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EUROZONE SECURED FUNDING SEGMENT : EXPECTATIONS FOR YEAR- END AND FOR 2022

PRESENTATION TO THE ECB MONEY MARKET CONTACT GROUP

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SOCIETE GENERALE

**THE FUTURE
IS YOU**  **SOCIETE
GENERALE**

REPO RATES HAVE BEEN DECLINING COMPARED TO UNSECURED CASH

- SINCE THE COVID CRISIS EARLY 2020, THE RATES SEEN ON THE SECURED FUNDING SEGMENT HAVE BEEN DECLINING COMPARED TO UNSECURED FUNDING SEGMENT

FROM -3.5 BP IN APRIL 2020 TO +20 BP MID NOVEMBER 2021

- THREE FACTORS EXPLAIN THIS TREND :

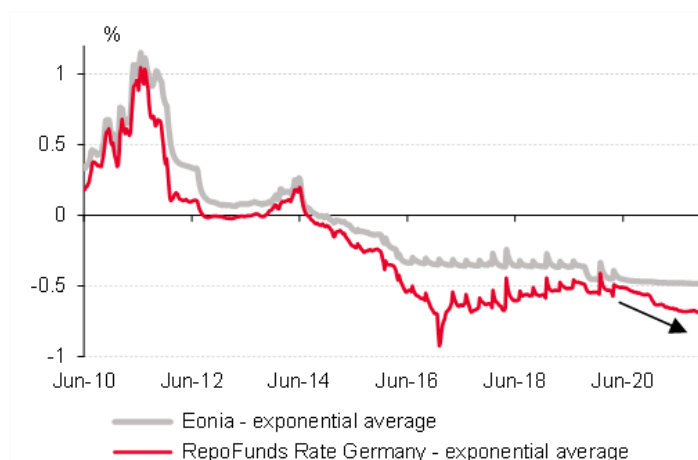
1/ ECB POLICY : PANDEMIC ASSET PURCHASE AND TLTRO

2/ INCREASED STRUCTURAL DEMAND FOR HQLA IN A BROADELY COLLATERALISED FINANCIAL SYSTEM

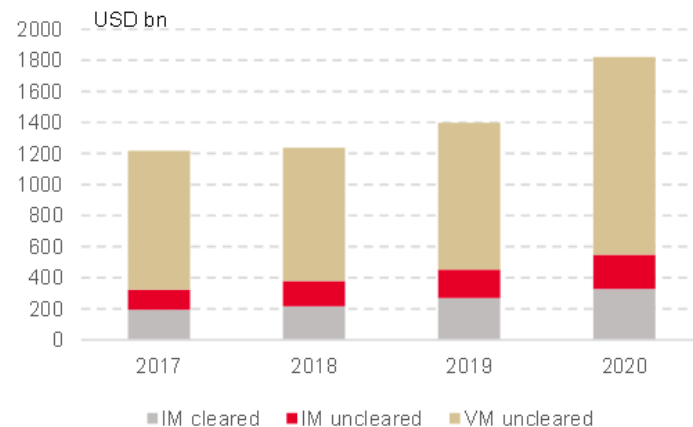
3/ TEMPORARY FACTORS

- END OF YEAR BALANCE SHEET REDUCTION AMPLIFIED BY THE SINGLE RESOLUTION FUND TAX
- MARKET VOLATILITY AND INCREASED MARGIN CALLS
- SHORT POSITIONS BUILT IN THE MARKET FOLLOWING ECB OCTOBER MEETING (AS WELL AS BOE AND FED MORE HAWKISH STANCE)

Repo rates falling vs unsecured funding rates



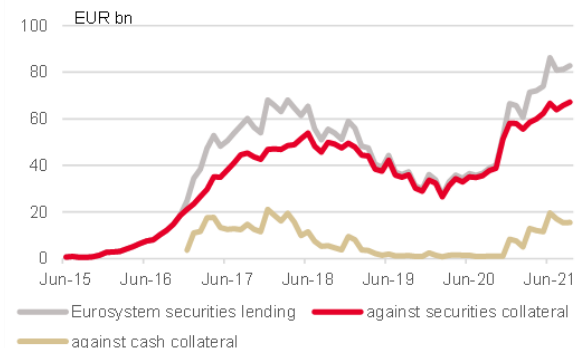
Collateral posted in initial and variation margins



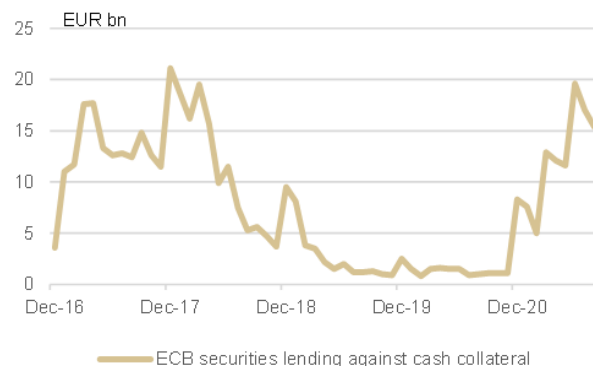
ECB LENDING OF SECURITIES

- **THIS MEASURE DATES BACK TO APRIL 2015**
- **LENDING SECURITIES AGAINST CASH WAS FIRST INTRODUCED ON DECEMBER 8, 2016 TO ADDRESS THE SCARCITY OF GERMAN PAPER**
- **THE INITIAL LIMIT WAS € 50 BLN, INCREASED TO € 75 BLN IN MARCH 2018 AND THEN TO € 150 BLN ON NOVEMBER 16, 2021.**
- **THE RECOURSE TO THIS MEASURE IS LIMITED AS:**
 - **IT IS DESIGNED FOR BACK-STOP PURPOSE AND THEREFORE AT A LESS ATTRACTIVE RATE**
 - **IT IS NON-HOMOGENEOUS ACCROSS NATIONAL JURISDICTIONS : FRAGMENTED RULES, CAPS BY ISIN AT € 200 MLN, CREDIT LIMITS BY COUNTERPARTY**
- **OVERALL, THE EFFECTS OF PAST MEASURES WERE LIMITED AND DID NOT PREVENT YEAR-END TENSIONS (AS SEEN IN 2016)**

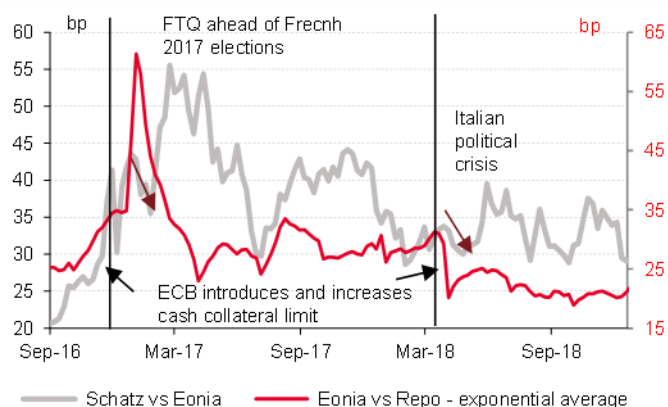
Eurosystem securities lending



Securities lending vs cash stays well below imposed limits

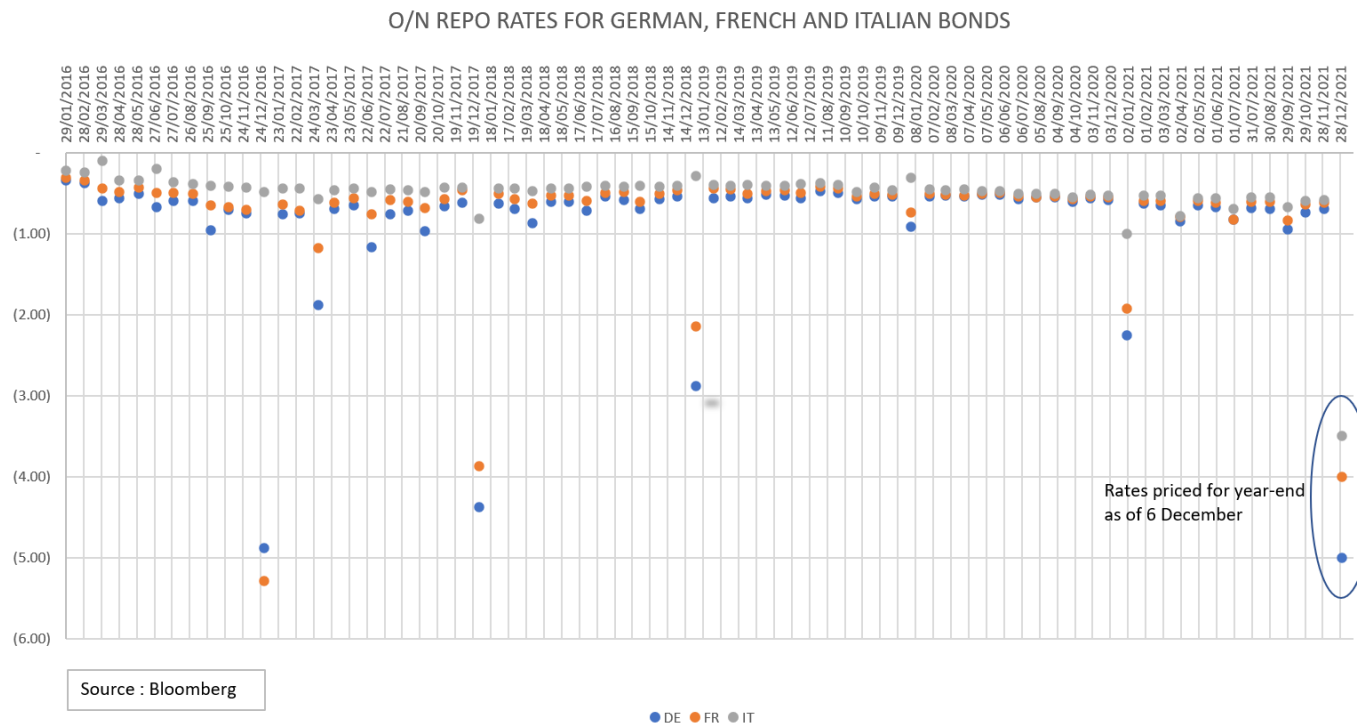


Past ECB decisions on securities lending vs cash – and impact on Eonia/repo and Schatz



OUTLOOK FOR YEAR-END : INCREASED TENSIONS IN THE SHORT-TERM MARKETS

- PRICING OF EUROPEAN BONDS OVER YEAR-END IS SHOWING A SITUATION CLOSE TO 2016
- YEAR-END TENSIONS STARTED VERY EARLY IN MID SEPTEMBER
- REPO RATES ARE STRONGLY IMPACTED BY BANK'S INABILITY TO INCREASE BALANCE SHEET CONSUMPTION



OUTLOOK FOR 2020 : NORMALIZATION AT A SLOW PACE, HURDLES STILL TO BE EXPECTED

- **THE NORMALIZATION OF THE ECB POLICY IS EXPECTED TO BE GRADUAL AND CAUTIOUS**
- **THE AMOUNT OF COLLATERAL AVAILABLE WILL DEPEND HIGHLY ON**
 - **TAPERING AMOUNTS AND SCHEDULE**
 - **TLTRO REPAYMENTS**
 - **THE ECONOMIC AND INFLATIONARY OUTLOOK AND THE HIGH DEPENDENCE ON THE SANITARY SITUATION**
- **FURTHER DEMAND FOR COLLATERAL WITH THE NEXT PHASE OF THE MARGIN RULES ON UNCLEARED DERIVATIVES DUE TO BE IMPLEMENTED IN SEPTEMBER 2022**
- **THE ECB « QUICK-FIX » ENDS IN Q2 2022 AND WILL FURTHER IMPACT BANK'S ABILITY TO ACT AS INTERMEDIARIES IN THE REPO MARKET**