Belfius

Market Developments in Money Markets

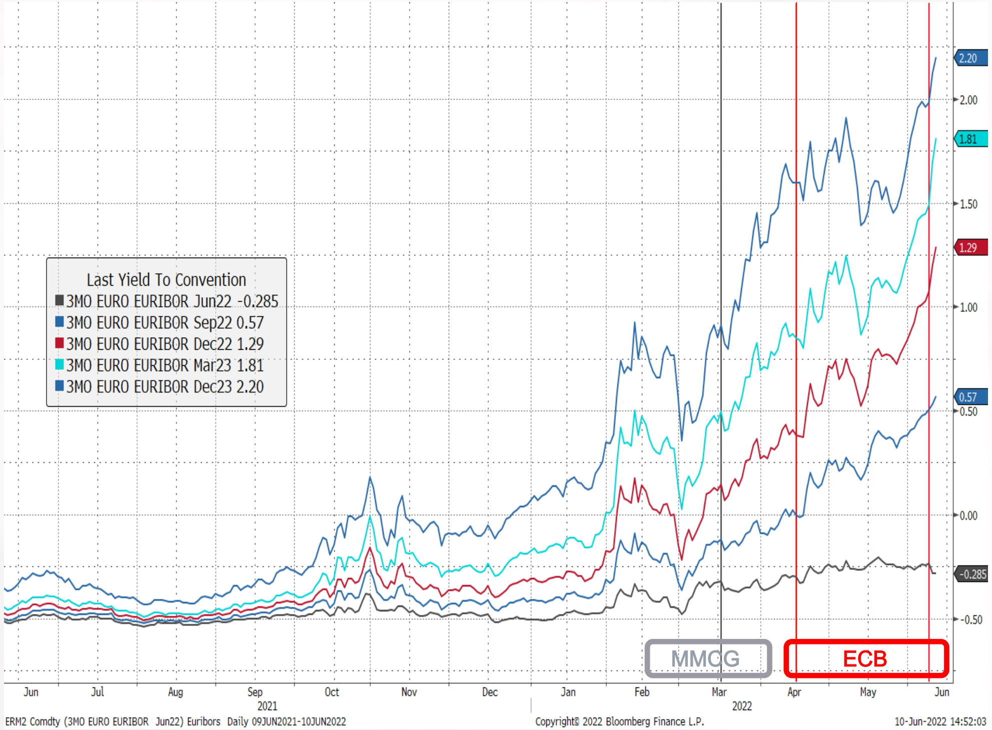
ECB meetings and focus on unsecured/secured

ECB Money Market Contact Group

15/06/2022

ECB on a firm and gradual path to normalization…

ECB meetings perceived as hawkish, resulting in a series of rate hikes priced in the Money Market curves



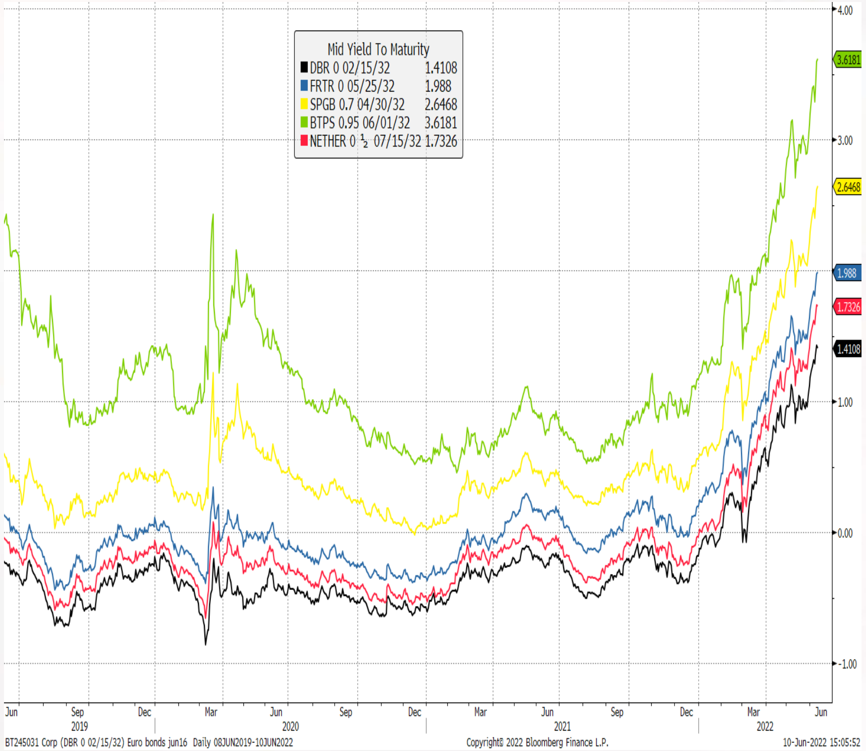
- Whereas the April 14th meeting left the market with some doubt about the timing and pace of tightening, the June 9th meeting took away a lot of uncertainty
- A pre-announced 25bp hike in July will likely be followed by a 50bp increase in September
- A 'more gradual but sustained' pace of 25bp increases is the base case for subsequent meetings unless inflation expectations deteriorate further
- Markets expect at least one more 50bp increase before year-end and see the terminal rate at around 2%
- Concerning PEPP reinvestments, some flexibility might be needed to preserve the monetary transmission mechanism

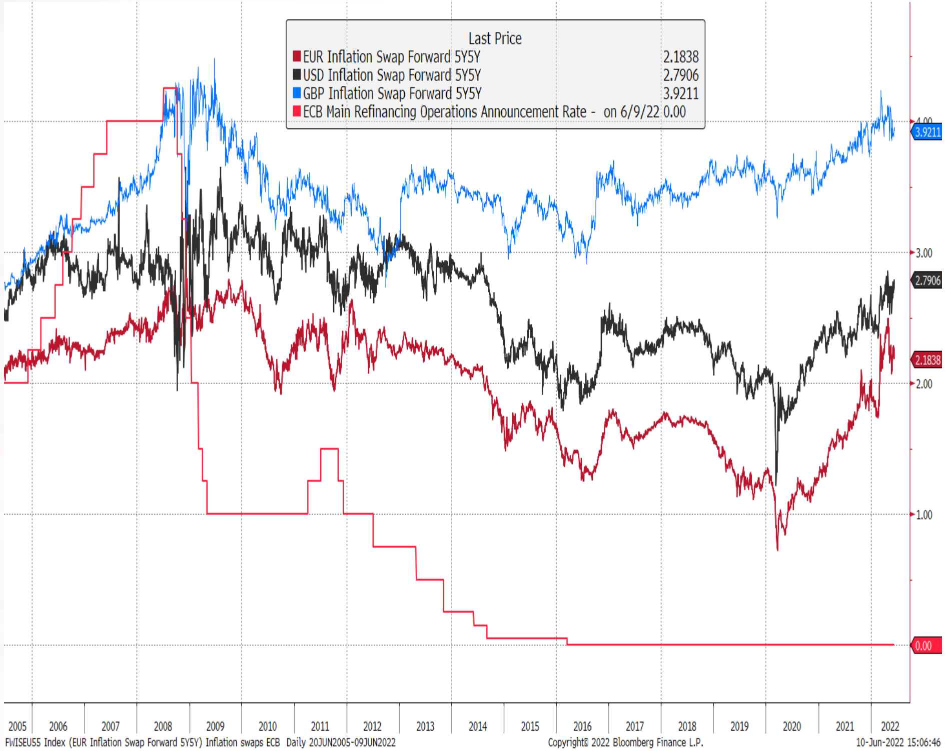
➔ Still open for debate:

- Neutral rate
- Interest rate corridor
- Tiered reserves
- PEPP reinvestments timing and bond buying scheme to fight fragmentation
- T-LTRO maturities and 'interesting' Green T-LTRO

Market developments in government bonds and inflation

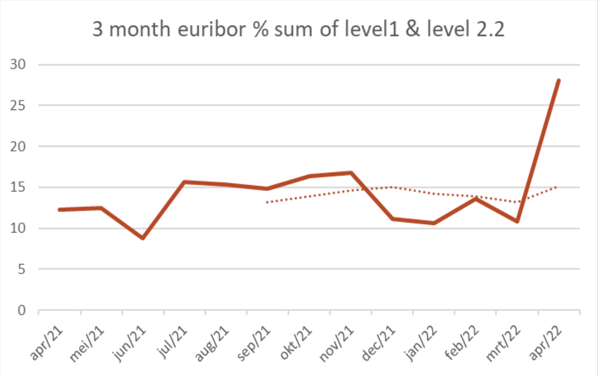
Euro-zone government bond yield spreads widened further while inflation break-evens are off the highs

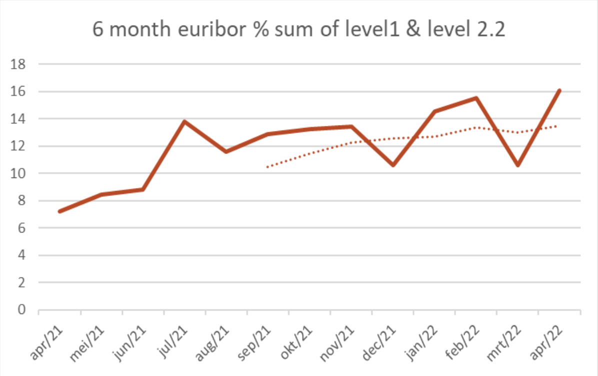


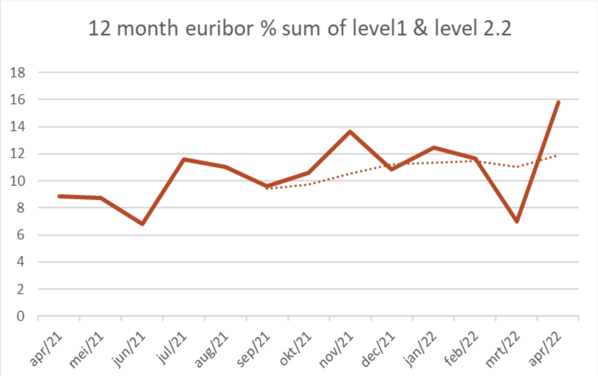


Market developments in Money Markets - Unsecured

More activity was noticed and investors are tentatively looking at somewhat longer tenors







Use of each level[1] of the hybrid methodology, broken down by tenor

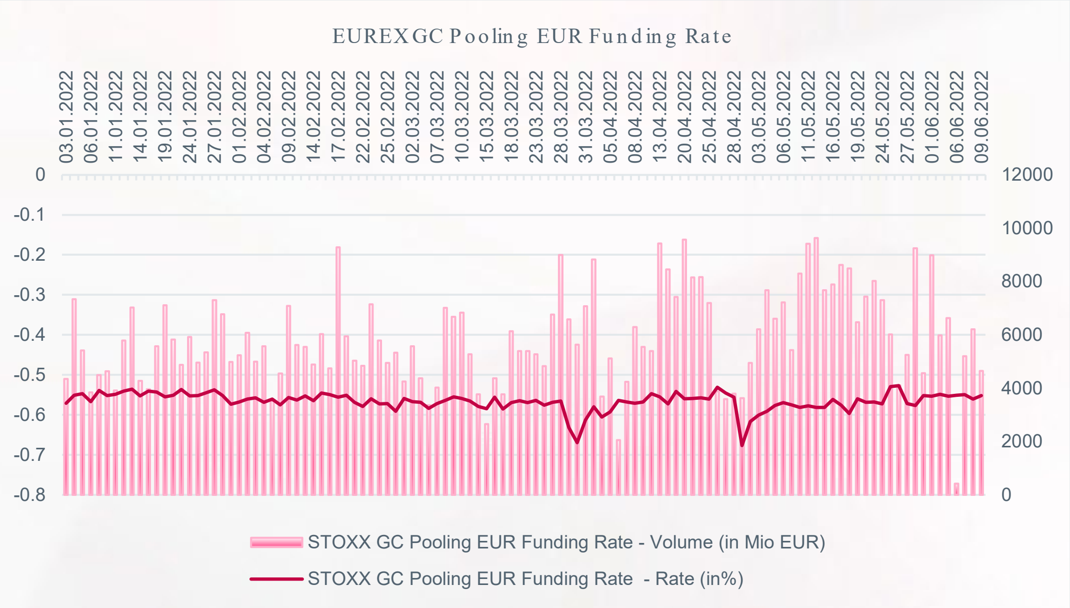
	1W	1M	3M	6M	12M
Level 3	57.89%	41.81%	43.86%	64.04%	55.56%
Level 2.3		24.85%	26.32%	16.67%	28.65%
Level 2.2	1.46%	5.85%	7.89%	6.43%	3.80%
Level 2.1		9.06%	1.75%	3.22%	
Level 1	40.64%	18.42%	20.18%	9.65%	11.99%

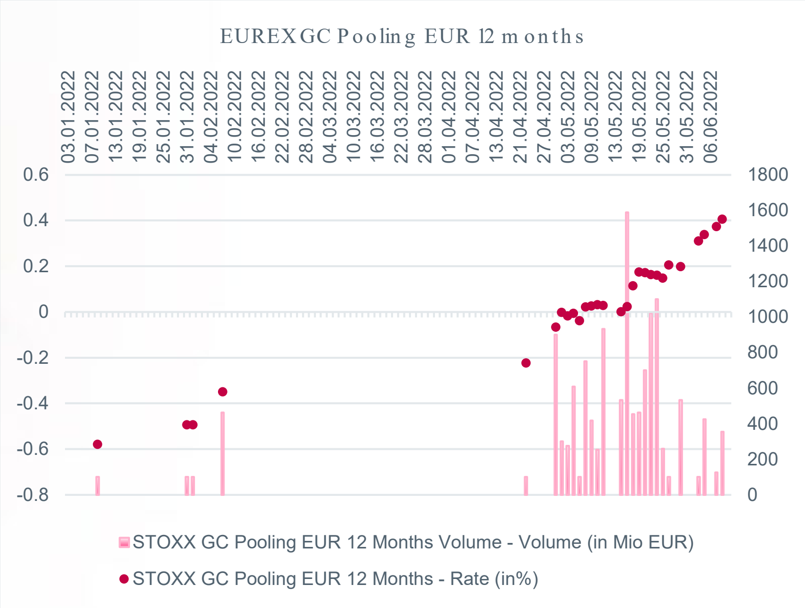
Source EMMI: data for April

- In Q1, CP/CD markets were mainly concentrated on (very) short term tenors due to uncertainty about central bank policy, the war in Ukraine and for some investors the need to stay liquid (dividend payments, collateral needs, margin calls,…)
- From April onwards we see more interest in somewhat longer tenors as yields become more attractive, (and positive), compared to sight or savings accounts
- Volatile markets and consequences from Russian sanctions generate more bidding (ratio purposes)
- 6 month and 12 month tenors see some influence from wider spreads in medium to long term funding markets where higher net issuance premiums were seen
- Financing conditions have already tightened for governments, corporates and households

Market developments in Money Markets - Secured

Activity remains sustained with a recent trend for longer tenors and positive rates





- Short Term (O/N, T/N, & S/N) rates remain stable since the beginning of the year, with end of month/quarter influence
- Since end April, we start to see some activity in longer tenors (Eurex GC Pooling EUR 12 months) with positive rates from 0% to 0.40%
- Due to strong demand and increase for high-quality assets used as collateral for UMR and TLTROs, the repo market remained expensive since the start of the year

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