

Money Market Contact Group

Teleconference held on Thursday, 25 September 2008 at 14:00

The ad-hoc teleconference was launched in order to receive banks' feedback on ECB operations and on general market developments.

The main points mentioned by the members of the group were as follows:

- Banks expressed a lot of concerns about funding conditions in the money markets, both unsecured, but also secured. (The very negative experience after the Lehman failure, where banks had to liquidate collateral received in bilateral or tri-party repo operations with Lehman, has also had a significant adverse impact on the functioning of the repo markets.)
- Liquidity is only provided for the shortest maturities - this is true for the interbank market, but also for the institutional non-bank money market (i.e. money market funds; pension funds; insurance companies both from the US and from Europe).
- Banks welcomed very much the central banks' co-ordinated efforts to stabilise market conditions - without those the market might have collapsed.
- However, they deem that the current measures might still not be enough and came up with a number of additional suggestions:
 - o Lower the rate of the deposit facility and let the O/N trade far below the minimum bid rate in order to provide an incentive for money market participants to lend term liquidity;
 - o Conduct fixed rate tenders (possibly with full allotment) to bring the 1-week rate back to the policy rate (MROs) and/or to ease the significant concerns about the upcoming year-end (LTROs);
 - o Conduct daily 1-week USD operations (as the daily USD O/N operations apparently have only limited impact on the FX swap market) and/or intervene directly in the FX swap market.
- There was also some criticism as regards the relative sizes of the USD O/N operations conducted by the various European central banks.
- There seems to be a link between the difficulties in the money markets and the uncertainty as regards the (details of the) US TARP.
- Ideally, this plan of the US government could lead to a clearer view about the value of certain assets -> this could lead to a better functioning of the credit markets -> this could help the repo markets based on these assets -> this could support overall money market liquidity.
- While many shared the hope that the TARP could improve the situation over the medium term, there was clearly a lot of concern as regards the near term.