

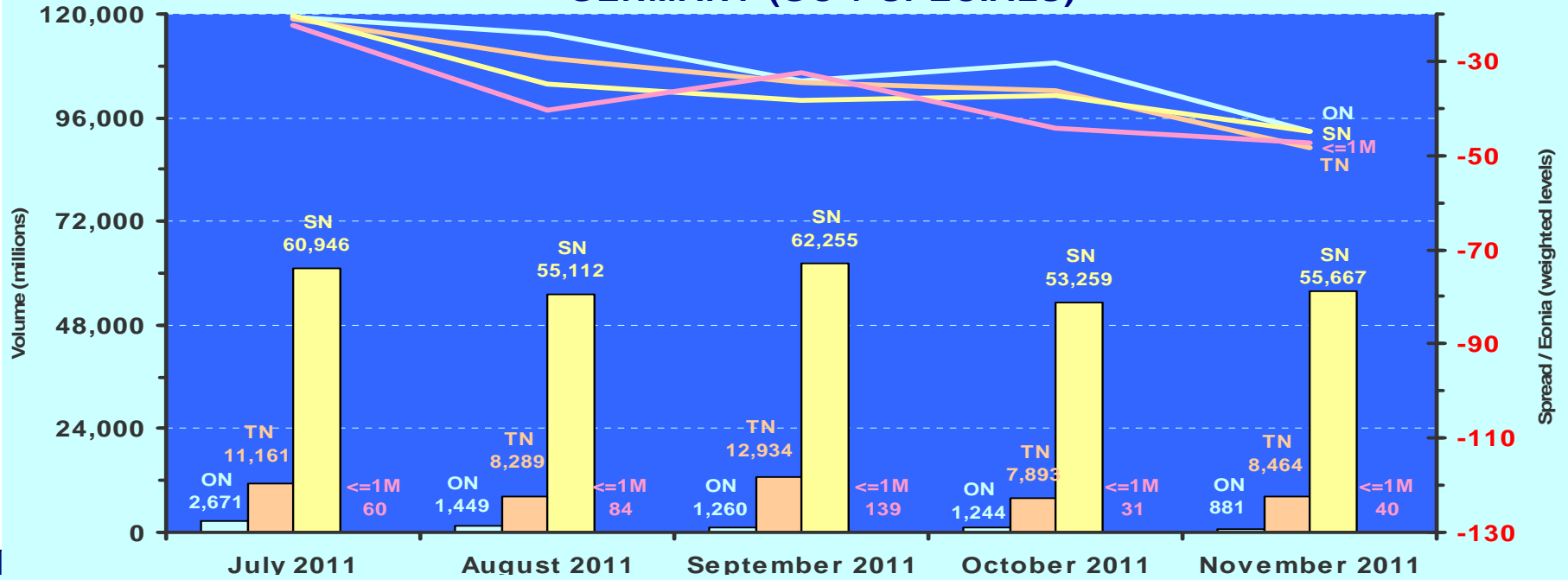
An update on the latest developments in the repo markets

**Money Market Contact Group
Frankfurt, 14 December 2011**

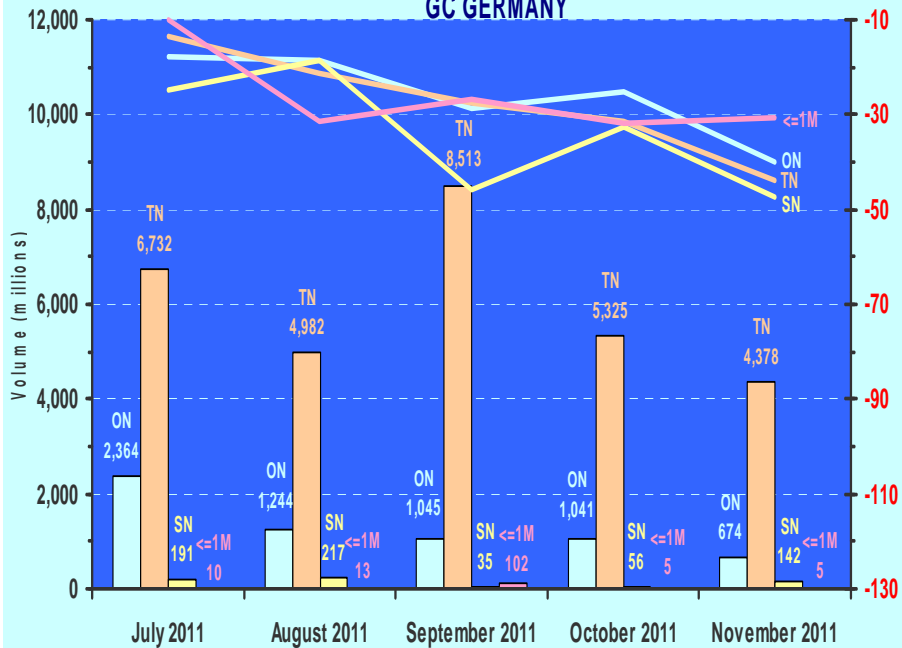
Outline

- **Volume and spread developments**
(Franck Carminati)
- Zoom on the Italian repo market
(Mirco Brisighelli)
- Client behaviour and FSA eligible collateral
(Colin Bermingham)
- Collateral baskets and the idea of creating a O/N repo fixing
(Andreas Biewald)

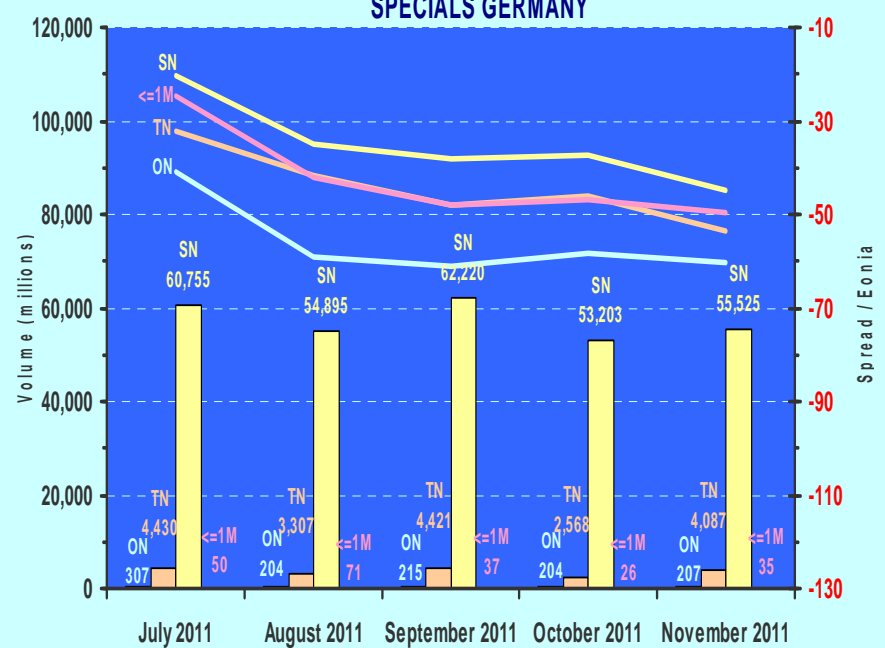
GERMANY (GC + SPECIALS)



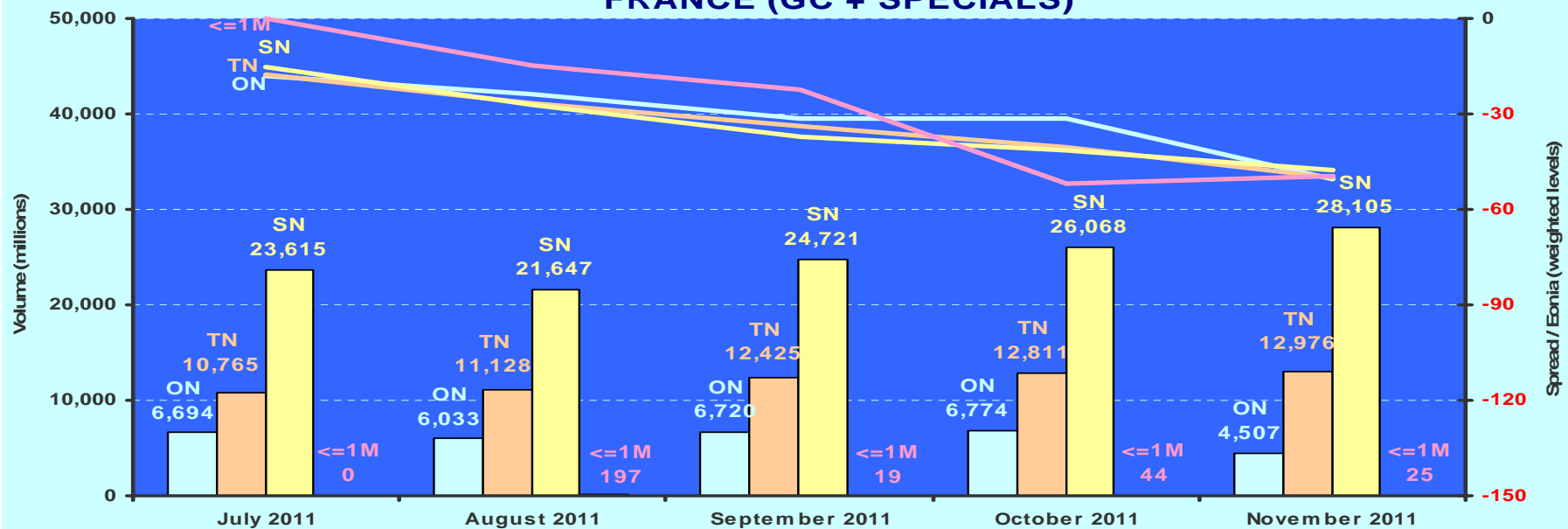
GC GERMANY



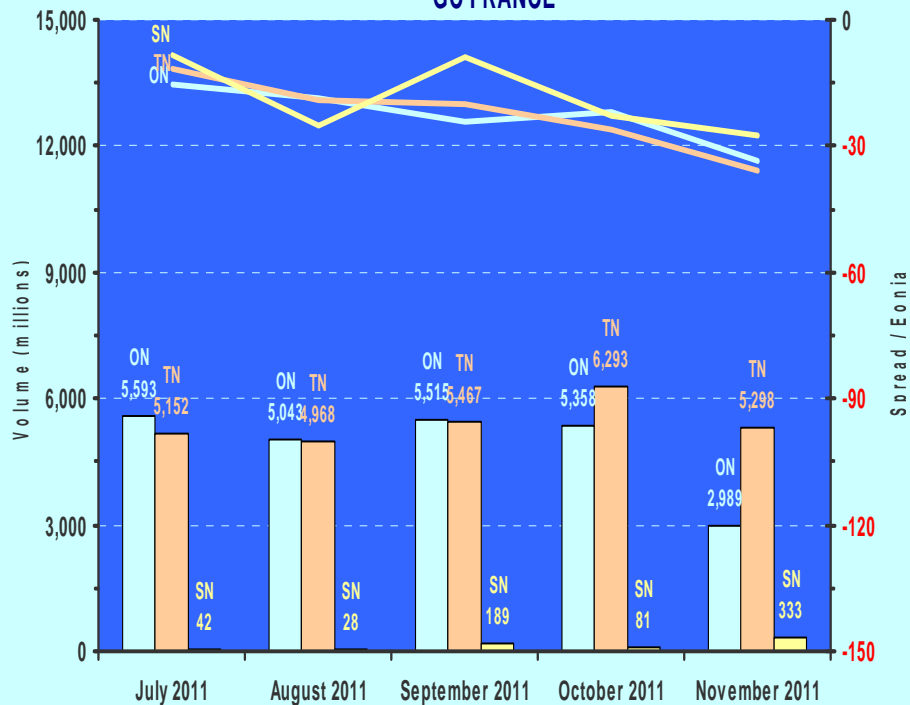
SPECIALS GERMANY



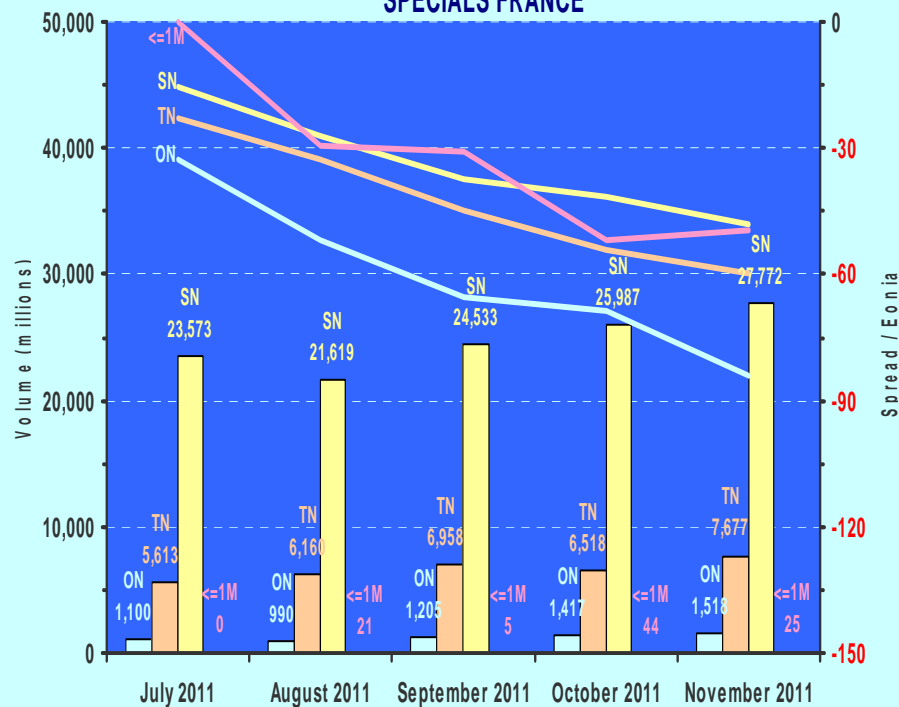
FRANCE (GC + SPECIALS)



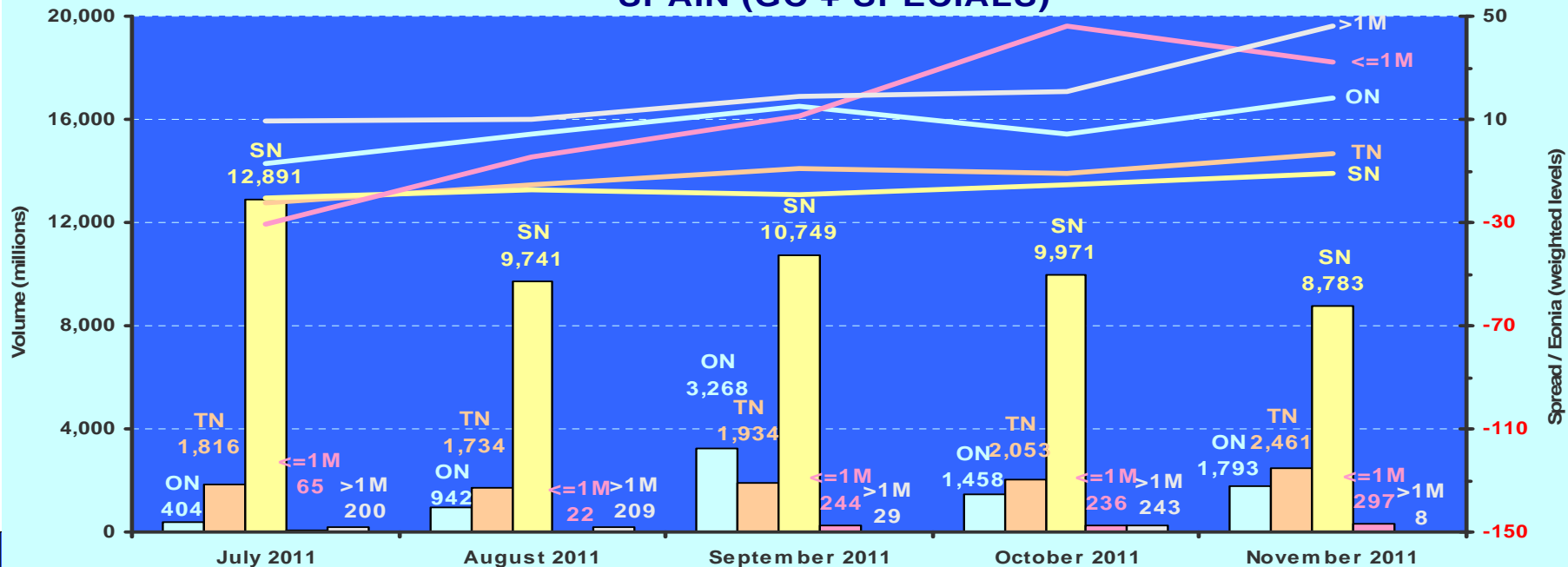
GC FRANCE



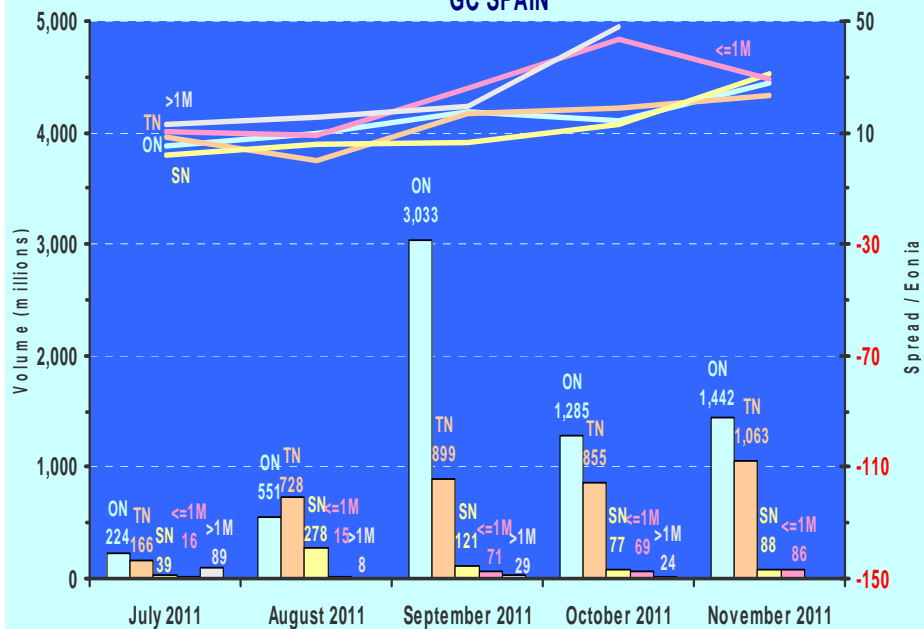
SPECIALS FRANCE



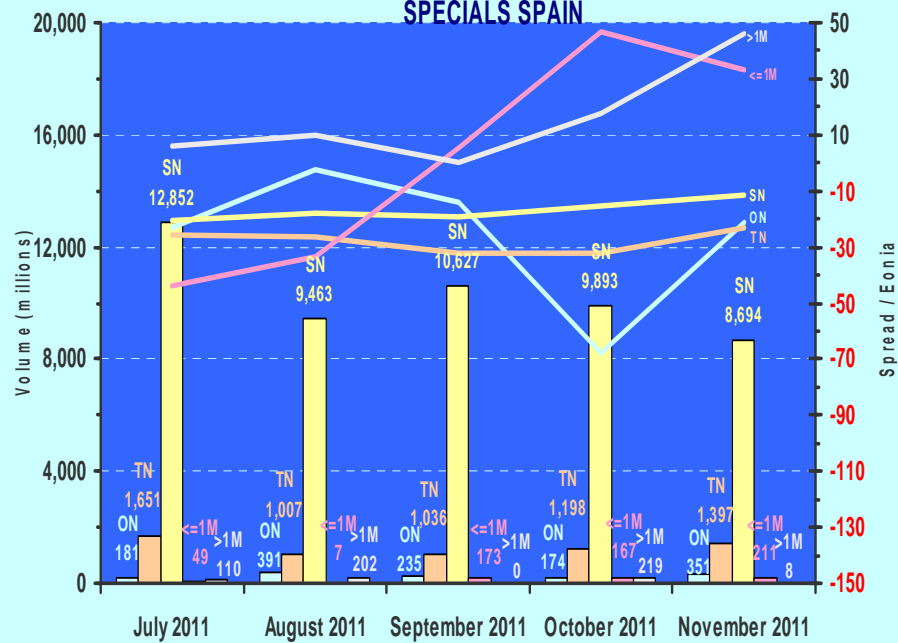
SPAIN (GC + SPECIALS)



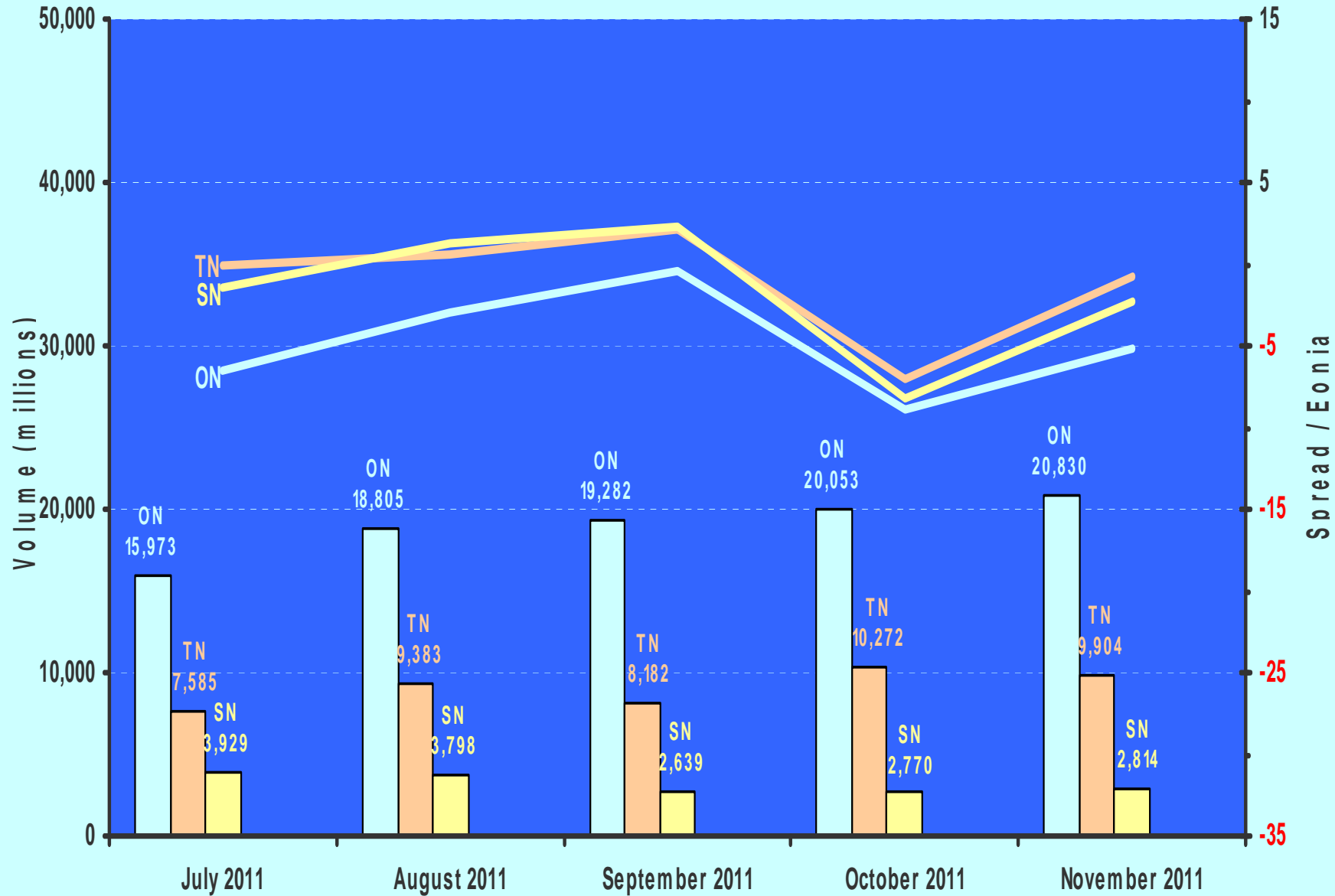
GC SPAIN



SPECIALS SPAIN



GC POOLING



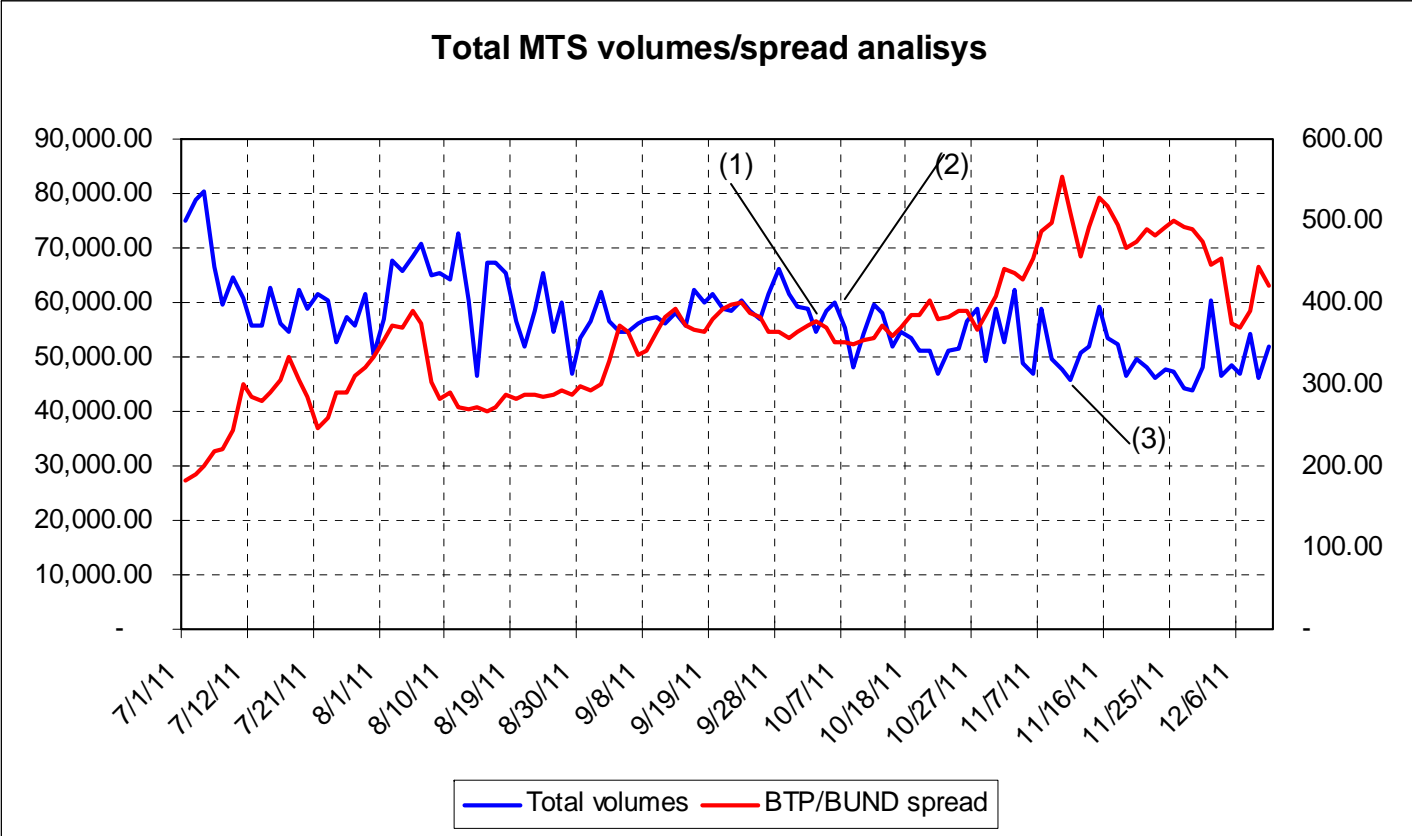
Main findings (July / Nov 2011 period)

- **Different domestic markets: DE, NL, AT GC liquidity essentially T/N - but FR, IT, ES and BE GC liquidity lies in O/N & T/N**
- **Increasing segmentation of collateral funding spreads lead core countries to richen and peripherals to cheapen**
- **Decreasing CCPs volumes on Italian GC**
- **GC Pooling volumes are growing at a steady pace**

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MMF Repo market analysis: Volumes and impacting factors at glance

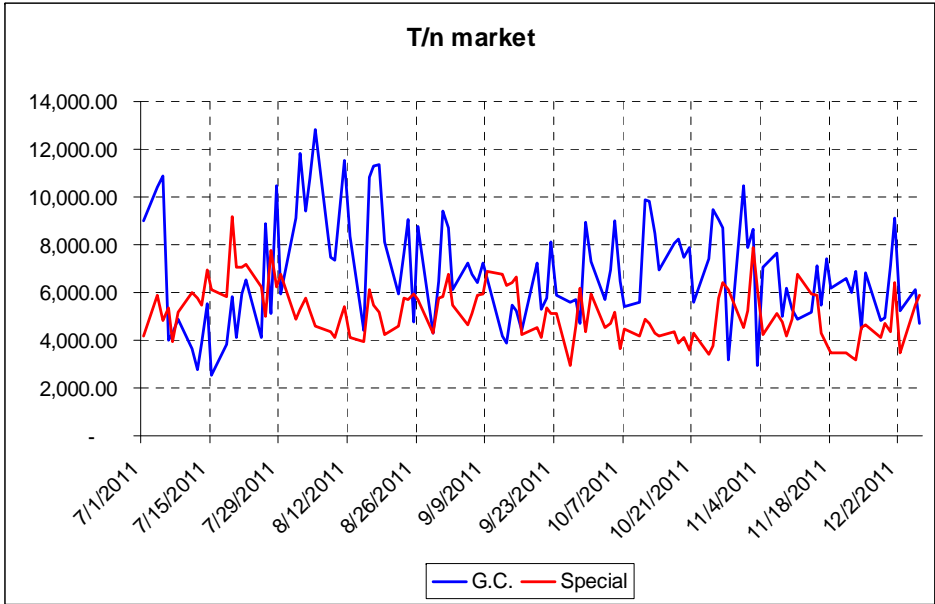
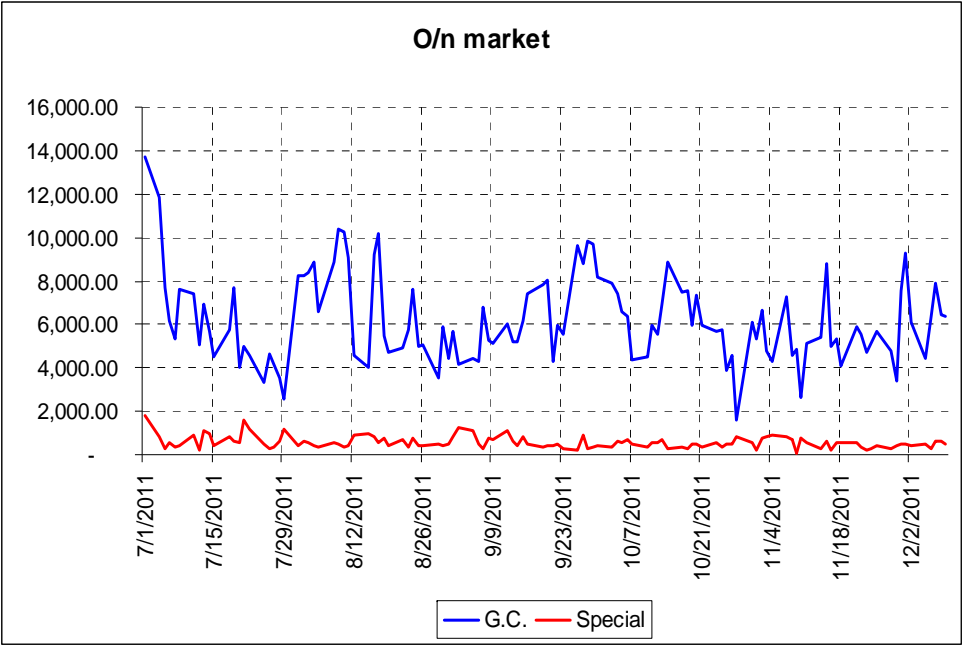


(1) 4/10/11: Moody's downgrade to A2

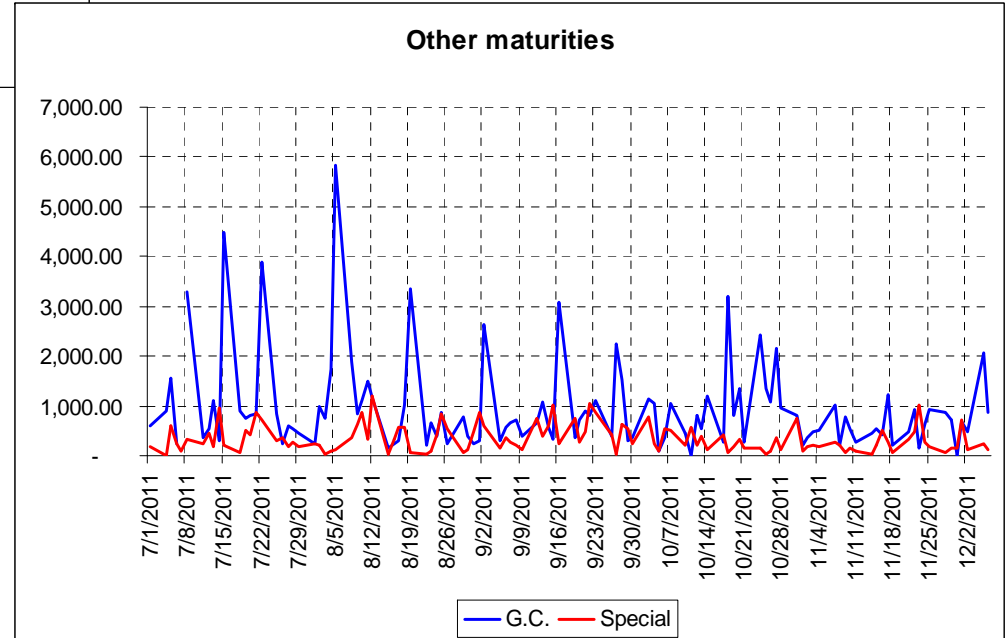
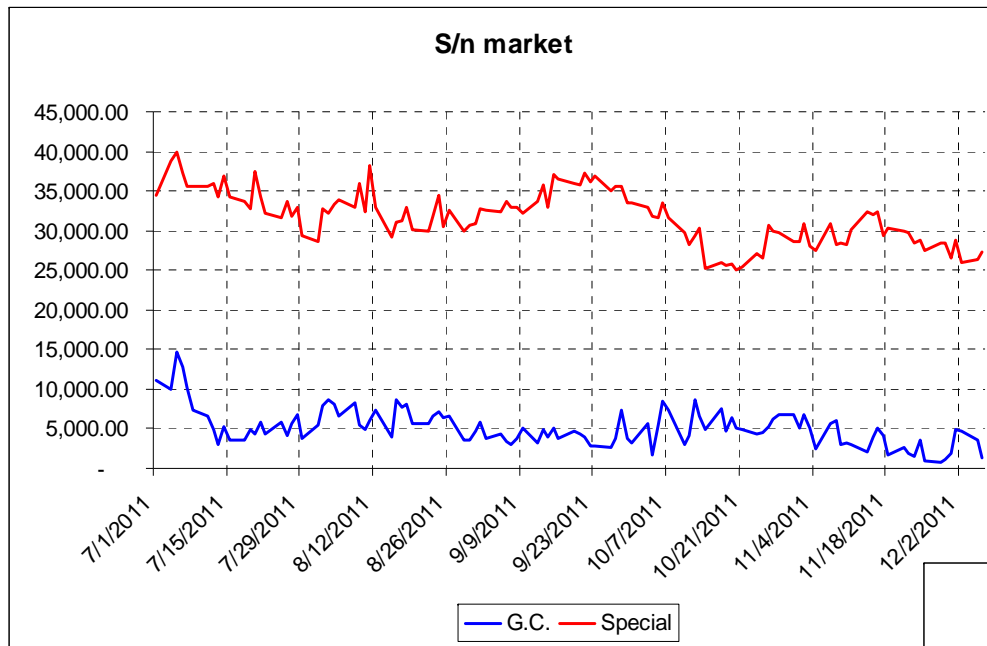
(2) 7/10/11: Fitch downgrade to A+

(3) 10/11/11: LCH add on on margin parameters

Market evolution by trading buckets (I)



Market evolution by trading buckets (II)



LCH/CCG Deposit Factors applied on MMF Repo “Italy segment”

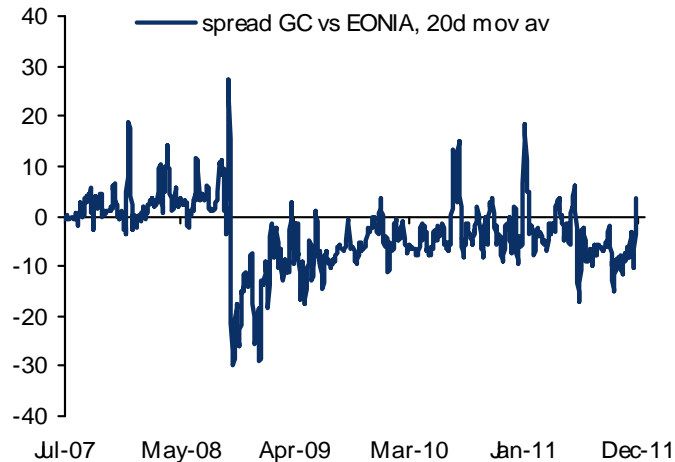
Classes Italy	Duration	Duration Class Parameter		
		10-Oct	10-Nov	8-Dec
OO1	0 - 1 M	0.70%	4.20%	0.70%
OO2	1 - 3 M	1.00%	4.50%	1.10%
OO3	3 - 9 M	2.40%	6.40%	3.10%
OO4	0.75-1.25 Y	2.45%	6.45%	3.60%
OO5	1.25-2 Y	2.50%	6.50%	3.80%
OO6	2-3.25 Y	3.15%	7.15%	4.70%
OO7	3.25-4.75 Y	4.20%	8.70%	6.35%
OO8	4.75-7 Y	4.95%	9.45%	7.60%
OO9	7 - 10 Y	6.65%	11.65%	8.15%
O10	10 - 15 Y	6.80%	11.80%	10.75%
O11	15 - 30 Y	15%	20%	17.80%
O12	Inflation linked	9%	14%	13.85%

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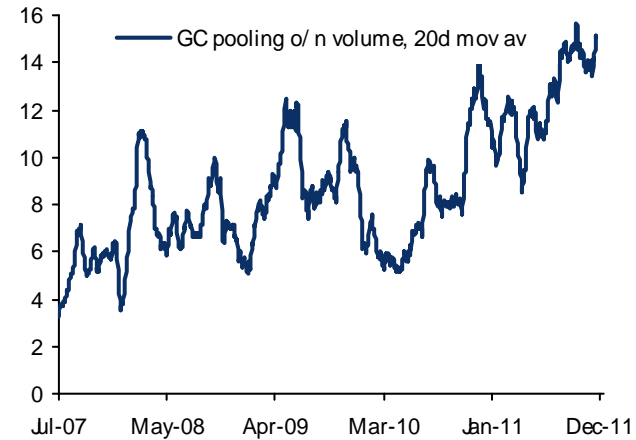
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There is a flow of cash from clients chasing higher rated paper

GC pooling (classic) – O/N rate vs EONIA, (bp).

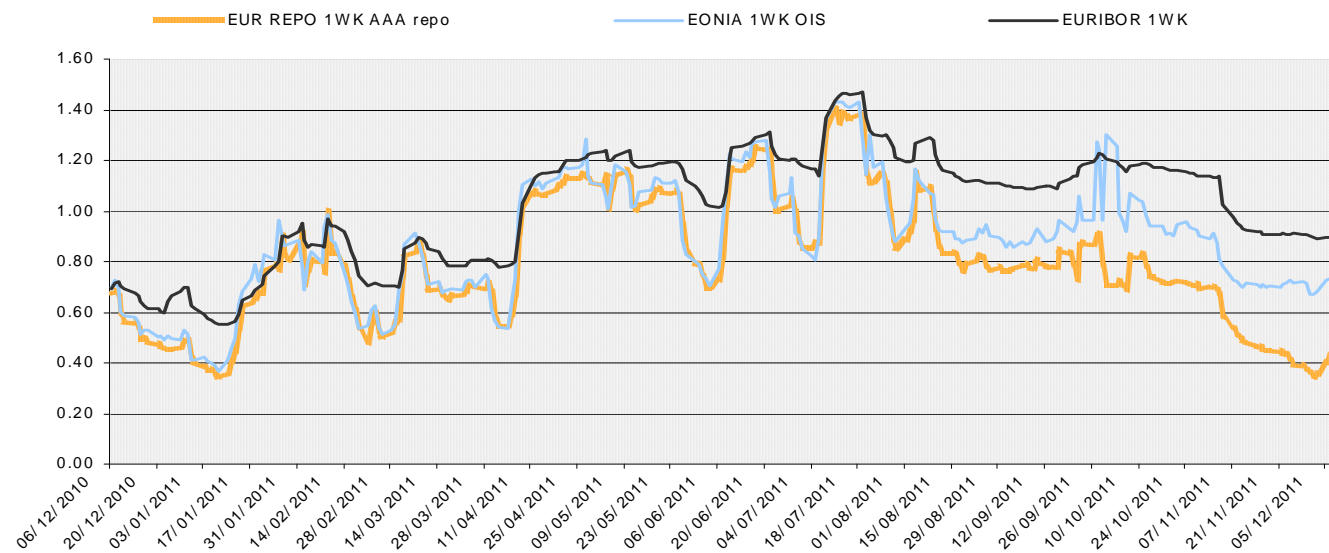


GC pooling (classic), Volume, €bn



GC (classic) pooling has recently cheapened vs Eonia – banks are putting more BTPs into the basket. Perhaps this coincides with increased LCH haircuts on BTPs?

Cash providers are demanding a higher rate.

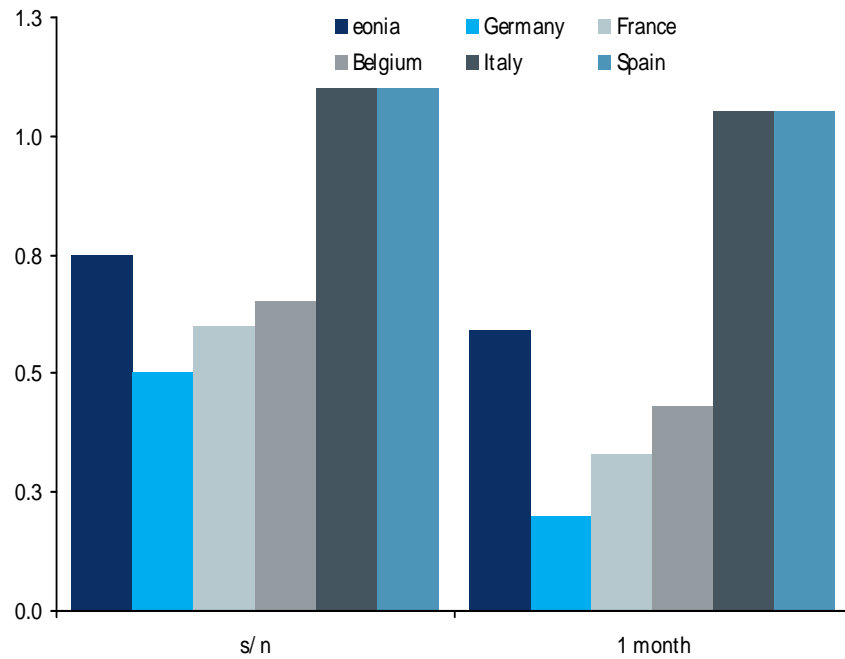


Demand for AAA paper.

Source: EUREX, EBF, Barcap.

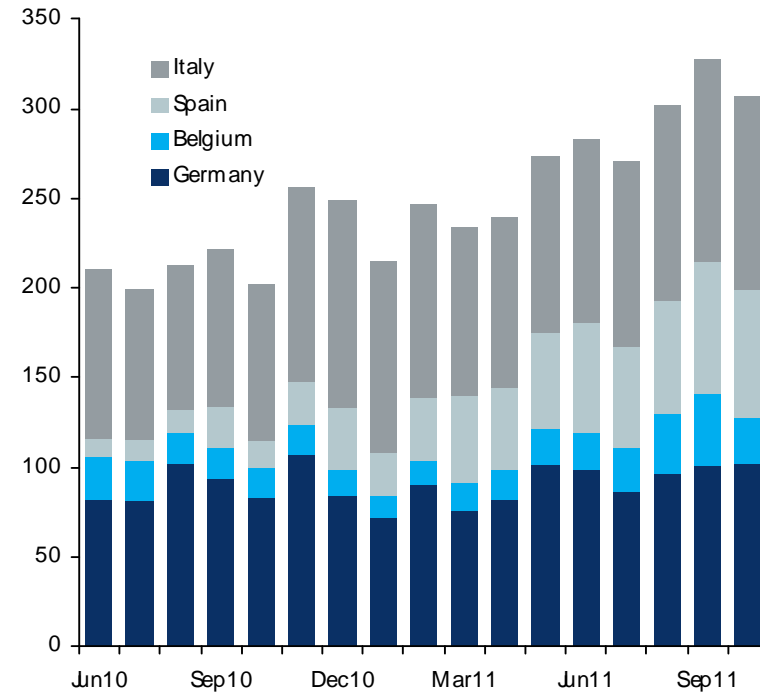
A wide selection of rates

GC repo rates by country (%)



Source: Barcap.

CCP repos outstandings by domestic banks



Source: ECB

Spain, big driver of increase in CCP volume.

A snapshot of the market: Prices on 6th December 2011

EU Government bonds eligible as FSA liquidity buffer.

Country	1 - week
Germ any	0.45
France	0.55
Netherl and s	0.49
A ustria	0.50
Finl and	0.50
Luxem bourg	n / a
Italy	0.85
Belgium	0.57
Spain	0.75
Ireland	special ⁽¹⁾
Portugal	special ⁽²⁾
Greece	special ⁽³⁾
M alta	special
Slovak Republic	0.85
Slovenia	0.80
Estonia	special
Cyprus	special
FSA eligible EU sovereign	0.00
AAA EU sovereign	0.00
Basket	O / N
GC Pooling @ ECB	0.72
GC Pooling @ EX Tended	0.79
ECB secured	
M RO	1.25
M arginal Lending Facility	2.00
ECB unsecured	
SM P sterilisation	0.65
Deposit Facility	0.50

FSA eligible	rate	AAA basket	rate
AA -/ Aa3 and above			
Germ any	0.45	Germ any	0.45
France	0.55	France	0.55
Netherl and s	0.49	Netherl and s	0.49
A ustria	0.50	A ustria	0.50
Finl and	0.50	Finl and	0.50
Luxem bourg	0.00	Luxem bourg	0.00
Belgium	0.57		
Spain	0.75		
Slovenia	0.80		
Estonia	special		

Shrinking basket of FSA eligible assets?

(1) Heard trade at m inus 5%.

(2) Heard trade from m inus 1.5% to plus 1.25%

(3) Only trades T/N & S/N , deep negative rates.

Credit ratings — S&P put 15 countries on credit watch negative, implying 50% chance of a downgrade.

Country	S&P	move	Fitch	Moody's	FSA eligible.
Germany	AAA	1	AAA	Aaa	Germany
France	AAA	2	AAA	Aaa	France
Netherlands	AAA	1	AAA	Aaa	Netherlands
Austria	AAA	1	AAA	Aaa	Austria
Finland	AAA	1	AAA	Aaa	Finland
Luxembourg	AAA	1	AAA	Aaa	Luxembourg
Italy	A	2	A+ (-ve @ 07 Oct 11)	A2 (-ve @ 03 Oct 11)	
Belgium	AA	1	AA+ (-ve @ 23 May 11, affirmed 20 Oct 11)	Aa1 (-ve review @ 07 Oct 11)	Belgium
Spain	AA-	2	AA- (-ve @ 07Oct11)	A1 (-ve @ 18 Oct 11)	Spain
Ireland	BBB+	2	BBB+ (-ve @ 14Apr11)	Ba1 (-ve @ 12 Jul 11)	at minimum rating
Portugal	BBB-	2	BB+ (-ve @ 24Nov11)	Ba2 (-ve @ 6 Jul 11)	
Greece	CC	N/ A	CCC	Ca (Develop)	
Malta	A	2	A+	A2 (-ve @ 6 Sep 11)	
Slovak Republic	A+	2	A+	A1	
Slovenia	AA-	2	AA- (-ve @ 28Sep11)	Aa3 (-ve review @ 23Sep11)	Slovenia
Estonia	AA-	2	A+	A1	at mimimum rating
Cyprus	BBB	2	BBB (-ve @ 10Aug11)	Baa3 (-ve review @ 4Nov11)	Estonia

Source: Standard & Poor's, Moody's, Fitch.

- There are some money market funds that are AAA constrained, but not a majority.
- Generalized downgrades of AAA issuers could have an impact on GC repos for such issuers: the big differences currently, though, are between AAA and non-AAA countries.
- There are probably some investors (official institutions, pension funds) which may have more specific rating constraints- while not the majority, it is impossible to know how extensive their holdings of euro bonds.
- The alternative would be, of course, that non-euro investors in particular sell down some of their euro holdings and move into other currencies. However, there are few currencies where there are large pools of safe AAA assets available.

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Issues for discussion

- Eonia/GCPI swaps.
- Basel III liquidity buffer baskets.
- How to tie up the UK and European liquidity baskets – creating one standard.

- Interoperability among different CCP on the same repo market
- Impact of severe margin calls on the market
- Shift of marketable assets towards ECB MPO

- Views on the wish to introduce a harmonised “Basel III Liquid Assets” collateral basket
- Feedback on the idea to introduce a EUR O/N repo fixing and its likely design.
- Scope for a wider use of such a fixing