



EUROPEAN CENTRAL BANK
EUROSYSTEM

DG MARKET OPERATIONS

30 October 2008

Money Market Contact Group

Teleconference held on Wednesday, 29 October 2008 at 16:30

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

In reply to the Chairman's question why money market conditions had not improved more significantly following the various measures decided by the ECB and many European governments, the members mentioned the following main points:

- The various measures were generally perceived as being good and necessary and with their implementation the conditions for a sustainable improvement should now be in place.
- However, there was widespread consensus that more time would be needed for this improvement to become more significant than what can currently be observed. This assessment was explained by a number of reasons: (i) not all decided measures are implemented already; (ii) more time is needed to assess all the details of the various measures that have been announced; (iii) equity and credit markets still display very high volatility; and (iv) the upcoming year-end starts to weigh on markets.
- In addition, members mentioned that there had also been some further negative developments recently (notably in some emerging markets) and that the situation of institutional money market investors, in particular money market funds, had not really improved, as they were still facing the threat of large investor redemptions. Indeed, as long as these funds cannot exclude significant short-term outflows with some certainty they are likely to continue to invest only in the shortest maturities. Some members mentioned in this respect that state guarantees to bank deposits had actually been detrimental for the situation of money market funds.
- Still related to the situation of institutional money market investors, some members also mentioned that the creation of the commercial paper funding facility (CPFF) in the US had contributed to a significant increase in the issuance of 90 day CPs in the States, and that the establishment of a similar vehicle should maybe also be considered in the euro area / the EU.

There was also some more ECB-specific feedback

- Some banks expressed the view that the narrowing of the corridor of the ECB's standing facilities, in particular the lifting of the rate of the deposit facility, was somewhat counter-productive, as it reduced the incentive for banks to place surplus funds in the market. Some other banks were however of the view, that even somewhat higher opportunity costs (i.e. a lower level of the deposit facility) would not significantly reduce the currently extremely high use of this facility.
- The bid/allotment amount in the first fixed rate / full allotment LTRO (EUR 103 billion) was seen as rather high, especially given the prevailing interest rate cut expectations. It was not excluded that bid amounts in coming operations might be even higher.