

## Box 8

## MAIN FINDINGS OF THE EURO MONEY MARKET SURVEY 2009

On 24 September 2009, the ECB published the results of the Euro Money Market Survey 2009, which were based on data collected from banks in 27 European countries and covered developments in various segments of the euro money market in the second quarter of 2009. This box reports on the survey's main findings.

This year's survey revealed that some major shifts took place in the euro money market between the second quarters of 2008 and 2009. The demise of Lehman Brothers in September 2008 and the introduction of enhanced credit support measures by the ECB as from October 2008 could be seen as main triggers for those changes.

The overall turnover in the euro money market contracted in the second quarter of 2009, extending the decline observed in the second quarter of the previous year. The turnover in the unsecured segment decreased by 25%, with more severe declines reported for longer maturities. This could be partly attributed to heightened concerns about the creditworthiness of counterparties in the interbank market in the aftermath of the Lehman default, since several counterparties reported a shift from unsecured to secured transactions. However, abundant liquidity resulting from the unprecedented central bank measures implemented since autumn 2008 and, in particular, the large liquidity provision in the one-year full allotment tender on 24 June 2009 could, to some extent, also have contributed to a lower turnover in the interbank market (see Chart 3.3). In line with quantitative findings, the qualitative assessment of the unsecured market by the participating banks also showed deficiencies in the functioning of this market segment both in terms of efficiency and liquidity conditions.

Secured (repo) market turnover went up by 5%, in contrast to last year's contraction of around 12%. However, several indications continued to point to higher counterparty credit risk concerns also in the secured market segment:

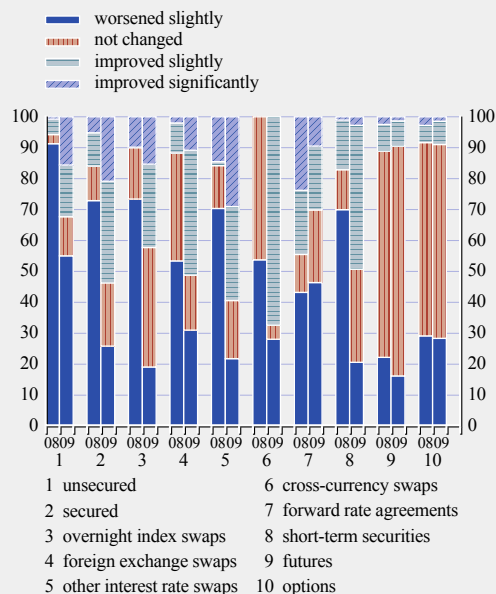
- (a) The share of overnight and open repos in total turnover continued to increase in 2009 and accounted for 27% of secured trades, the largest proportion since 2003.
- (b) Although no historical comparison is possible for the turnover in secured transactions settled through central clearing counterparties (CCPs) – as the ECB has started to collect such data only in 2009 – such transactions accounted for 39% of total secured market turnover. The attractiveness of CCP repo stems from the resulting balance sheet efficiency in terms of regulatory capital use and reduced counterparty risk.
- (c) Both in the unsecured and in the secured market segments, banks continued to show a greater preference for trading with their national counterparties and tended to favour more discreet trading methods, such as direct and voice-brokered trading.
- (d) The market share of the top 20 banks tended to increase in most euro money market segments. The unsecured market remained the least concentrated segment, followed by the OIS and secured market segments.

In the OTC derivatives markets, similar to last year's developments, the turnover of forward rate agreements continued to increase, benefiting from a decline in the overnight index swaps (OISs), as banks were increasingly using forward rate agreements for hedging against interest rate risk. Moreover, the high volatility of the EONIA and uncertainty among market participants about the amount of liquidity that would be demanded in the one-year ECB tender in June 2009 may have led to a deterioration of liquidity in the OIS market in the second quarter of 2009.

Overall, the results of the Euro Money Market Survey 2009 pointed to a continued contraction in euro money market activity in the second quarter of 2009, as compared with the second quarter of 2008, although there were some tentative signs of stabilisation in some market segments. The qualitative part of the study showed that, in a number of market segments, the majority of respondents reported some stabilisation, albeit at very low levels, and even some improvement in market liquidity conditions following the unprecedented deterioration recorded in the second quarter of 2008 (see the chart). Yet, banks' assessments remained mixed and a significant number of respondents reported a further deterioration in all segments of the euro money market also in the second quarter 2009.

#### Has market liquidity in the euro money market changed with respect to last year?

(percentage share of the total turnover of respondents who answered the respective question)



Source: ECB.