



ECB Money Market Contact Group

A. Main developments in money markets and ECB policy outlook

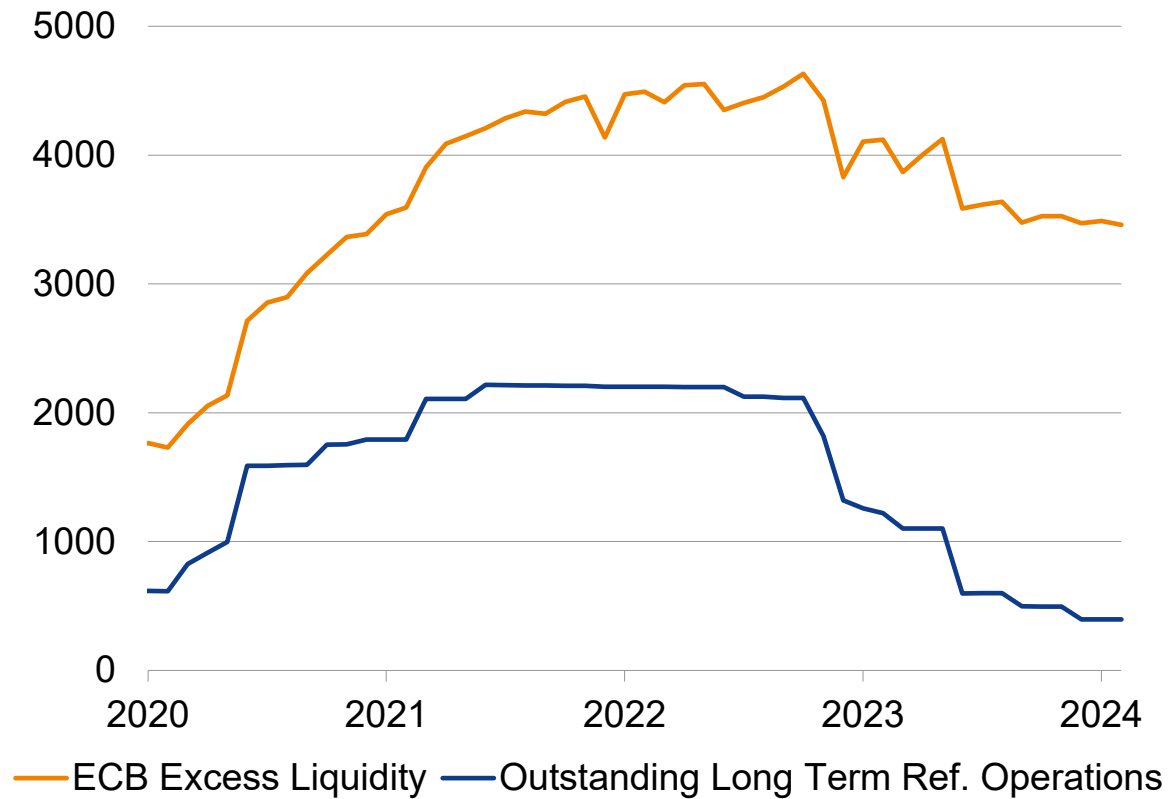
Frankfurt, March 14th 2024, Oliver Deutscher

Operational Framework Review – Excess Liquidity slowly shrinking

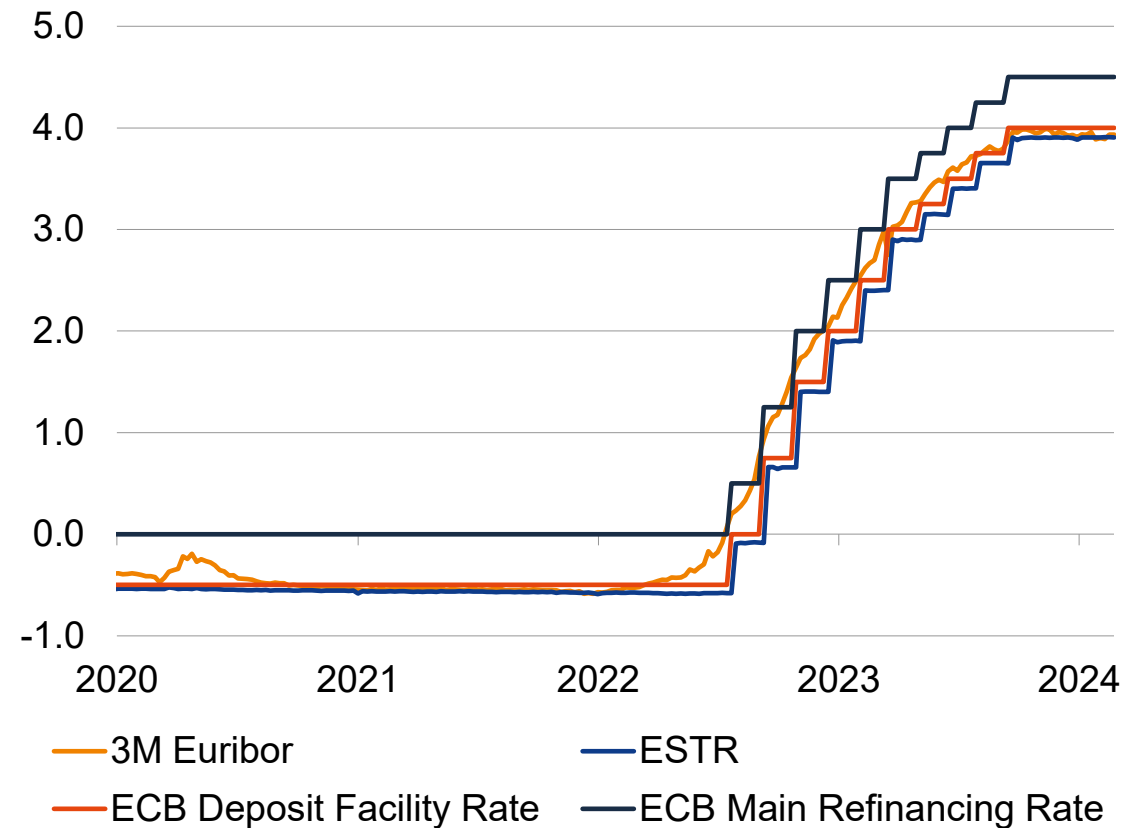


In the future, money market prices are likely to move away from the deposit rate

In Billion Euros



In %



EUROPEAN CENTRAL BANK
EUROSYSTEM

MMO MARKET OPERATIONS

25 February 2024

ECB Money Market Contact Group
Thursday, 14 March 2024, 13:30-17:30 CET

Agenda March MMCG

A) Main developments in money markets and ECB policy outlook
Oliver Deutscher (DZ Bank) will assess the main developments in money markets since the last MMCG on 5 December 2023, including market reactions to the decisions taken by the ECB and expectations for forthcoming monetary policy meetings. The discussion will also cover money market functioning aspects, especially in view of TLTRO II repayments and the decline in excess liquidity overall.

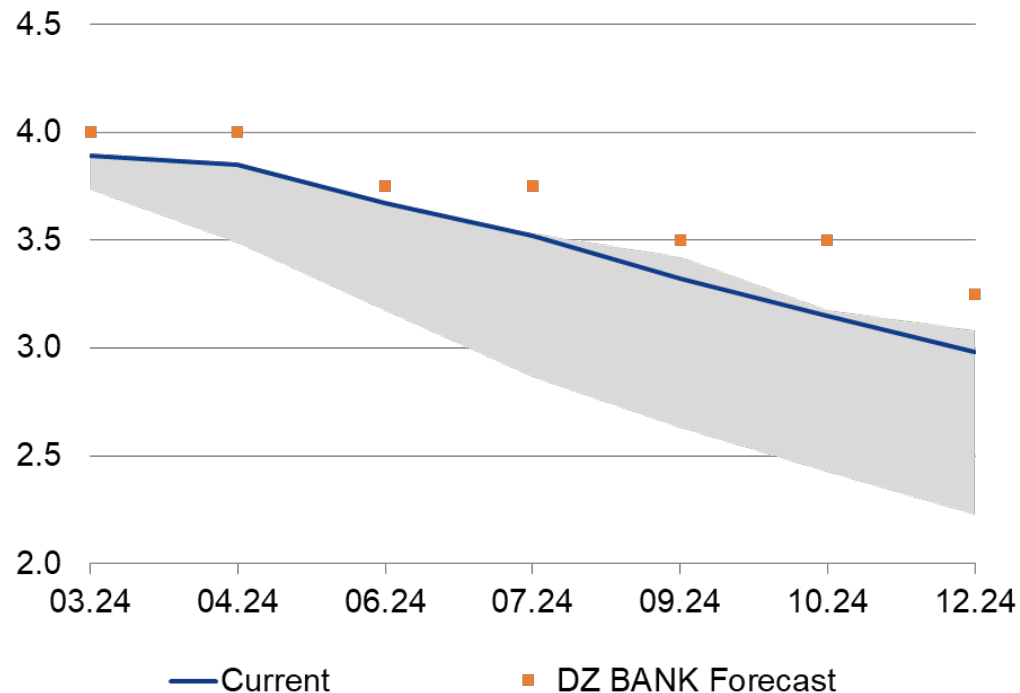
Source: Bloomberg; DZ BANK

We expect the central bank to proceed cautiously

Monetary authorities are keeping an eye on upside risks for the inflation trend



Market expectation* for the development of the deposit rate in %



- Market sharply withdraw on expectations of ECB's policy lowering rates early in 2024
- DZ forecast has been more conservative due to geopolitical and inflationary developments and environment
- Forwards pricing in interest rate downward cycle to start by June'24 with est.-25bp and up to further -75bp by EoY 2024 (new baseline 3%)
- As of now, no material impact seen in rates, market depth and liquidity stemming from maturing TLTRO III's (i.e. December'23 repayment) and March'24 maturity.
- Money markets functioning very well over the short term yield curve.
- Large investor appetite in money market investment spectrum due to higher rates and staying clear in the shorter end before having clearer view outlook
- Very positive developments in traded volumes and market depth also seen throughout in European Repo Markets
- ECB deposit facility volume as of 23.Feb.24 at: +3.524Bln

Source: Bloomberg; DZ BANK forecast / *OIS from Jan 24 – Feb 24

We expect the central bank to look thoroughly through correlations

Mixed Money Market impacts from QT and rates effects (I/ II)



- Developments in the unsecured market and recent upward moves in €STR ?
 - Funding needs increasing across the curve, in some parts less liquidity placed in ON deposits though **not yet really seen in €STR Volumes**
 - Possible increased funding demand due to balance sheet reduction of ECB

- Any changes seen in €STR pricings due to lower excess liquidity developments ?
 - Not yet foreseen, as excess liquidity seems still abundant
 - Relative **stable €STR level** around +/- 2bp with a **mean value of €STR at 3.905% for 2024** or DFR-10bp reflecting excess liquidity
 - Current **Min.Res.Requ.(MRR)** of 1% at 0% manageable and **not yet fully distributed** to relevant **client pricing** (i.e.-5bp)
 - Though **change in MRR >1% will impact short term rates and €STR** to a far larger extent
 - If MRR changes, re-pricing on MRR liabilities expected impacting €STR
 - a.) rates
 - b.) traded volume and possible additional shift in repo markets (as not relevant for MRR calculations)

- Any indication of €STR being influenced by upward move in repo rates?
 - €STR as pricing benchmark (i.e.hedging) for repo markets
 - **Increased volume** of free floating **GC collateral** in context of decreasing TLTRO's **lead to increased repo funding volumes** and GC repo rates
 - Good liquidity and investment appetite by investors which do not access central bank, leaves profitability opportunities open

We expect the central bank to look thoroughly through correlations

Mixed Money Market impacts from QT and rates effects (II/ II)

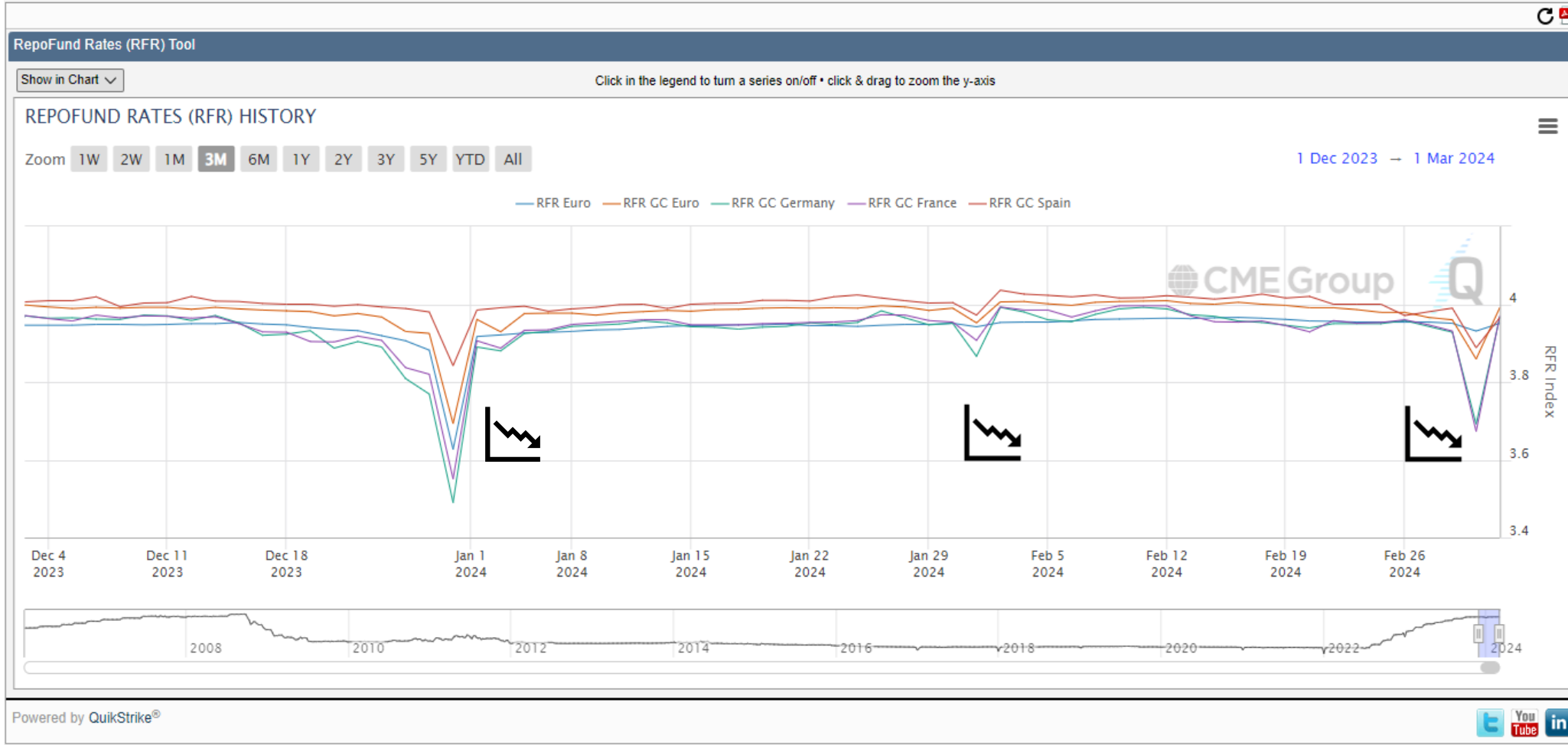


- Major participants in Money Markets ?
 - Specific Corporate clients and Financials driving €STR relevant volumes with a high proportion of transactions with institutions who do not have/use access to deposit facility
 - In addition our (DZ BANK Verbund Clients) to some extent in ON Deposits,
 - Excess liquidity still high but due to stronger expected regulation higher/increased demand for liquidity reserves held as buffer (i.e.: EurexClearing AG Change to min.40% Cash Collateral since Jan.2nd 2024 effective)
- DFR and €STR developments in context of lower excess liquidity levels due to QT ?
 - Yes, ESTR should move in direction of DFR once excess liquidity volume narrows and QT further tightens
 - Possible effects stemming from a potential “demand driven floor system by ECB” should add to above mentioned thesis, €STR moving towards DFR
 - Question could be, where upper and lower bound of new monetary policy framework will be seen and set in future ...
 - and bigger banks balance sheets lead to increasing demand for long term liquidity /assets
- €STR still relative stable due to i.e.:
 - Money Market in very good shape due to new and additional inflows of investors...
 - In specific since last year, as domestic reserve remuneration changed (i.e.Dt.Bundesbank) to 0%, and liquidity diverted into money markets and to good rated institutions.
 - Additionally, investors more sensitive to good short term rating and credit evaluations as awareness increased after SVB/USA, UBS/CSFB volatilities
- Majority of impacts in unsecured overnight market and its distribution between €STR-relevant MMSR flows seem mainly being based on i.e.:
 - Constant liquidity inflows from corporate treasuries
 - Financials and probably savings and co-operative client flows

CMG RepoFundsRate vs. ESTR Spread



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- End of Year'24:
 - ESTR: 3.882%
 - German GC -41bp
 - Spain GC -4bp
 - France GC -33bp

- Eo January'24:
 - ESTR: 3.894%
 - German GC -3bp
 - Spain GC +2bp
 - France GC -1bp

- Eo February'24:
 - ESTR: 3.887%
 - German GC -20bp
 - Spain GC flat
 - France GC -22bp

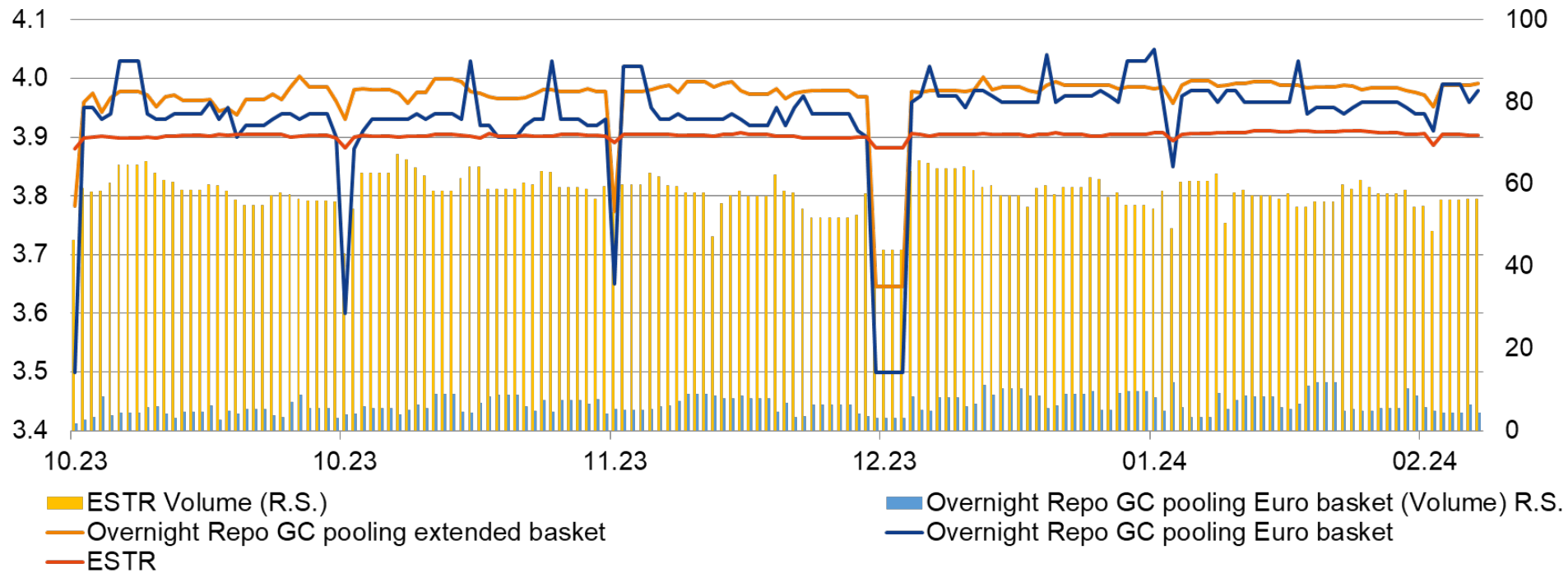
- Eo Feb': MRR 56days
 - April: MMR 42days
 - May: MRR 56days

Overview EURO GCPooling Baskets vs. ESTR Spread & Volumes

Spread difference peaks on month ends though less significant in 2024 vs.2023



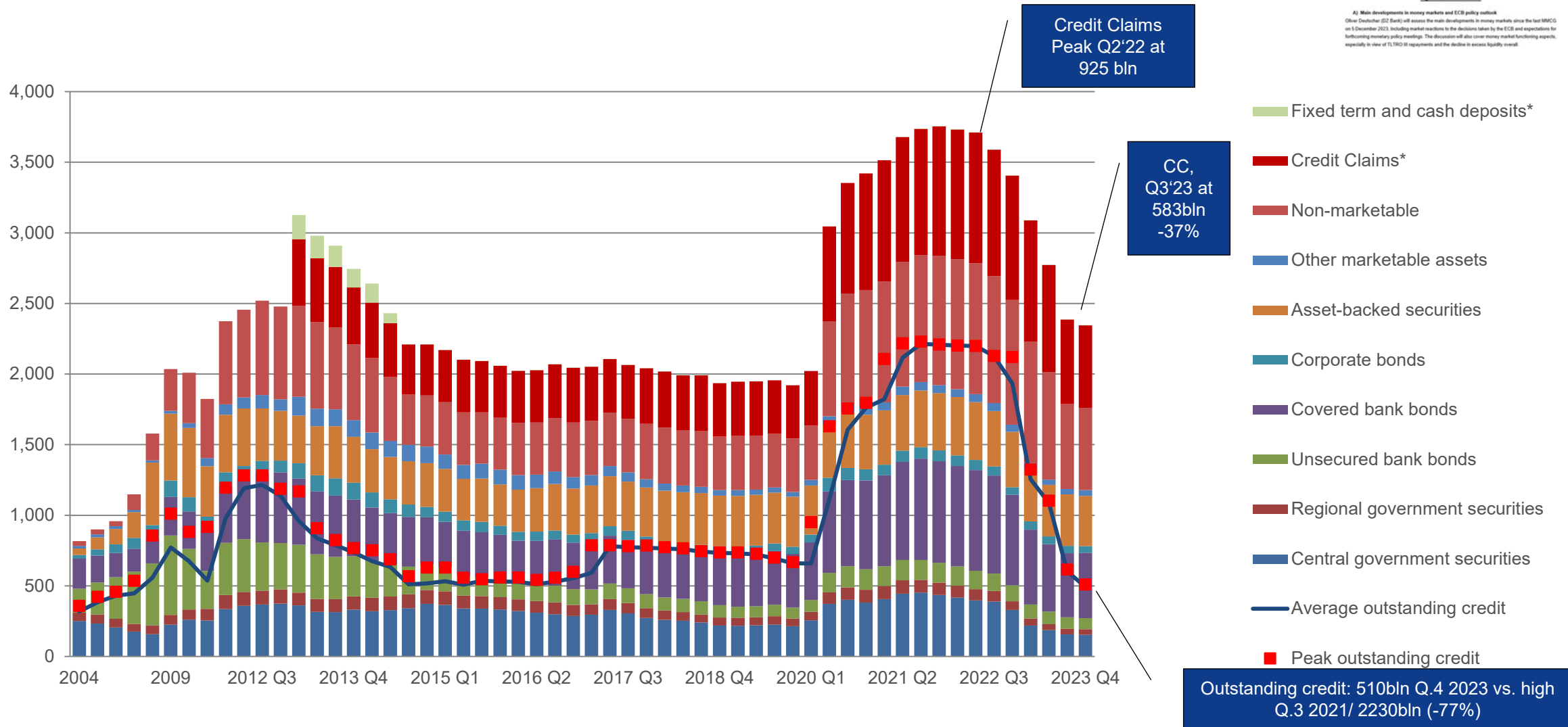
Left scale (%) / Right Scale in Billions (EUR)



Source: Bloomberg, DZ BANK

Annex:

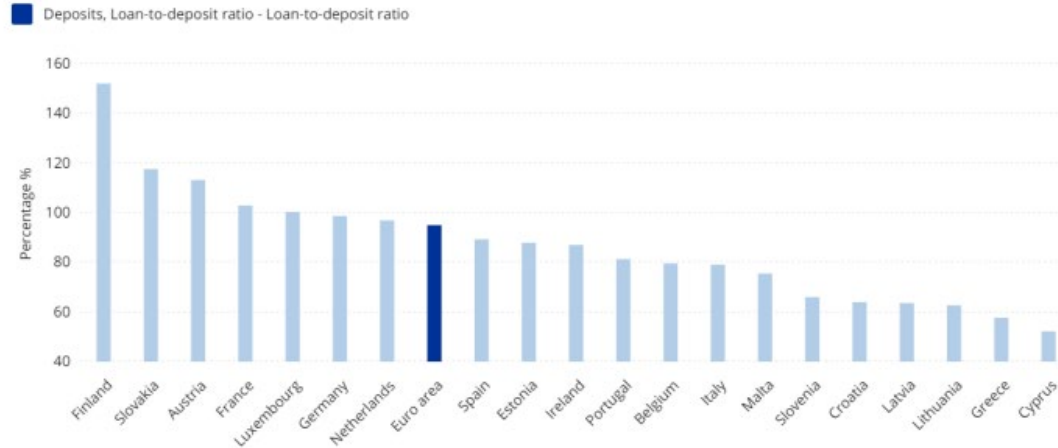
Use of marketable and non-marketable collateral



Loan-to-deposit ratio distribution within Eurozone countries Q.3 2023



ECB Data Portal, 4 March 2024, 15:16 CET



Source: ESCB

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<https://data.ecb.europa.eu>

- Eurozone Average at 95%
 - Highest Finland: 152,1%
 - Lowest Cyprus: 52,2%
- and i.e. as:
- Germany: 98,7% => temporary increases reflecting Corona-crisis
 - France: 102,9%
 - Italy: 79,1% => fairly stable on average even through and post Corona-crises

Q3 2023, Provisional value
98.6725 Percent

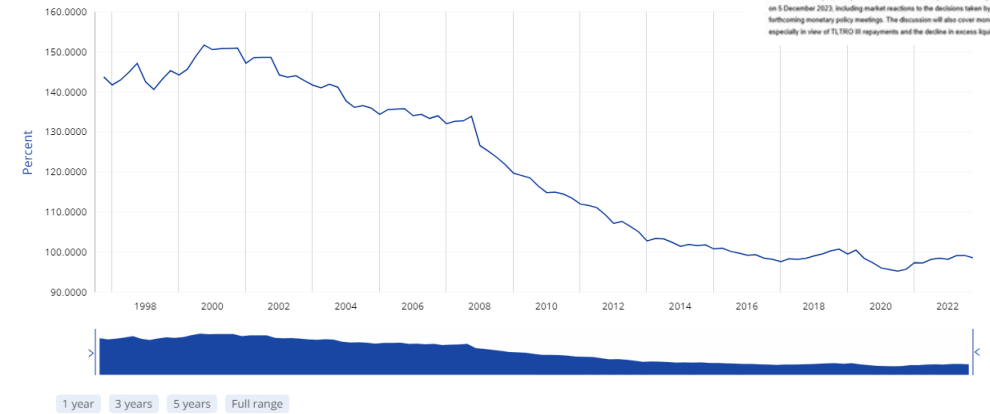
Germany

Start date

30 Sep 1997

End date

30 Sep 2023



1 year 3 years 5 years Full range

Q3 2023, Provisional value
79.0797 Percent

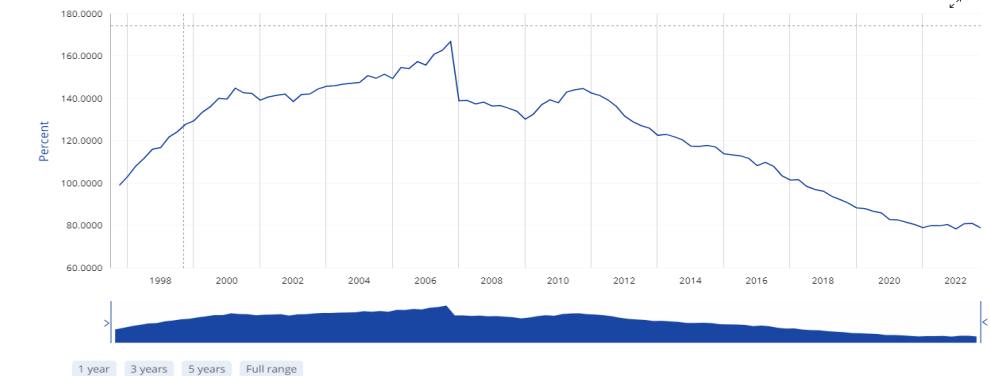
Italy

Start date

30 Sep 1997

End date

30 Sep 2023



1 year 3 years 5 years Full range

EUROPEAN CENTRAL BANK
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DG MARKET OPERATIONS
28 February 2024

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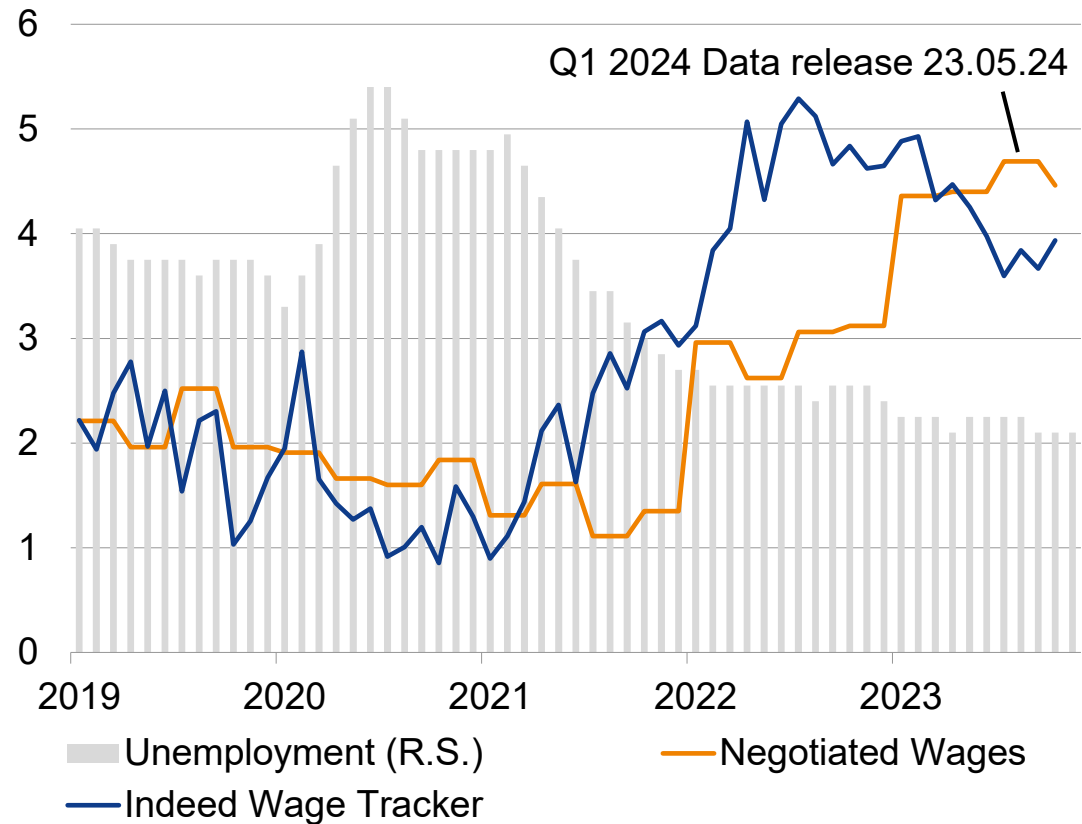
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Central bank members pay more attention to wage trends

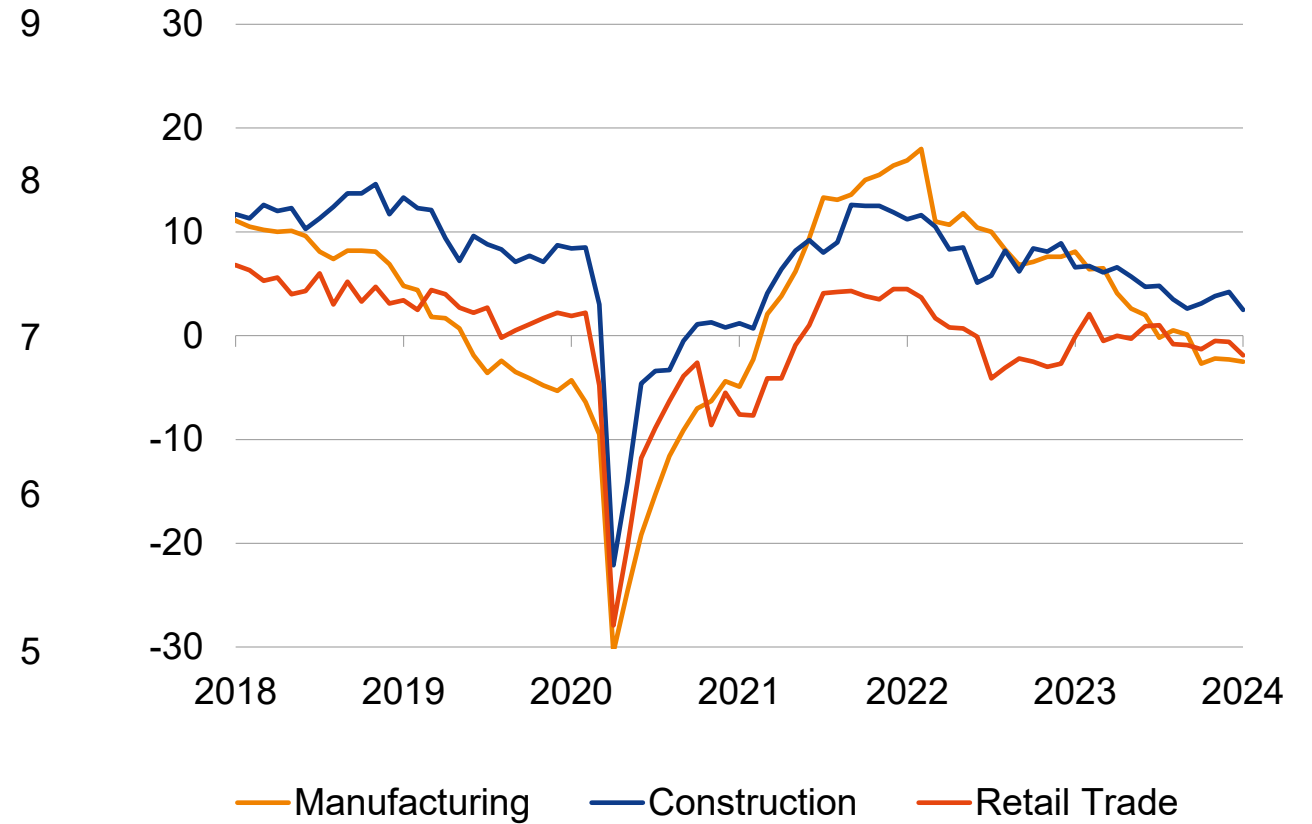


Wage pressure should at least not accelerate any further

In percent



Employment expectations over the next 3 months*



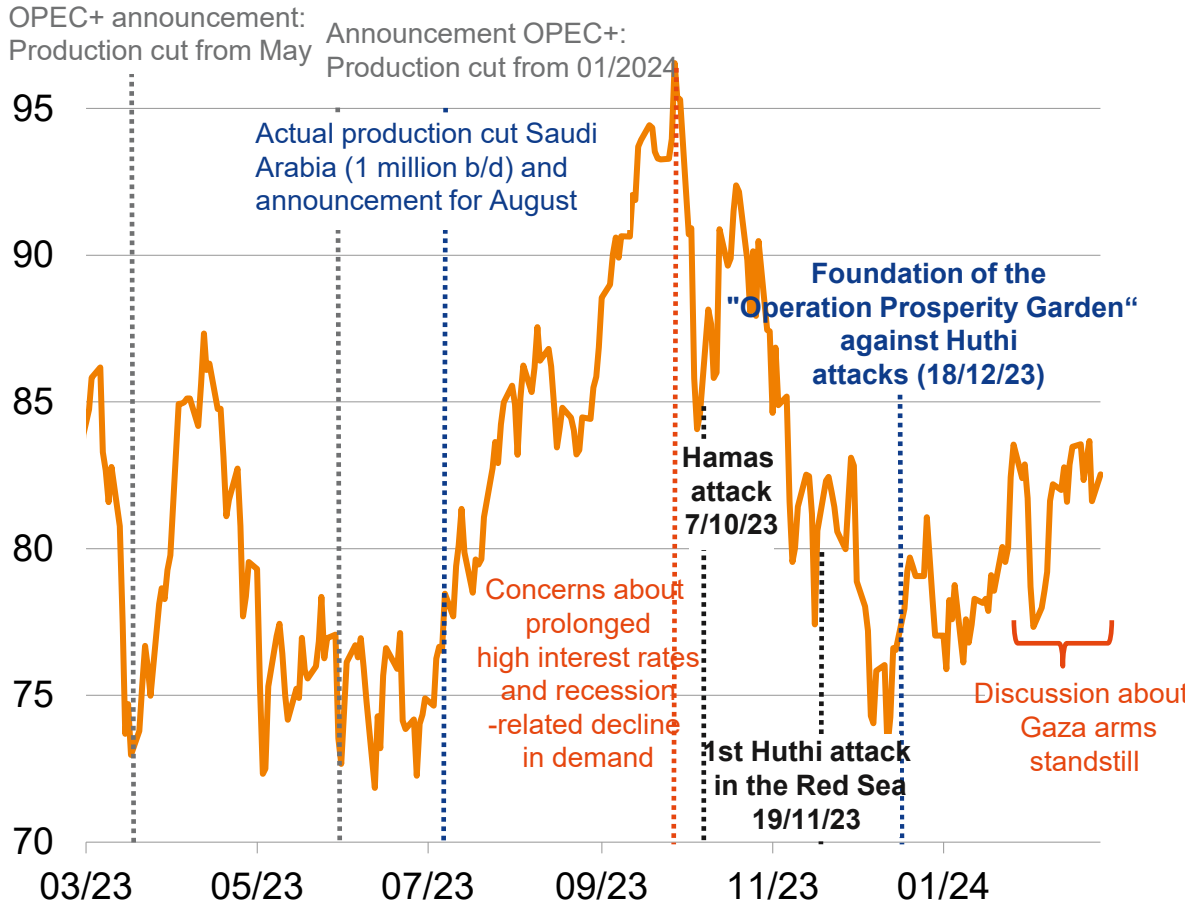
Source: Bloomberg; DZ BANK

Geopolitical risks: Conflict in the Middle East harbours risks

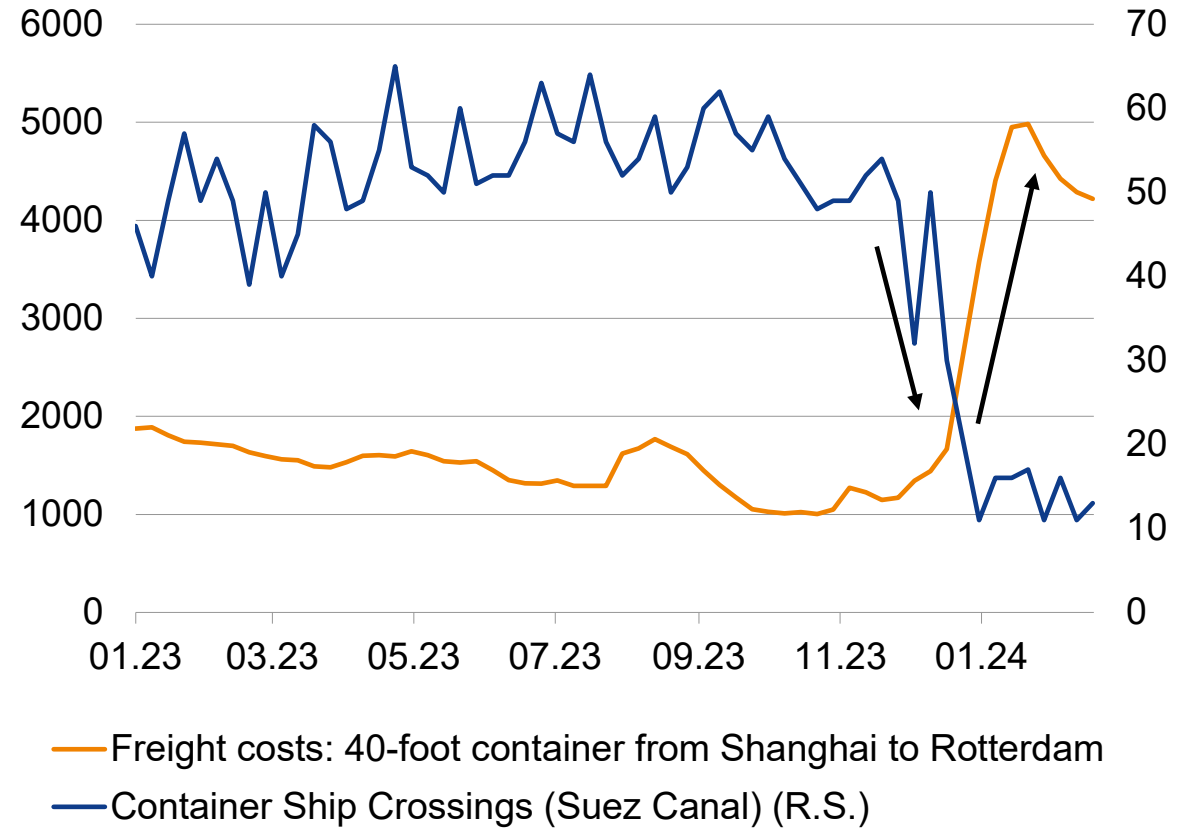


Oil price development with potential upside risks

Oil price development and key drivers (Brent, USD/barrel)



In US-Dollar / Number of Ships (R.S.)



Source: Bloomberg; DZ BANK