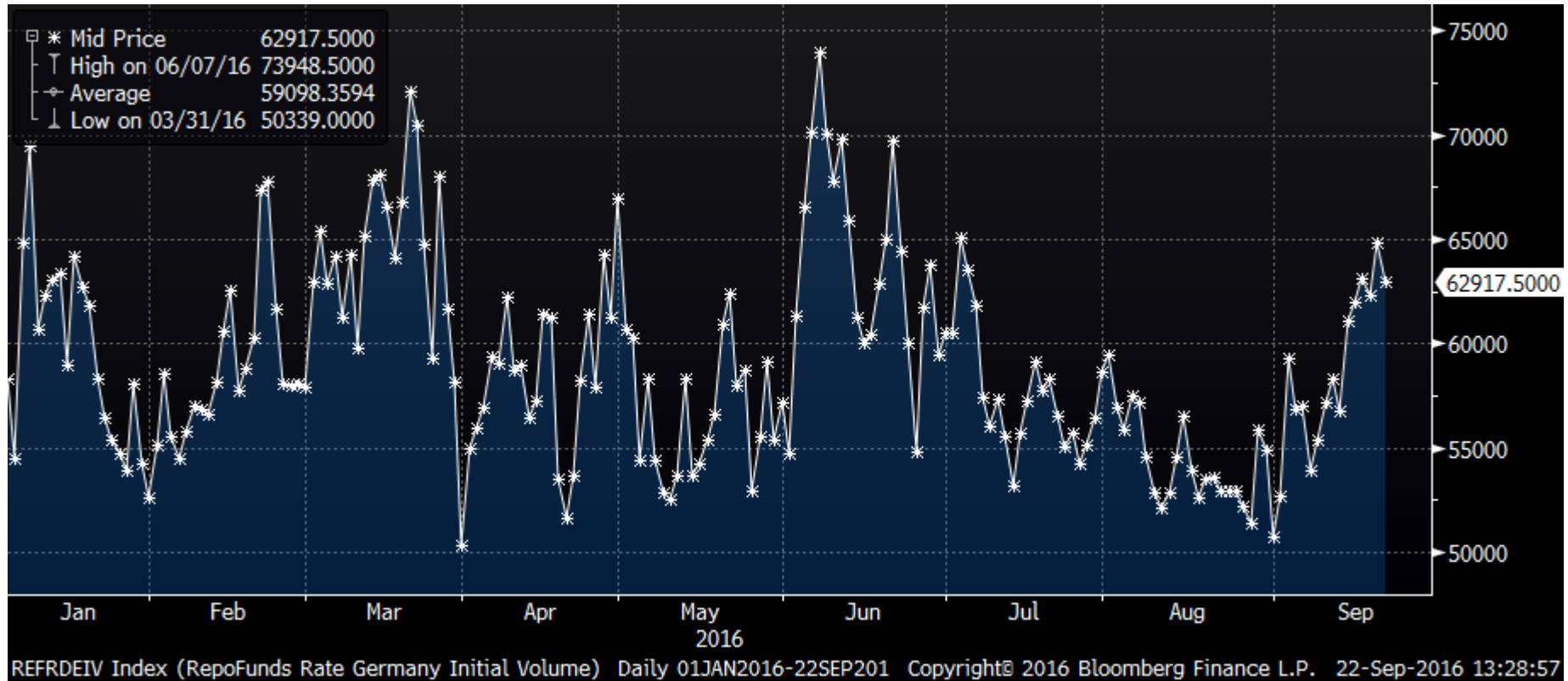
**Third observation:
German collateral is getting more expensive**



Source:

RepoFunds Rate Germany is a daily euro repo index that measures the effective costs of funding German government bonds. All eligible trades are executed on the BrokerTec or MTS electronic platform and centrally cleared. Repo Funds rate are calculated and published by ICAP Information Services.

**Third observation:
.... but volumes remain high**



**Third conclusion:
Short term investment in AAA Collateral is no alternative for cash investors.**

**Fourth observation:
Term markets for Bunds are even more expensive**

Bond	Term	Bid	Offer
DBR 1.75 04/22	C-20/12	-.80	-.90
DBR 2 08/23	C-20/12	-.85	-1.35
DBR 1.75 02/24	C-20/12	-.90	-1.20
DBR 1.5 06/24	C-20/12	-.90	-1.05
DBR 1 08/25 (CTD)	C-20/12	-1.05	-1.10
BUBILL 12/16		YIELD: - 0.74	

Source: Commerzbank as of 22-09-2016

Fourth conclusion:

Term markets are thin as demonstrated by the wide bid –offer spread.

Term markets are too expensive for cash investors – cheaper to buy bubills outright.

Andreas Biewald

Head of Funding

andreas.biewald@commerzbank.com

Telefon: + 49 69 136 49695

Mainzer Landstr. 153
60327 Frankfurt am Main,
