



Review of recent developments in euro money markets

Market reaction to ECB GC meetings in Dec and Feb, expectations for March and pass-through of interest rate hikes

**ECB Money Market Contact Group
2nd March 2023**

Review of recent developments in euro money markets

1 Market reaction to the ECB Governing Council meetings on 15 December, 2 February

2 Market expectations for the 16 March ECB meeting

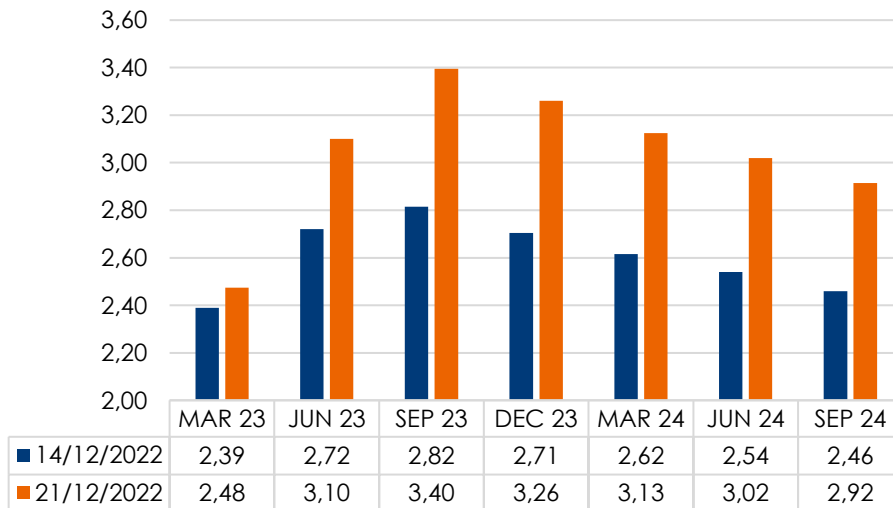
3 Pass-through of interest rate hikes since the last MMCG meeting on 5 December

Market reaction to the ECB Governing Council meetings on 15 December 2022

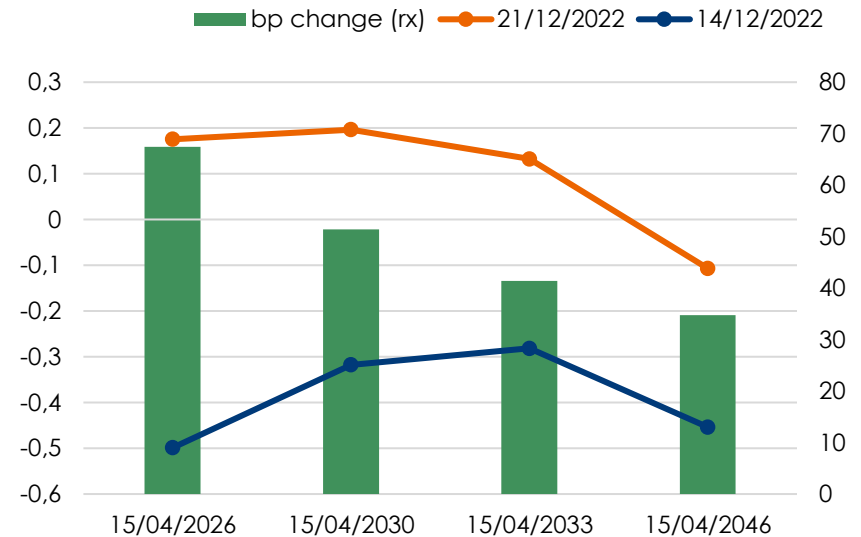
Monetary policy decisions:

- **The ECB raised rates by 50bps**, but at the same time signaled that markets are not adequately discounting the potential for official rate hikes in the coming months.
- The tightening of monetary policy will soon also be reinforced by **the announcement of a reduction of the APP portfolio**: from March, maturity reinvestments will be reduced by an average of EUR 15 billion per month. This pace will be maintained until June and could be confirmed or changed thereafter.

1M ESTR futures
(1 day before meeting and 7 days after, %)



BUNDei real yields
(1 day before meeting and 7 days after, %)



Source: Bloomberg, Intesa Sanpaolo

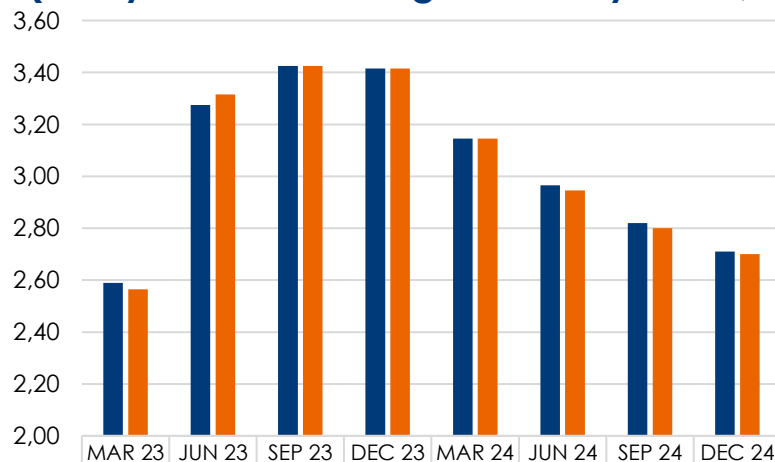
Market reaction to the ECB Governing Council meetings on 2 February 2023

Monetary policy decisions:

- The ECB raised the official rates by **50bps**, bringing the deposit rate (DFR), the MRO rate and the MLF rate to 2.50 %, 3.0 % and 3.25 % respectively.
- The **guidance becomes precise**: the ECB “intends to raise interest rates by another 50 basis points at its next monetary policy meeting in March”.
- **As for the reduction of the APP portfolio, the remaining reinvestment amounts will be allocated proportionally to the share of redemptions** across each constituent of the APP and, under the PSPP, to the share of redemptions of each jurisdiction and across national and supras issuers. Under the CSPP, there will be a rotation of the portfolio aimed at favoring issuers with better climatic performance.

1M ESTR futures

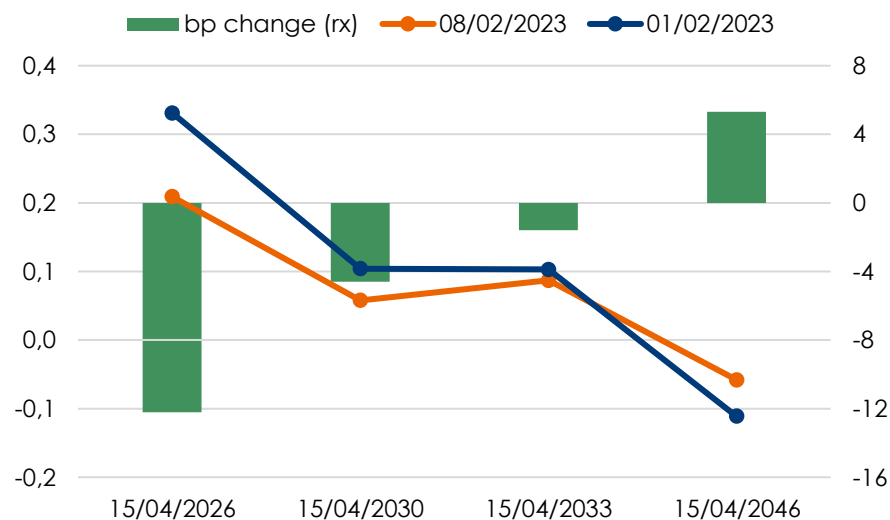
(1 day before meeting and 7 days after, %)



01/02/2023	2,59	3,28	3,43	3,42	3,15	2,97	2,82	2,71
08/02/2023	2,57	3,32	3,43	3,42	3,15	2,95	2,80	2,70

BUNDei real yields

(1 day before meeting and 7 days after, %)



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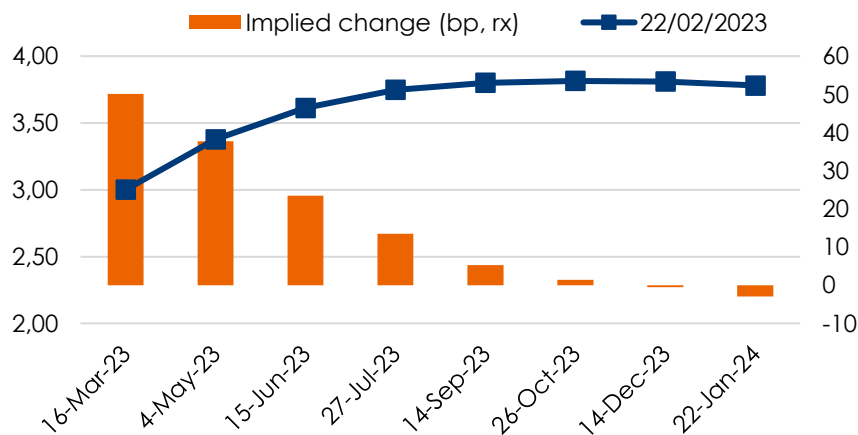
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3 Pass-through of interest rate hikes since the last MMCG meeting on 5 December

Markets see ECB extending the rate hiking phase for longer than previously expected

- Market projects peak in policy rates to be reached in 3Q23 at 3.75%.
- Money market rates continue to discount a first rate cut by the ECB at the beginning of 2024, as the inflation is expected to be close to 2.5% (right chart).
- As the the calendar spread between Dec'24 an Jun'23 shows, the market reduced the extent of the monetary easing in the medium-term.

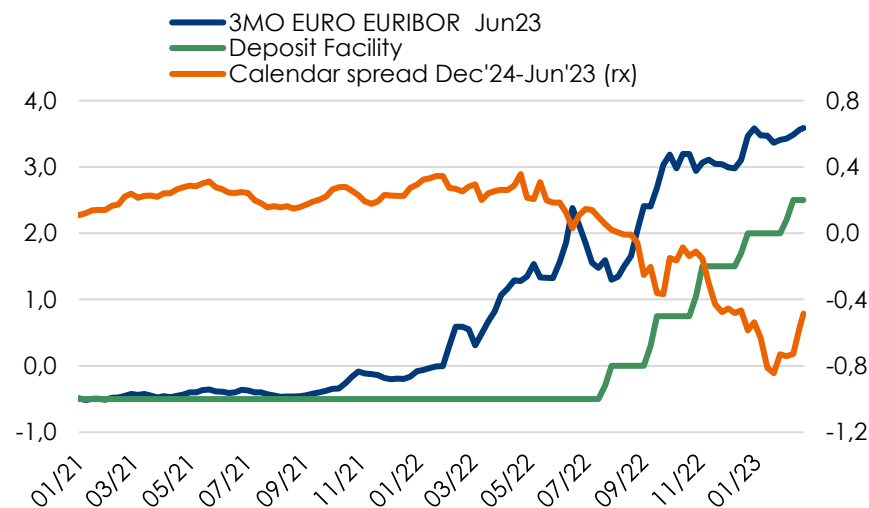
ECB Depo rate implied in ESTR OIS (%)



1Y EUR ZC inflation swap (%)



3M Euribor future (%)



Source: Bloomberg, Intesa Sanpaolo

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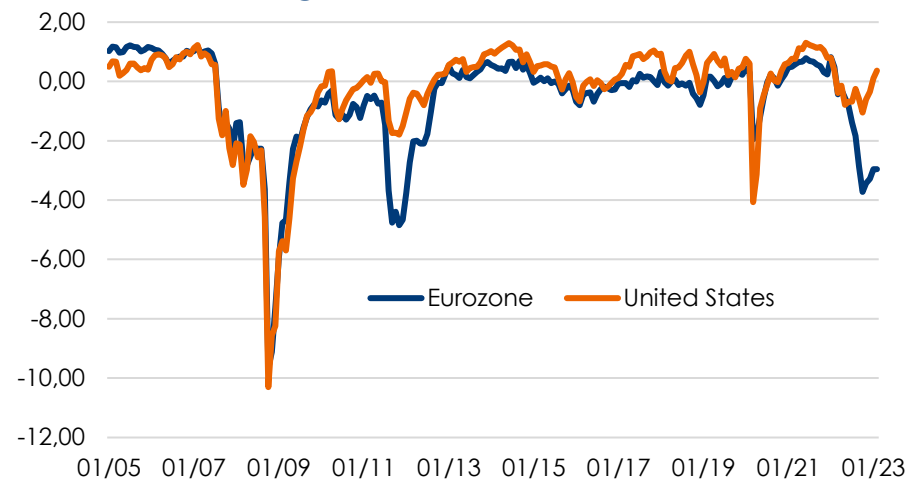
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3 **Pass-through of interest rate hikes since the last MMCG meeting on 5 December**

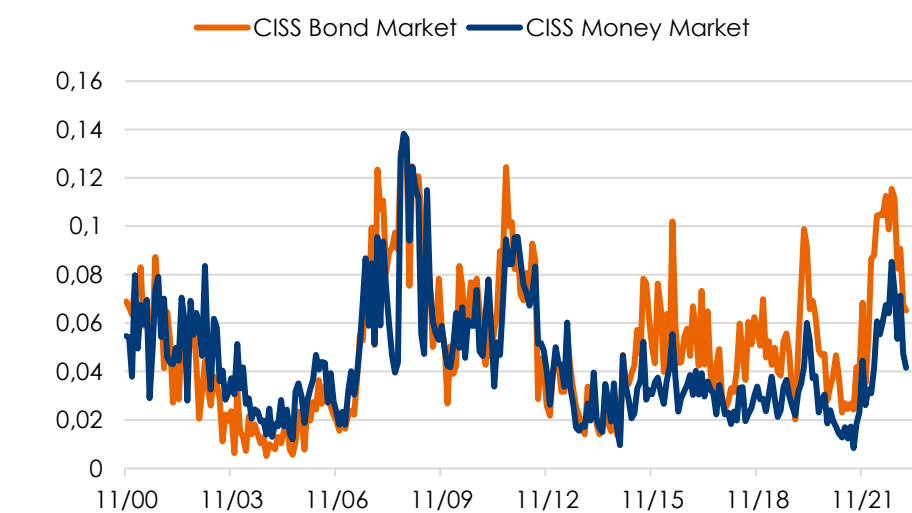
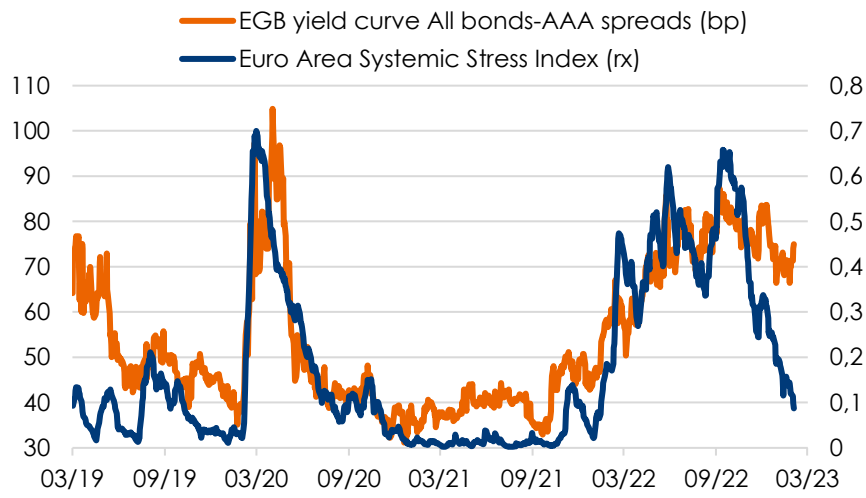
Market stress is receding, financial conditions are just started to tighten

- The start of the phase of monetary tightening has led to a reduction in the level of 'stress' in the financial market.
- Issuer risk on European government bonds has been reduced, while remaining at historically high levels.
- Eurozone financial conditions are still in expansionary territory.

Bloomberg Financial Condition Index



ECB Stress Index & EGB credit spread (%)

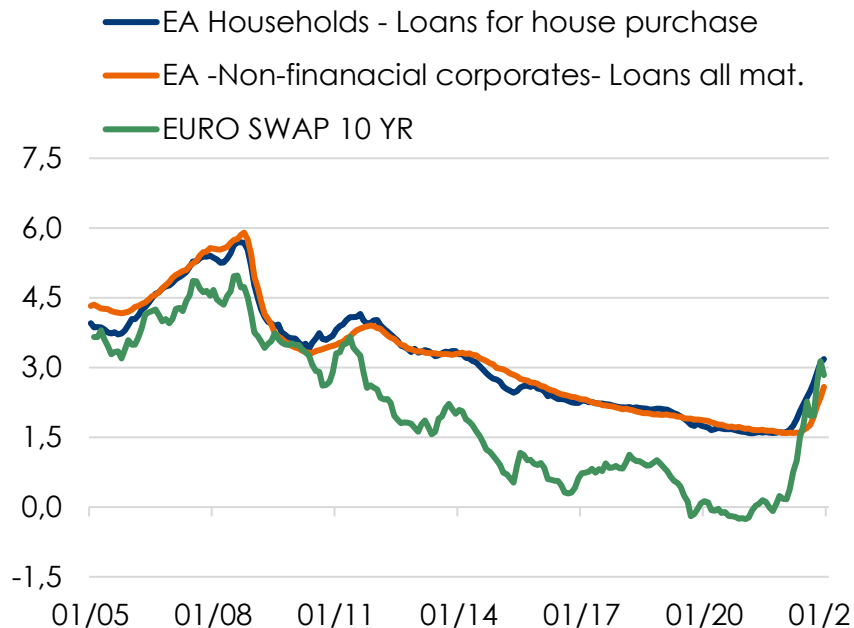


Source: Bloomberg, Intesa Sanpaolo

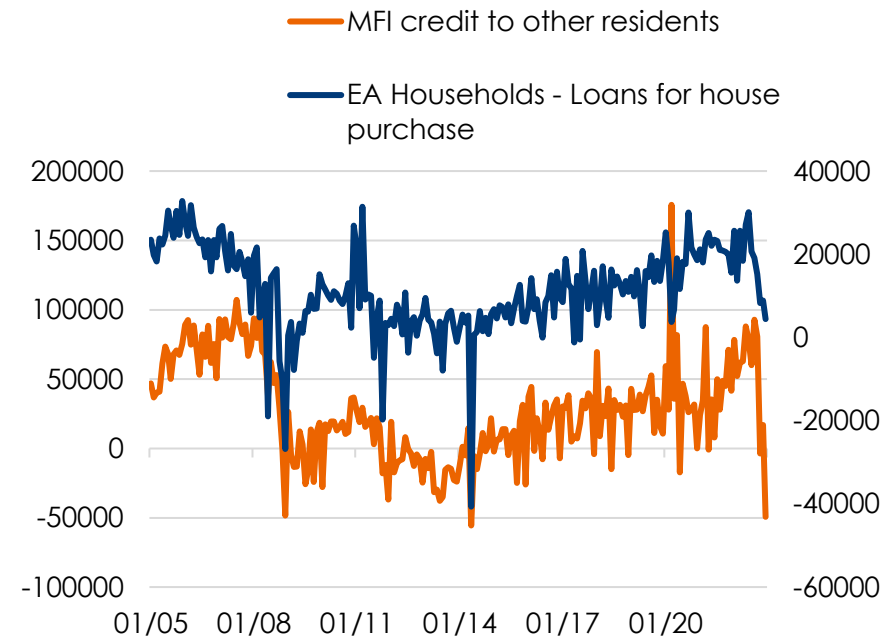
The credit dynamic has slowed notably due to the monetary tightening

- The average cost of financing has returned to levels in line with a decade ago, in nominal terms.
- New loans flows addressed to businesses have slowed, and loans to households are also slowing.

EA - Interest rates on loans (%)



EA -New loans flow



Source: ECB, Bloomberg, Intesa Sanpaolo

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