



Meeting of the Money Market Contact Group (MMCG)

Frankfurt am Main, Monday, 4 December 2017, 13:00-17:00 CET

SUMMARY

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

(i) Market expectations for the ECB monetary policy, developments and market liquidity in the EONIA OIS market

Annette Kamps (ECB) presented the recent developments in the EONIA OIS market. She reported that the money market forward rates had recently been less volatile and seemed mainly driven by ECB communication, and indicated that large changes in forward rates seemed to coincide with more active position-taking. She also explained that most position-taking was for the near future contracts, while there was a relatively limited volume for contracts with beyond-2019 maturities. MMCG members agreed that, since the last MMCG meeting, clear ECB communication on the forward guidance and sequencing was seen as the main factor for the low volatility of the euro forward rates. Moreover, some members acknowledged that contained inflation developments had helped anchor ECB deposit rate hike expectations. MMCG members reported that they expected to see more volatility after the year-end when traders start to take new positions, especially in the 1-year/1-year forward OIS segment, which is primarily used for position-taking, in particular by hedge funds. Moreover, the relative stability of the ECB monetary policy expectations was also attributed to the prevailing liquidity surplus. Market participants expect that the level of excess liquidity, which should not decrease in the near future, will keep the volatility of money market forward rates at low levels. On the other hand, one member mentioned that increasing levels of excess liquidity would weigh on the trading volume of the underlying EONIA, making it and the related OIS rates more prone to volatility.

(ii) Update on the developments in the FX swap market

Jürgen Sklarczyk (Deutsche Bank) provided an update on recent developments in the FX swap markets. Most MMCG members reported improvements in the functioning of the FX swap market – both in general and in the run-up to the upcoming year-end reporting period. Most MMCG members recognised that the market was better prepared for the year-end, which was attributed to: (i) market adaptation, i.e. lessons learnt from the last year-end; and (ii) overall better USD liquidity, notably due to higher volumes of USD issuance in medium and longer tenors by European banks. However, one member was more cautious about the upcoming year-end pressures, indicating that fundamentals compared to last year had not really changed, e.g. in terms of balance sheet costs and the risk appetite of USD providers towards euro area banks, which was still considered to be very low. In this context, a substantial widening of the basis around the year-end could not be excluded, similarly to last year. A few MMCG members also emphasised that for some jurisdictions with a limited number of counterparties, more tensions could arise at the end of the year. MMCG members agreed that the year-end premium would be expensive due to balance sheet costs such as bank levies, Single Resolution Fund contributions and other factors, including SSM fees. Those levels do not indicate the level of stress, but reflect the cost of the balance sheet.

The Eurosystem's USD-providing tender operations were deemed by some MMCG members to be an important backstop, however some mentioned a negative perception of those operations by analysts, rating agencies and regulators, indicating the persistence of stigma related to these operations. The ECB reiterated that no stigma was attached to the Eurosystem's USD-providing tender operations.

(iii) Recent developments in the euro area repo market

Johan Evenepoel (Euroclear bank), together with Marco Antonio Bertotti (Intesa Sanpaolo), provided a review of recent developments on the repo market and the expectations for the upcoming year-end reporting period.

MMCG members agreed that repo market participants were overall better prepared for the year-end compared to last year. Similar to the FX swap market, this was mainly attributed to learning behaviour from the last year-end, earlier preparations for the year-end needs and a more favourable liquidity situation, in part also due to the Eurosystem securities lending facility. The fact that one-month repo rates declined more than last year, once crossing the year-end, reportedly indicated a higher level of market preparedness.

2. Update on money market benchmarks and latest developments by the ECB

Cornelia Holthausen summarised the ECB's recent public announcements on interest rates benchmarks. MMCG members were reminded that the first public consultation on the high level features of the new ECB unsecured overnight rate had been launched by the ECB. In the subsequent discussions on the new ECB rate, MMCG members indicated that the acceptance of the new rate in the money markets primarily relied on the possibility of building a liquid derivatives market based on it. Underlying volumes of the rate and its volatility were also mentioned as key parameters for the acceptance of the rate. The geographical representativeness of the rate, defined as a euro area rate, was also a relevant criterion for a majority of MMCG members, pointing to a possible need for enlarging the current scope of the ECB money market statistical data reporting beyond the current 52 banks¹. On the topic of the possible usage and practices in the market, MMCG members indicated a strong preference for a delay of the publication of the reference rate compared to re-publishing it later in the day, in case severe data quality issues should occur. Finally, MMCG members indicated that the legal clarity regarding possible transition processes were by far their main concern. For that reason, MMCG members called for a transparent and open communication from the ECB with a clear timeline. Turning to the recent ECB announcement on the Terms of Reference and the call for expressions of interest in the new working group on euro risk-free rates, MMCG members acknowledged the need to involve various actors beyond the banking industry in the various work streams of the working group, especially as regards transition issues. The derivatives community was seen as a key player, as well as legal associations, consumer associations (especially for retail products) and clearers. Overall, the need to create as much transparency and awareness as possible, particularly surrounding the possible transition issues, was seen as the best way to increase the legitimacy of the working group within the financial industry.

Finally, MMCG members shared their concerns regarding the requirements of the EU Benchmark Regulation, which will be fully applicable as of January 2018. As benchmark users, several requirements regarding fall-back solutions in contracts were seen as very difficult to implement, particularly for retail contracts and issuances. Furthermore, those MMCG members who were part of the EONIA panel indicated that they were awaiting further clarification from the European regulators and the benchmark administrator as regards the requirements applicable to their contribution process under the new Regulation. Overall, the compliance with the EU Regulation from the perspective of a panel bank was seen as a challenging process in the current context of the EONIA reform.

3. Review of structural developments and market functioning of the short-term paper segment, including the STEP market

Sascha Weil (Barclays), Michael Schneider (DZ) and Patrick Chauvet (BNP) reviewed developments in the short-term paper market. Sascha Weil explained that French commercial paper with a maturity of under one year had been classified under the new format of "NEU CP" (French Negotiable European Commercial Paper) since June 2016. The new features of the format aimed at creating greater liquidity and depth in the market, notably by merging different types of short-term paper. The NEU CP are fully ECB-eligible and opened the French CP market to a large number of issuers from France and abroad. He concluded that the CP market remained an active market segment and should be taken into account by market participants when discussing potential alternatives for current money market benchmarks.

With regard to the STEP market (Short-Term European Paper), Michael Schneider reported that 88% of the STEP market was part of the NEU CP market and that the overall STEP market accounted for €404 billion and had been broadly stable over recent years. The daily trading volumes stood at €5 to €10 billion, with the issuance taking place not only in the short tenors but also in other maturities. In terms of issuance currency, in 2015 and 2016, the share of USD issuance rose due to the favourable FX swap basis developments, with issuers taking advantage of the cheaper funding, but since the implementation of the US Money Market Fund reform, the USD share in the STEP market had declined.

With regard to the Euro Commercial Paper (ECP) market, Patrick Chauvet reported that its total ECP volume in the first nine months of 2017 was somewhat lower compared to the same period in 2016, but above 2015. He added that the US dollar continued to lead ECP currency rankings in the first nine months of 2017, with most of the

¹ The new ECB rate will be based on the Money Market Statistical Reporting established in June 2016, and will capture the transactions of the 52 largest euro area banks. Currently nine euro area countries are not represented in this data collection.

issuance in US dollars being done by non-Europeans actors. In Europe, agencies and supranational organisations were the principal issuers in US dollars, benefitting from solid demand from central banks.

4. Introduction to instant payments and potential implications for bank treasuries

Jaap Kes (ING bank) provided a general introduction to the topic of instant payments and highlighted implications for bank treasuries. Jaap Kes reported that instant payments would eliminate the benefit of netting effects, as instant payments are settled on a gross basis, thus increasing the need for liquidity to cater for payments. Decentralised approaches and infrastructures could further increase prefunding requirements.

The currently available options for instant payments included, on the one hand, the Automated Clearing House models (ACH), and, on the other hand, the new TARGET Instant Payment Settlement (TIPS) service, provided by the ECB and intended to be launched in November 2018. The ECB representative from the Directorate Market Infrastructures and Payments indicated that instant payments had the technical potential to substitute many other existing retail payment instruments (including SEPA, card, cash). However, he clarified that systems such as TIPS or ACH were only meant to be used for retail payments and not for large-value payments. For this reason, the prefunding requirements shall remain limited. MMCG members underlined the importance of several technical features for instant payments, among which were the need for a harmonisation of the value date applied to clients' accounts, notably to avoid any possible arbitrage; and the need to overcome the difficulty of dealing with the potentially different time zones in each ACH. The ECB clarified that TIPS would integrate as far as possible the liquidity management of TIPS accounts with other central bank accounts (RTGS, T2S accounts) and would provide tools to monitor and manage the accounts and the liquidity, including the reserve requirements.

5. Other business: planning of the next meeting, preliminary discussion of the MMCG work programme for 2018

The next meeting will take place on Tuesday, 13 March 2018 in Frankfurt am Main. MMCG members will be requested to contribute their suggestions to the MMCG work programme for 2018.

List of participants at the 4 December MMCG meeting

Participant's organisation**Name of participant**

European Central Bank	Ms Cornelia Holthausen	Chairperson
European Central Bank	Mr Jean-Louis Schirmann	
European Central Bank	Ms Julija Jakovicka	Secretary
Bank of Ireland	Mr David Tilson	
Barclays Bank PLC	Mr Sascha Weil	
Bayerische Landesbank	Mr Harald Endres	
BBVA	Mr Miguel Monzon	
Belfius Bank	Mr Werner Driscart	
BNP Paribas	Mr Patrick Chauvet	
BPCE/Natixis	Mr Olivier Hubert	
Caixa Geral de Depósitos, SA	Mr António Paiva	
Caixabank	Mr Xavier Combis	
Deutsche Bank AG	Mr Juergen Sklarczyk	
DZ Bank	Mr Michael Schneider	
Erste Group Bank AG	Mr Neil McLeod	
Euroclear Bank SA/NV	Mr Johan Evenepoel	
HSBC France	Mr Philippe Lorang	
ING Bank	Mr Jaap Kes	
Intesa Sanpaolo	Mr Marco Antonio Bertotti	
LBBW	Mr Jan Misch	
Nordea Bank Finland	Ms Marjo Pesonen	
Société Générale	Ms Ileana Pietraru	
UniCredit Bank AG	Mr Eduard Cia	

National central banks**Name of participant**

Banque Nationale de Belgique	Mr Kristof Vandermeersch
Deutsche Bundesbank	Mr Karsten Stroborn
Banco de España	Ms Covadonga Martín Alonso
Banque de France	Ms Lea Le Queau
Banca d'Italia	Ms Patrizia Ceccacci
De Nederlandsche Bank	Mr Dion Reijnders
Národná banka Slovenska	Mr Peter Andresič
Suomen Pankki	Mr Joonas Koukkunen

Via teleconference**Name of participant**

Central Bank of Cyprus	Mr Andreas Mylonas
Eesti Bank	Ms Karoline Jostov
Banque centrale du Luxembourg	Mr Achim Hillen
Central Bank of Malta	Ms Josette Grech
Oesterreichische Nationalbank	Ms Maria Thury
Banco de Portugal	Mr Luís Sousa
Banka Slovenije	Ms Barbara Zalar