



Market Developments

Unsecured / Secured markets

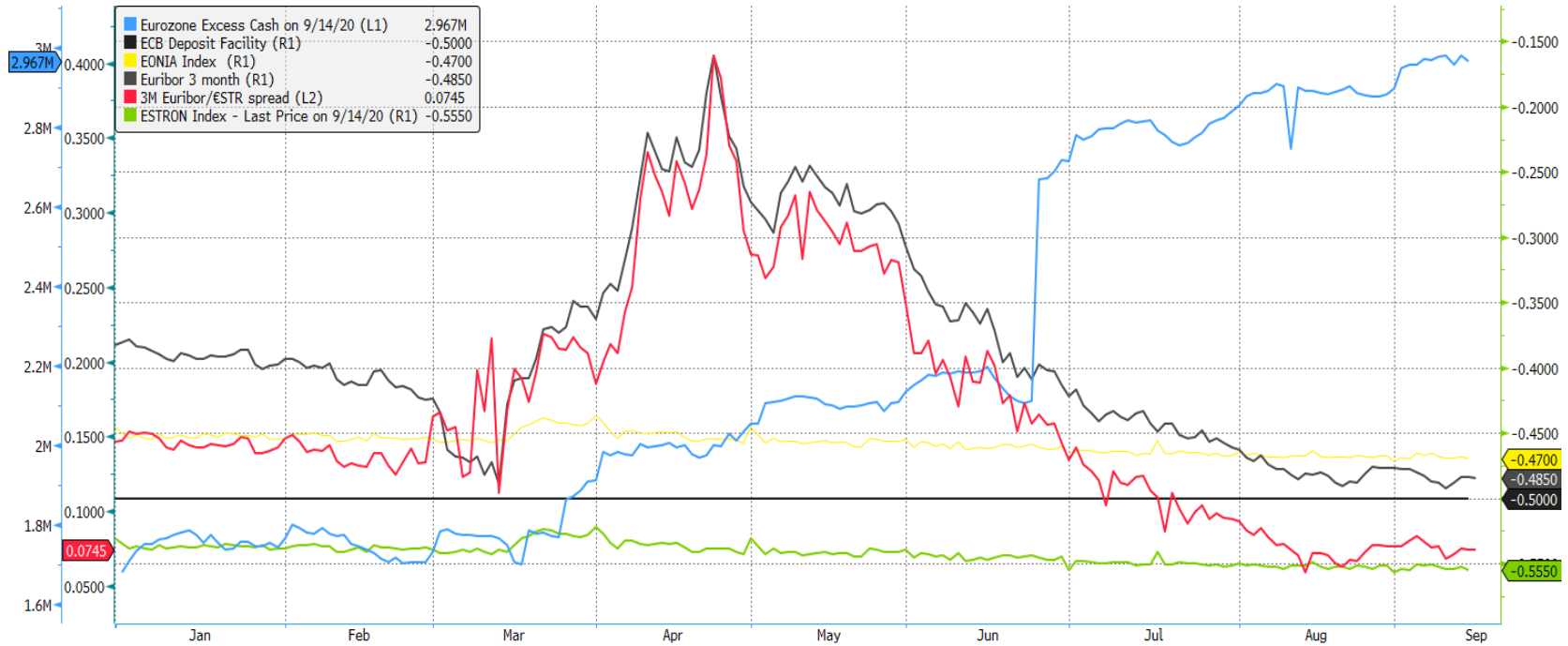
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ECB Money Market Contact Group

22/09/2020



1 Market developments in Unsecured Markets Short Term



ECBLXLIQ Index (ECB Eurozone Excess Liquidity) ECB XS vs Bor/ESTR Daily 31DEC20

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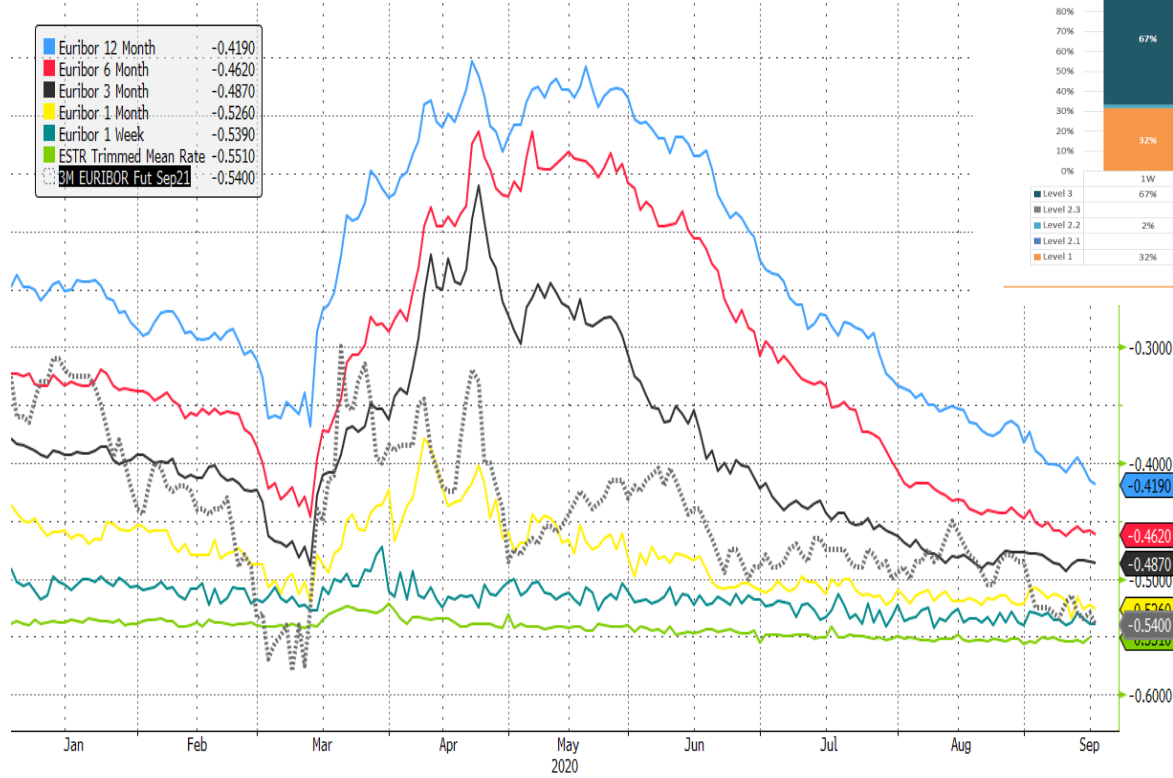
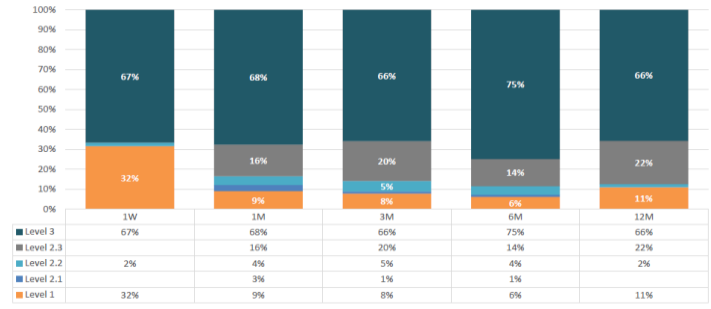
- Eurozone excess liquidity increased to close to € 3 Trillion after T-LTRO III in June and the ongoing monthly asset purchases.
- Euribor 3M has converged to the deposit facility following these liquidity injections.
- Euribor/€STR spread compressed to the lowest levels in more than a decade.
- Revived rate cut speculation following Philip Lane's remarks about the stronger currency.



1 Market developments in Unsecured Markets (Euribor)

July 2020

Use of each level¹ of the hybrid methodology, broken down by tenor



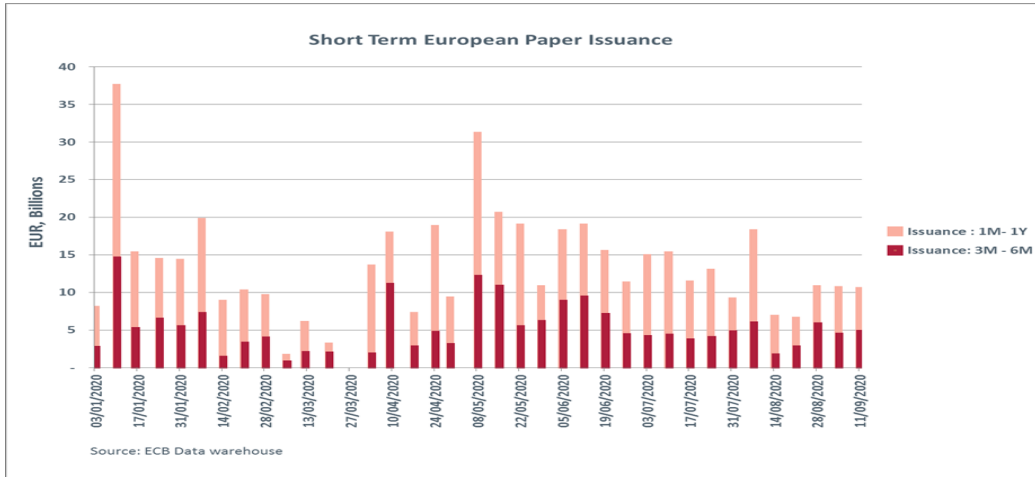
EUR012M Index (Euribor 12 Month ACT/360) EuriborsHybr Daily 01JAN2020-16SEP2020

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- Further normalization of Euribors after liquidity injection of T-LTRO III in June.
- Level 1 contributions have been increasing from April to June but are again somewhat lower in July, pointing to reduced funding needs for banks and less interesting investment levels for investors.
- Futures point to further downside potential based on renewed speculation of rate cuts after Philip Lane's remarks.

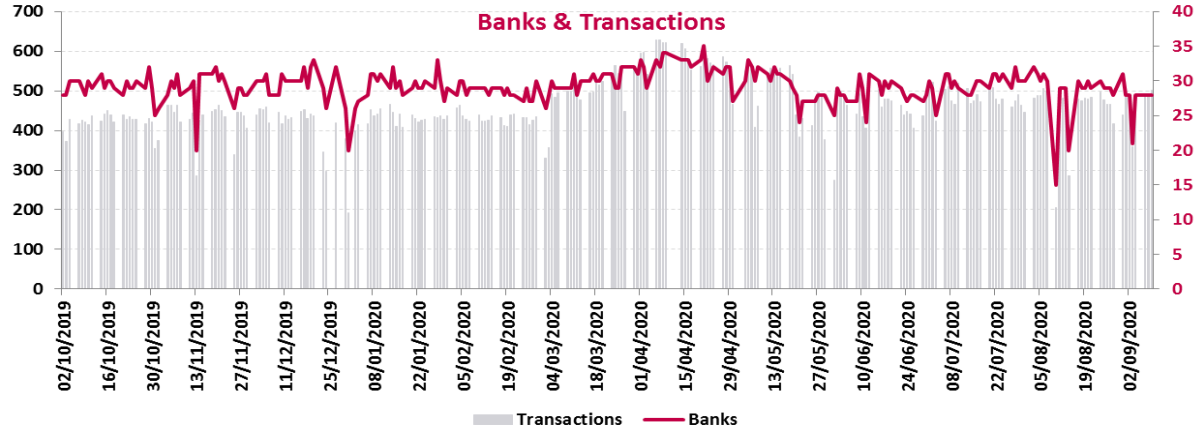
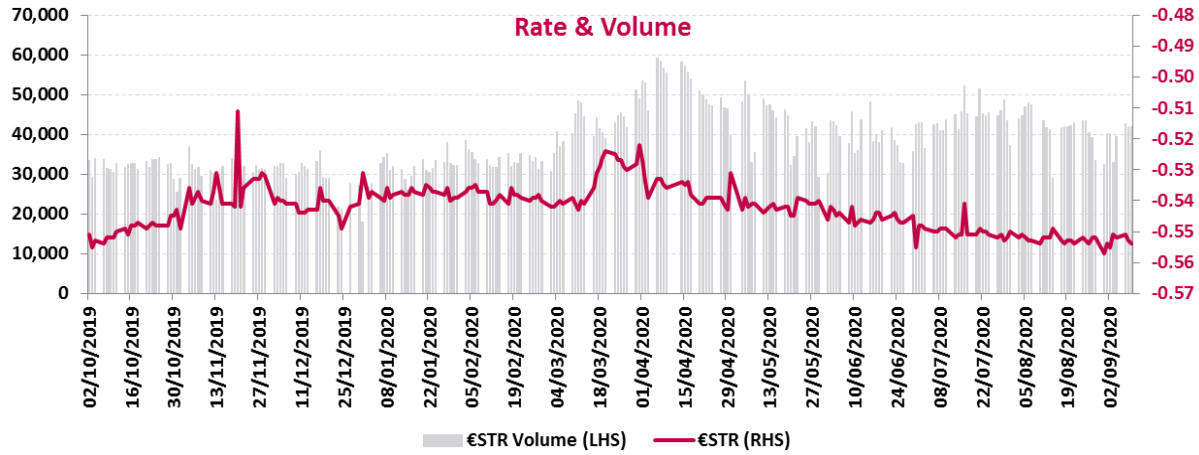
1 Market developments in Unsecured Markets (Short Term Issuance)



- Short Term paper issuance, being the main contributor to Level 1 contributions, decreased since June.
 - Banks' LCR ratios are sufficiently high due to massive participation in T-LTRO III, also from core countries.
 - Banks are willing to issue paper for clients close to or below the deposit facility.
-
- 3 Month interest rate for A1P1 CP dropped below the deposit facility since the end of June.



1 Market developments in Unsecured Markets (€STR)



- €STR Rate shows little volatility and is trending somewhat lower since the small uptick in March and April
- Volumes decreased somewhat from the peak levels in April.

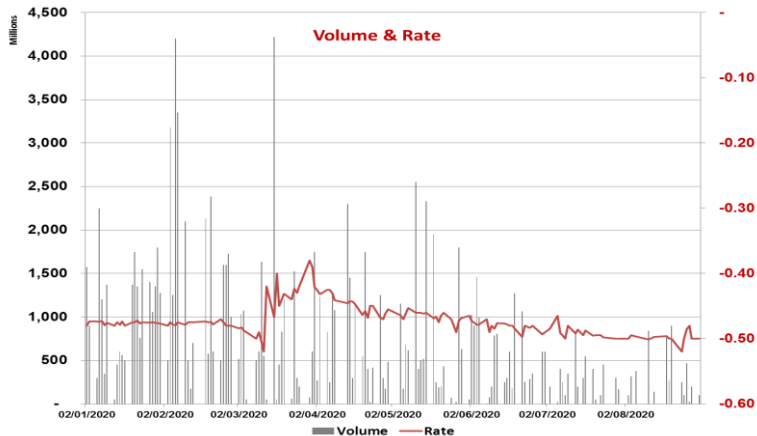
- Number of banks contributing and number of transactions stay above threshold levels, except for August 10th when only data from 15 banks was registered.

Source: ECB

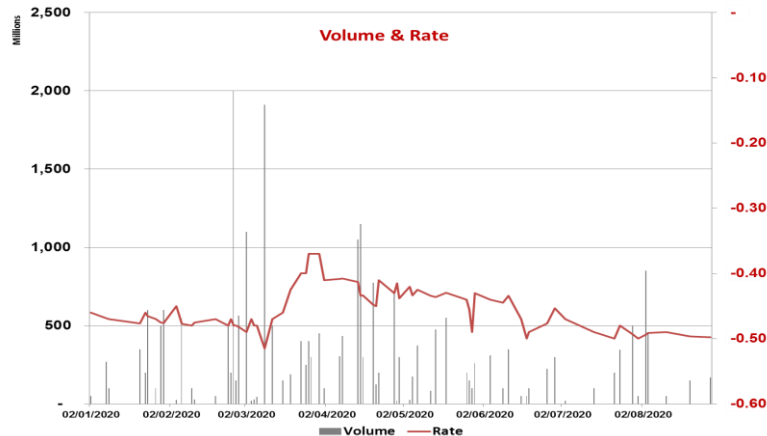


2 Market developments in Repo markets

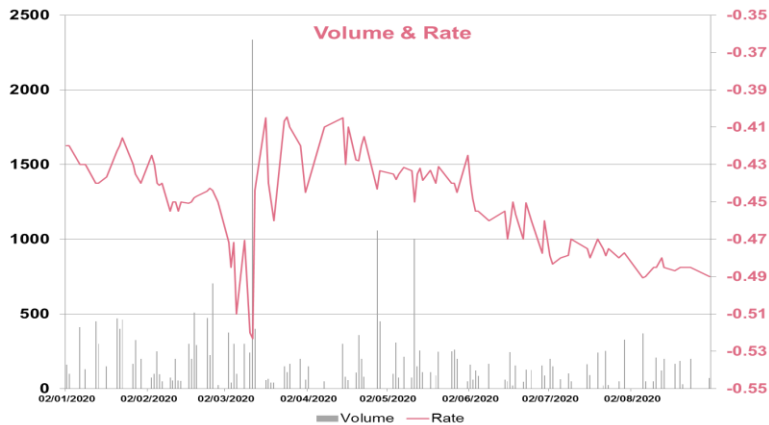
1 to 3 wk repo (Eurex)



1 mth repo (Eurex)



1 mth repo (MTS)

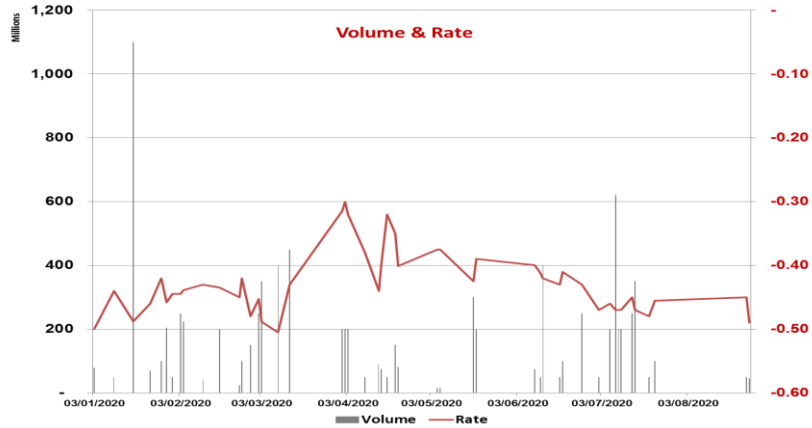


- In general, repo markets remained very solid throughout the Covid19 crisis.
- Repos in very short dates (for short covering and General Collateral needs) remained important and were hardly disrupted. Volumes and rates depend on type of collateral (slide 8).
- In March and April, volumes in term repos picked up in order to finance new assets, fulfil (tiered) reserves or stabilize liquidity ratios. At the height of the crisis, more activity was noted in shorter maturities up to 1 month.

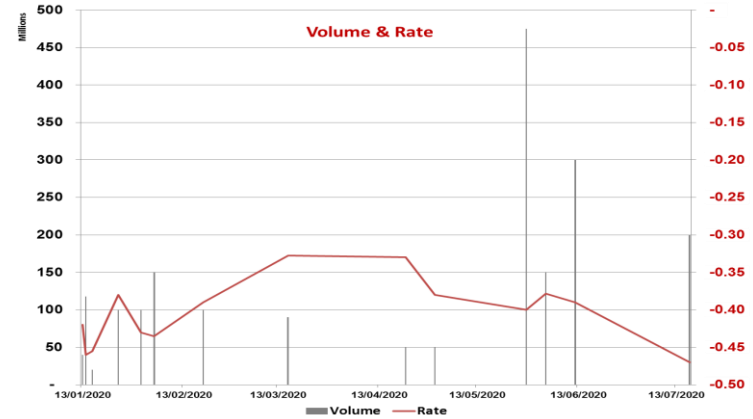


2 Market developments in Repo markets

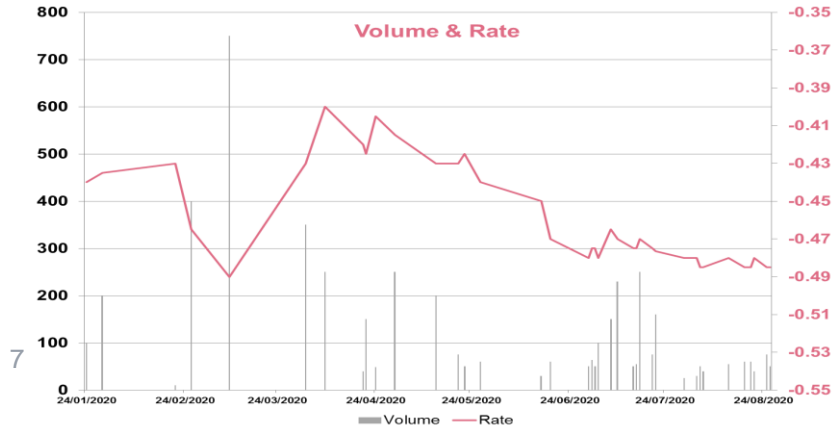
2 to 3 mth repo (Eurex)



6 mth repo (Eurex)



2 mth repo (MTS)



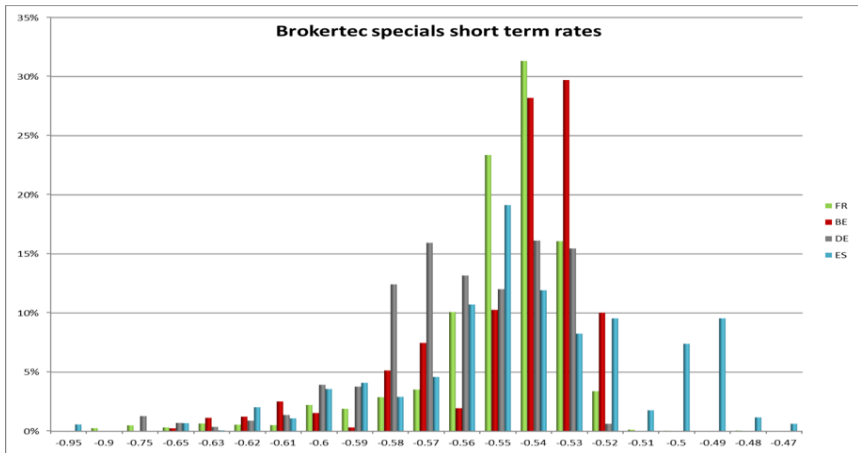
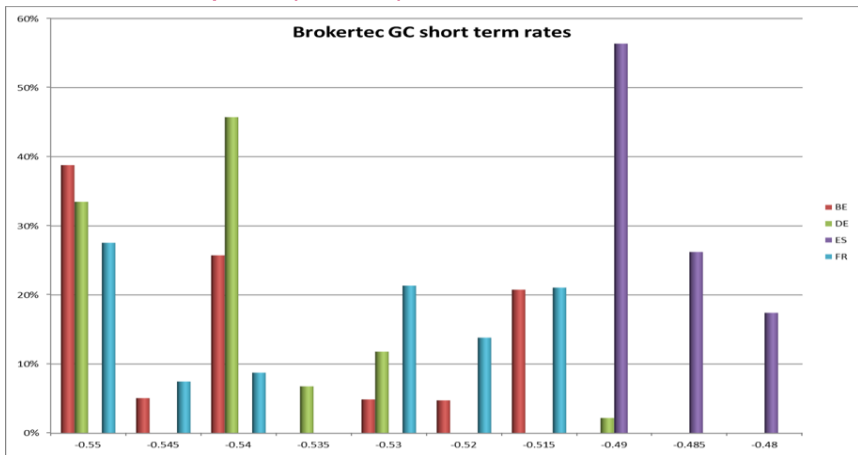
- Since June, the need for this repo financing diminished and repo rates converged towards the deposit facility, mainly due to the liquidity injection from T-LTRO III.
- Reverse repo transactions for yield pick-up reasons have decreased strongly as the rate difference with the deposit facility has become too small.

Source: Eurex & MTS



2 Market developments in Repo markets

Short dates GC & Specials (Brokertec)



Data from Brokertec platform on 17 September 2020 (until 16h38)

- Volume GC: € 13.3 Billion
 - DE 3 Bn
 - FR 5 Bn
 - ES 2 Bn
 - BE 3 Bn
- Volume Specials: € 160.8 Billion
 - DE 57 Bn
 - FR 54 Bn
 - ES 37 Bn
 - BE 13 Bn
- Repo market for specials remains very active due to asset purchase programs and heavy issuance.
- Spread to deposit facility is again (marginally) widening for GC and specials.



3 Market developments in €STR derivatives market – LCH monthly volumes

Monthly Registration Volume (USD BN)

Month	Tenor Bucket	€STR	SARON	SOFR	SORA
Aug 2020	<1 Yr	41.38	83.51	63.37	0.16
	1-2 Yrs	6.04	0.88	7.42	
	2+ Yrs	17.68	7.22	45.13	0.02
	Total	65.11	91.60	115.92	0.18
Jul 2020	<1 Yr	51.75	93.71	56.90	0.03
	1-2 Yrs	6.17		11.69	0.01
	2+ Yrs	18.04	5.08	84.22	
	Total	75.96	98.79	152.80	0.04
Jun 2020	<1 Yr	54.10	91.86	121.32	0.17
	1-2 Yrs	4.73	1.07	21.40	0.01
	2+ Yrs	13.03	8.30	65.56	0.01
	Total	71.87	101.23	208.28	0.19
May 2020	<1 Yr	6.64	69.57	179.27	0.15
	1-2 Yrs	0.14	1.33	34.67	0.28
	2+ Yrs	2.68	7.11	43.79	
	Total	9.45	78.01	257.73	0.43
Apr 2020	<1 Yr	33.16	89.01	127.59	
	1-2 Yrs	3.40	1.96	39.04	
	2+ Yrs	6.30	6.25	40.72	
	Total	42.87	97.22	207.36	
Mar 2020	<1 Yr	32.46	103.01	85.99	
	1-2 Yrs	5.50	6.96	52.73	
	2+ Yrs	12.61	6.18	87.75	
	Total	50.57	116.14	226.46	
Feb 2020	<1 Yr	188.21	124.25	165.02	
	1-2 Yrs	1.67	0.72	35.50	
	2+ Yrs	8.22	5.09	97.15	
	Total	198.10	130.06	297.67	
Jan 2020	<1 Yr	179.98	78.32	95.79	
	1-2 Yrs	2.97	4.12	64.72	
	2+ Yrs	8.81	8.34	48.56	
	Total	191.76	90.78	209.06	

- Clearing houses LCH & Eurex switched discounting curves for CCP cleared derivatives from Eonia to €STR on July 27th.
- Switch was done successfully by exchanging a cash compensation for the cleared swap transactions.
- Exception was noted for Swaptions (non-cleared) where the recommendations from the ECB Working Group were not always followed.
- Transaction volumes in €STR derivatives did pick up somewhat from June but Eonia derivatives are still preferred.
- Reasons cited by derivatives traders:
 - Most established and liquid market
 - Old habits
 - Interchangeable Eonia = €STR+8.5bp
 - Internal systems and calculations need to switch
 - Bilateral negotiations to repaper CSA contracts have only started in August.

Source: LCH





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