



Post-trade made easy

Recent developments in Money Markets

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November 6th, 2017

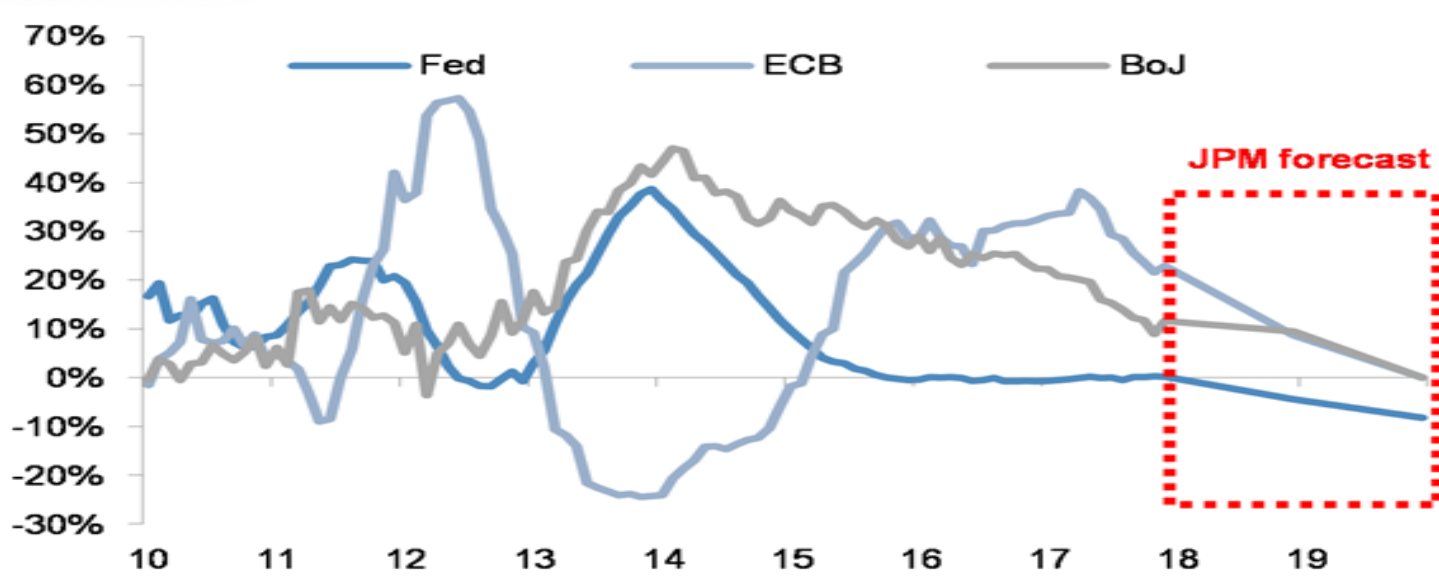


Main drivers of Money Markets today (1/3)

Monetary policy developments (1/2)

- Global reflation trade making a comeback in the main markets triggering policy normalization.....
 - Extra ordinary measures being scaled back
 - Target Rates under upward pressure

Year-on-year growth of central bank balance sheets (2010-2019, actuals and JPM projections, %)





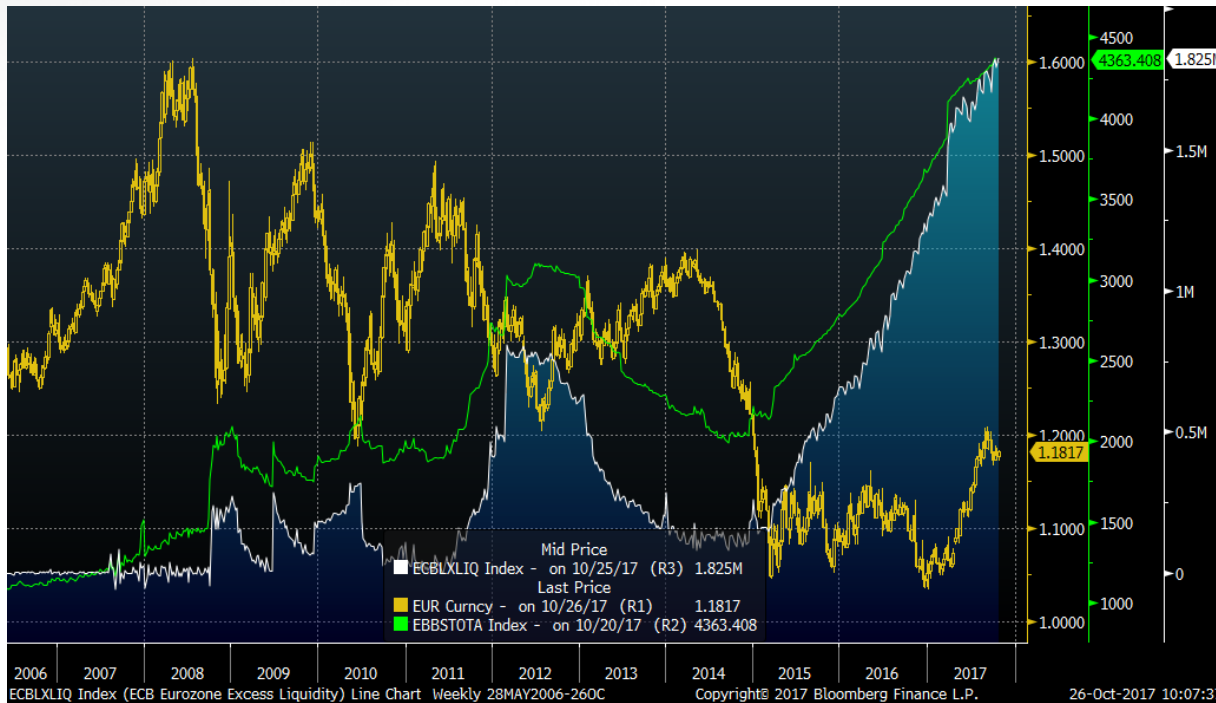
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Main drivers of Money Markets today (2/3)

Monetary policy developments (2/2)

- However global liquidity to remain abundant that creates a certain level of complacency at Money Market desks

ECB excess liquidity (2006-2017)



Source: Bloomberg Finance



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Main drivers of Money Markets today (3/3)

Regulatory developments

- **Regulatory changes still an important driver** as market participants continue to adapt business plans
 - Capital & Liquidity rules
 - Accounting & Credit changes
 - Culture & Conduct changes (monitoring, reporting)

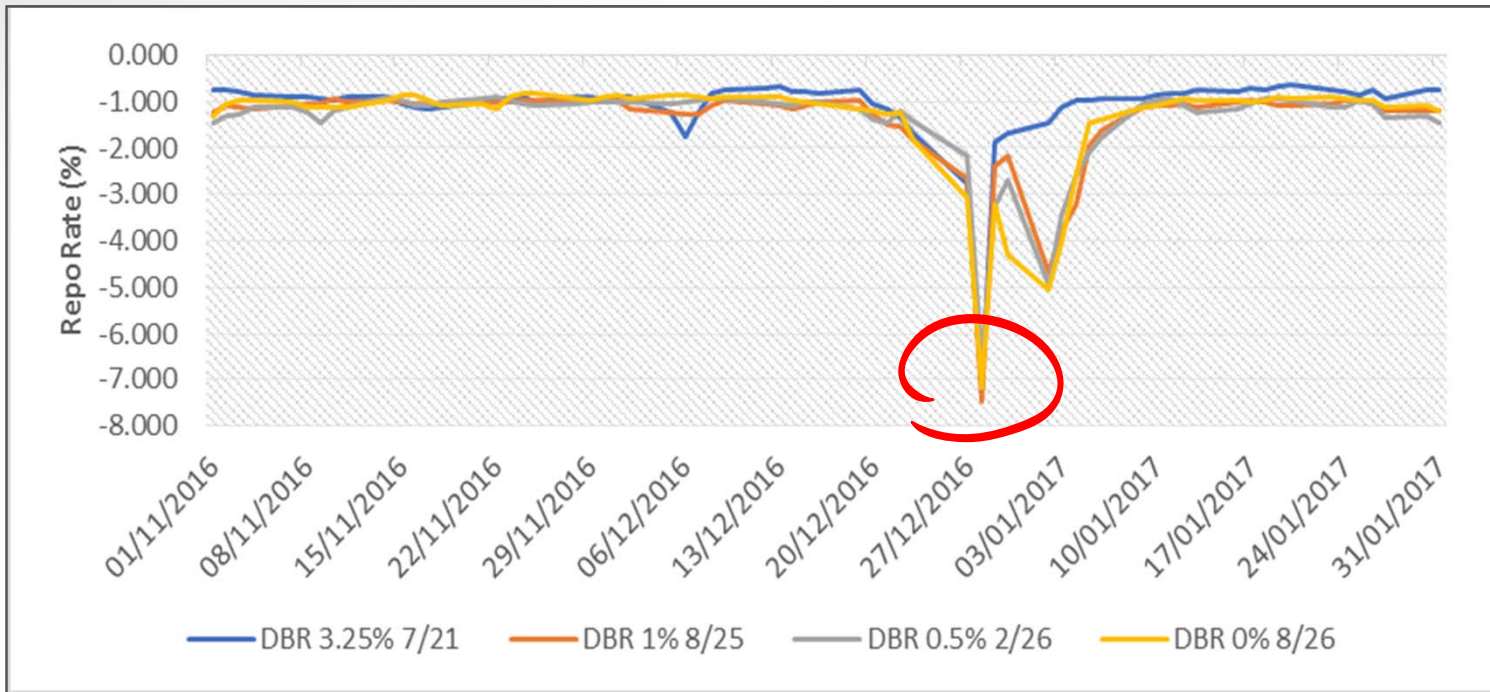


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Year end 2016 blows out reference point

German specials – Repo rates

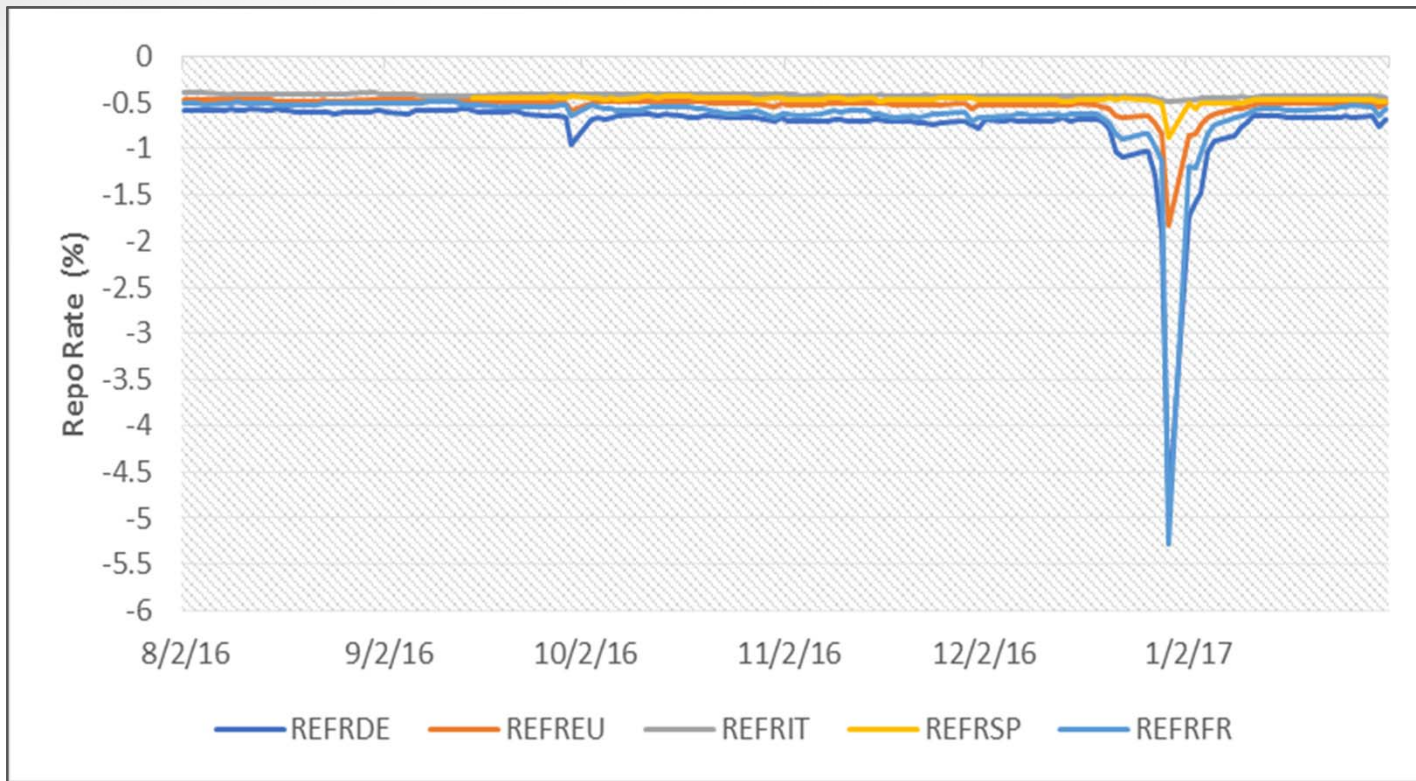
(Nov. 2016 to Jan. 2017, %)





Less intermediation capacity due to regulatory developments squeezed part of the market (buy & sell side)

Repo Funds rate
(Aug. 2016 to Jan. 2017, %)



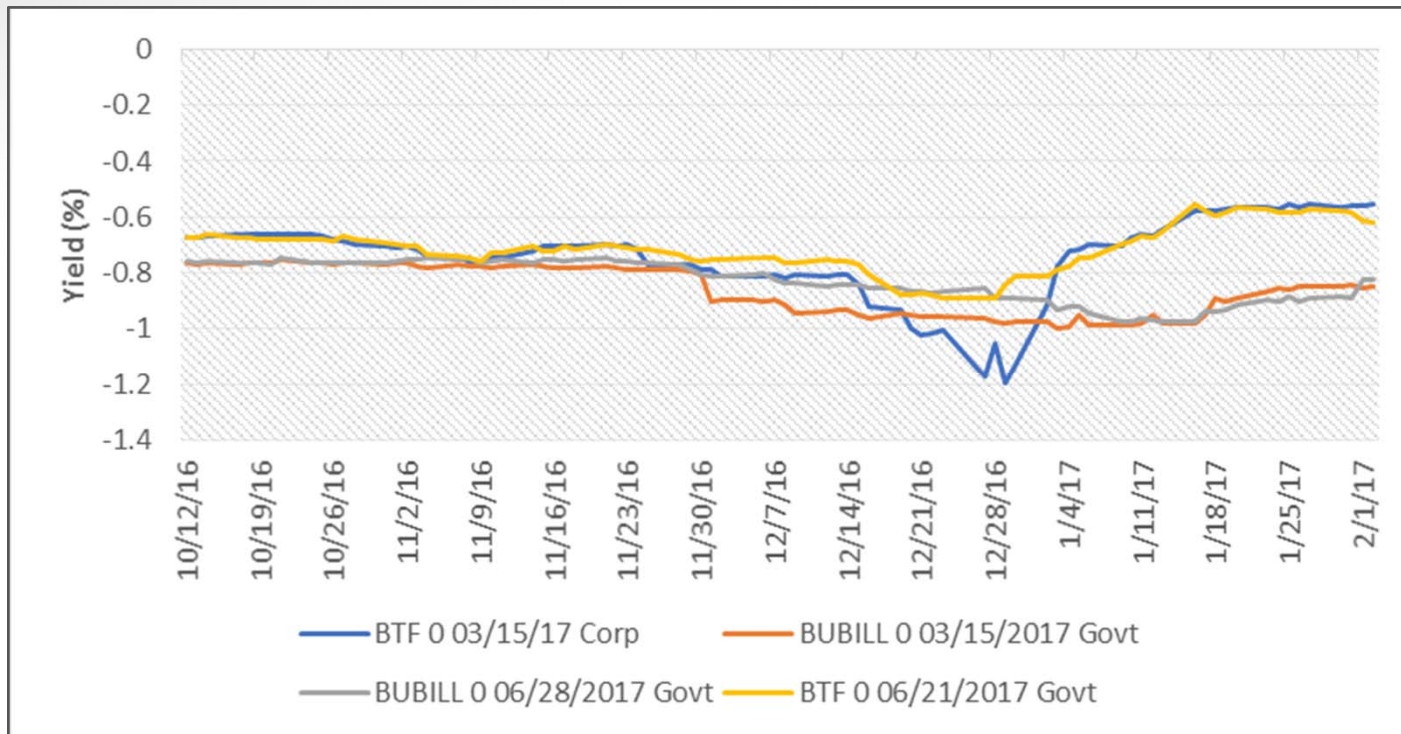


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Year end developments fears resurface each quarter end, being the main driver

T-Bill Rates

(Oct. 2016 to Jan. 2017, %)





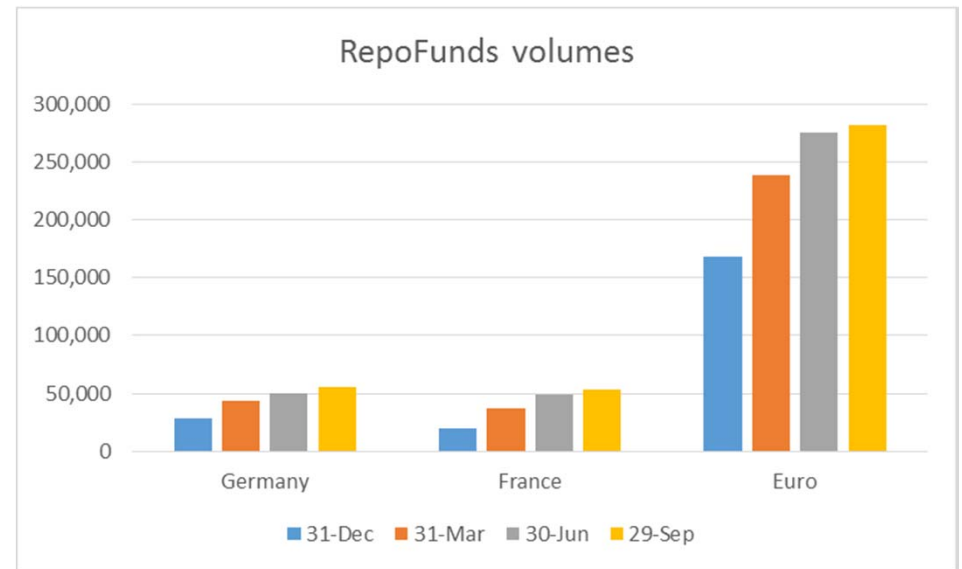
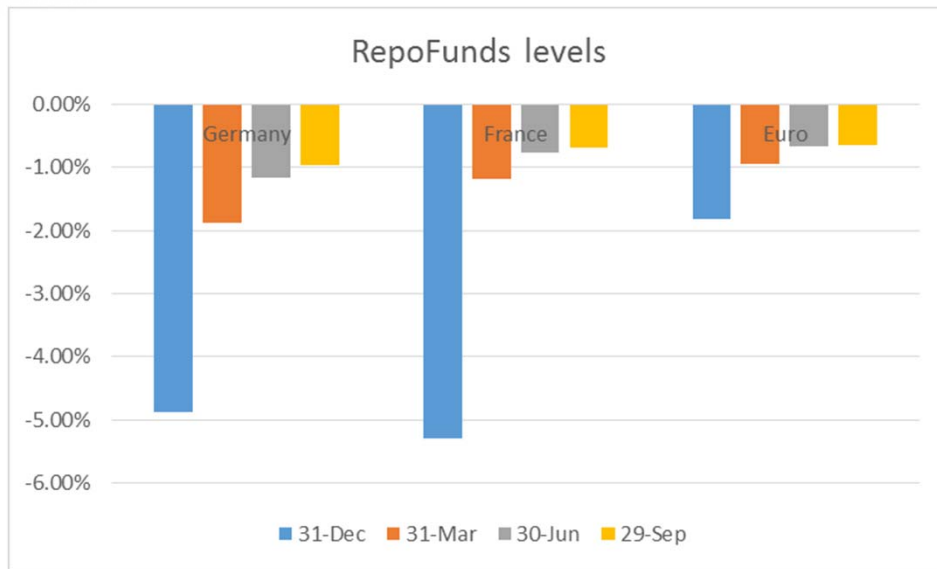
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Markets are adapting trading approach

Repo funds

(Dec. 2016 to Sept. 2017)

RepoFunds						
	Germany	Volume	France	Volume	Euro	Volume
31-Dec	-4.88%	28,586	-5.29%	19,653	-1.82%	167,885
31-Mar	-1.87%	43,961	-1.18%	37,142	-0.95%	239,122
30-Jun	-1.16%	50,418	-0.76%	49,006	-0.68%	275,996
29-Sep	-0.97%	55,416	-0.68%	52,999	-0.64%	281,847



Source: Brokertec

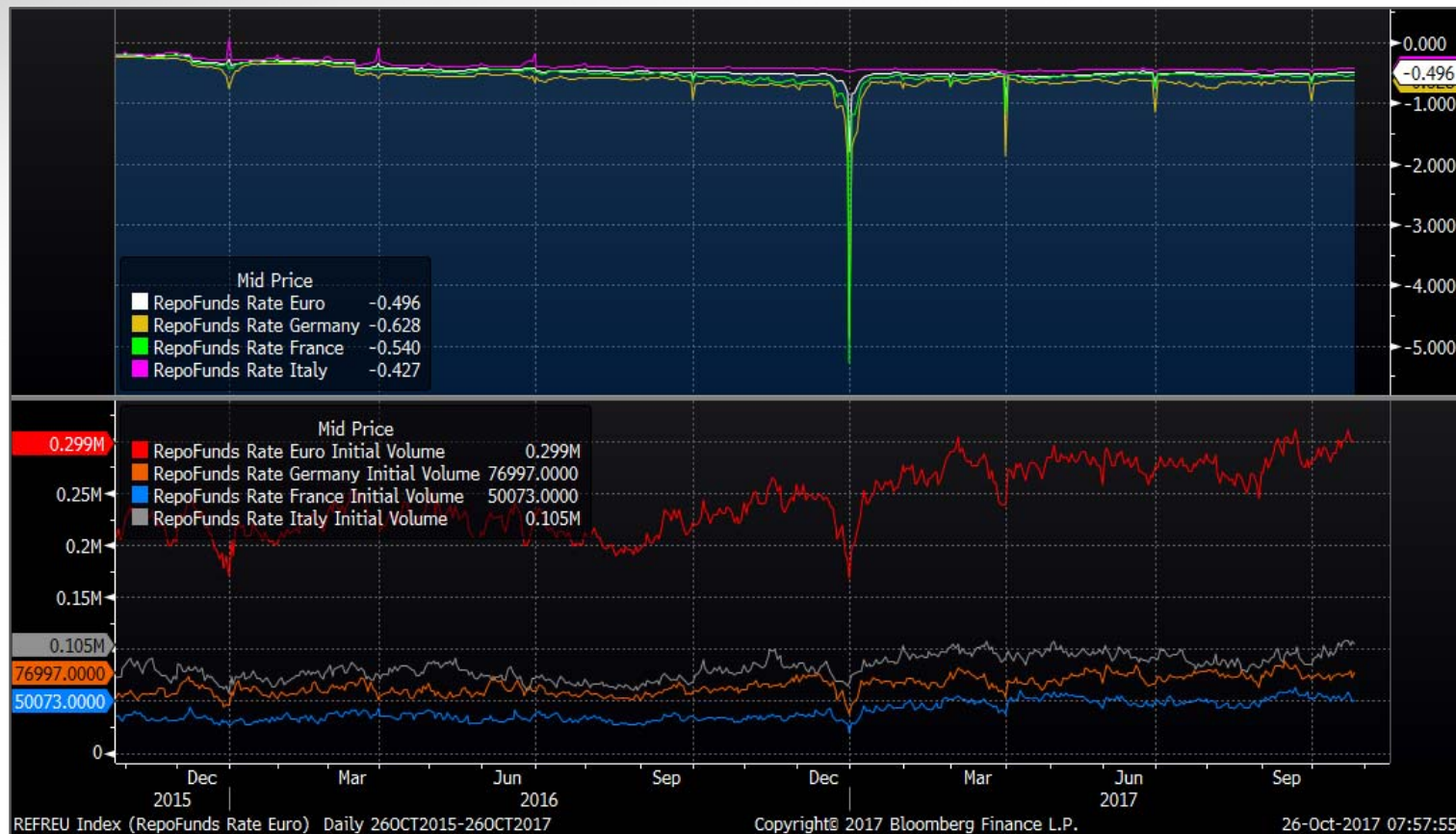


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Repo markets volumes rising and dealing strategies adapting to new environment

Repo funds

(Dec. 2015 to Sept. 2017)



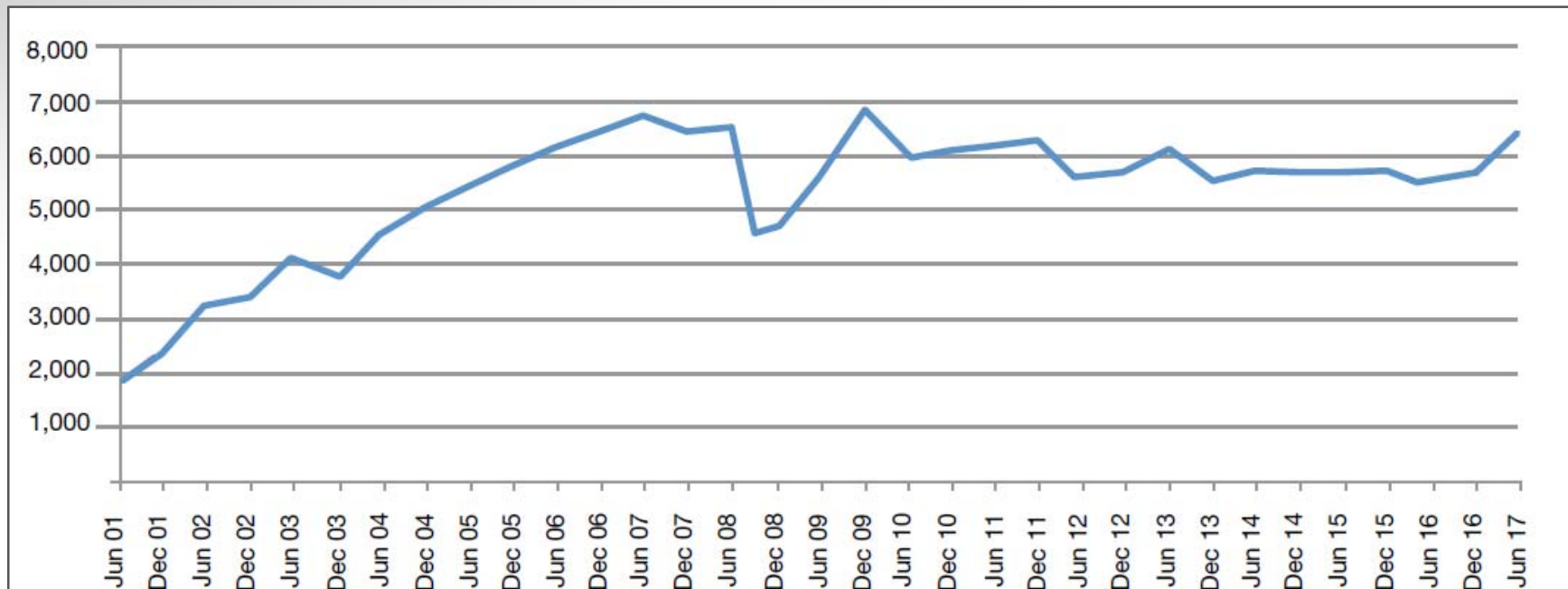
Source: Bloomberg



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European Repo Market survey conducted June 2017

Total value at close of business on a specific date in June and December

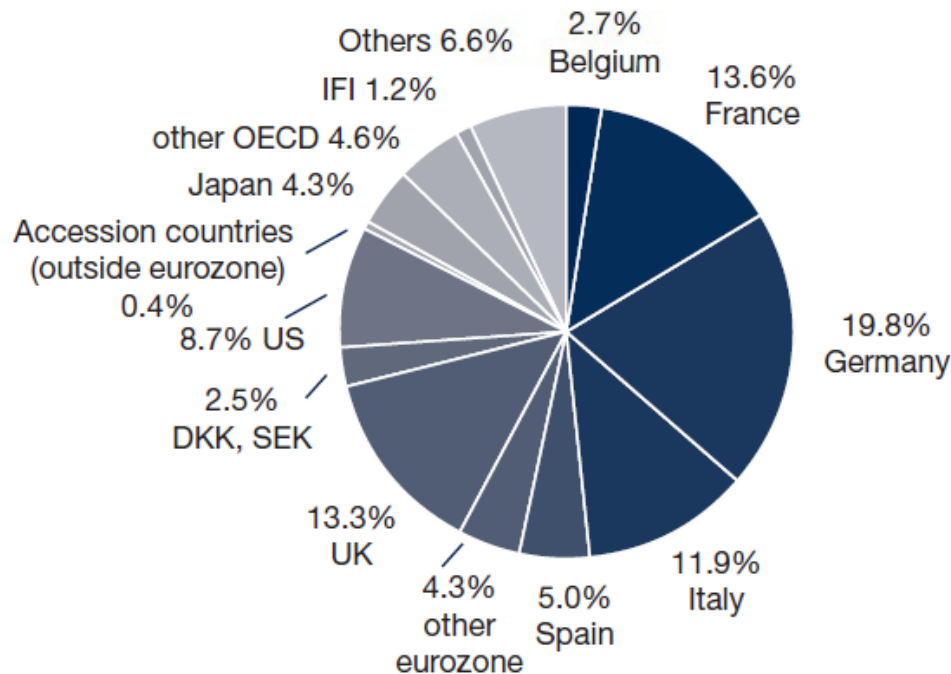




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Repo markets volumes rising (1/3)

- **Demand for HLQA remains the main driver of repo business**, given the continuing growth in the already large share of government bonds



- **The share of government bonds within the pool of EU-originated fixed-income collateral continued to grow**, reaching a 13-year high of 87.6%



Repo markets volumes rising (2/3)

- **Additional demand for securities.....**

- Increase of Initial margin at CCP:

IM held

	Q1 2017	Q1 2016	change
LCH Ltd	144,988	91,881	57.8%
LCH SA	27,274	20,930	30.3%
ECAG	57,977	54,191	7.0%
ICE	46,268	44,204	4.7%

- CSDR regulation
- New regulation margin requirements for non-centrally cleared derivatives (September 2016)
- Initial margin Pledge Structure proposal for repo activity & lending (to further compress credit needs more and more people are looking into segregated margin)



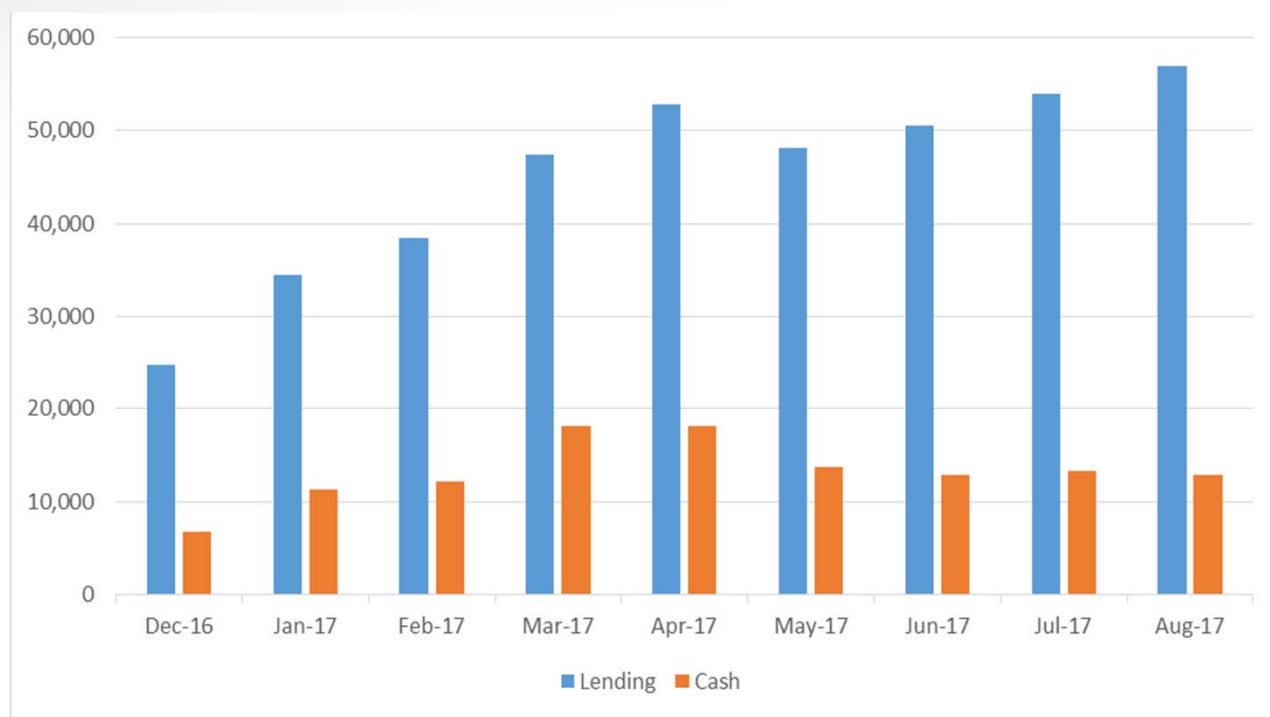
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Repo markets volumes rising (3/3)

- **Less securities available due to QE**
 - ECB lending program working better, more integrated in business models

ECB PSPP lending

(Dec. 2016 to Aug. 2017)



Source: ICMA



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European Repo Market survey conducted June 2017

Currency comparison

(June 2017, %)

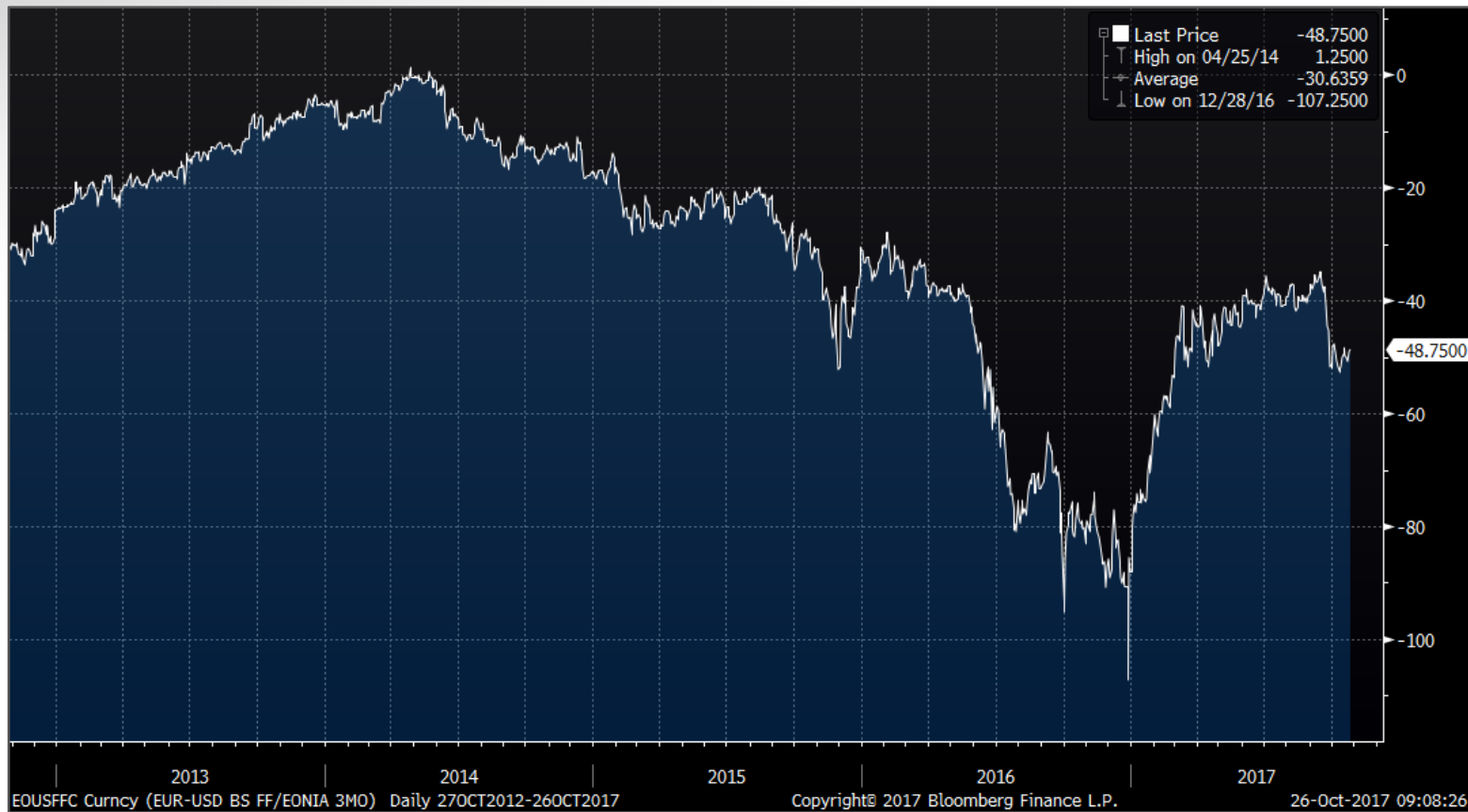
	main survey	ATS	tri-party	WMBA
EUR	61.9%	94.8%	49.9%	55.9%
GBP	12.2%	4.4%	6.0%	20.1%
USD	16.9%	0.7%	40.8%	12.4%
DKK, SEK	2.7%	0.0%	1.2%	0.0%
JPY	4.5%	0.0%	1.5%	2.5%
CHF	0.0%	0.0%	0.2%	0.0%
other APAC	0.7%			
etc	1.0%	0.1%	0.5%	9.2%
cross-currency	2.4%		17.2%	



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FX swap market thriving in changed Money Markets FX basis important trading driver to optimize

FX swap market – Eonia vs. Fed funds (2013-2017, 3m basis)



Source: Bloomberg Finance



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Similarly to repo markets, FX EUR/USD show relaxation after last year blow out

FX EUR/USD

(Nov. 2016 to Oct. 2017, 1 week basis)



Source: Bloomberg Finance

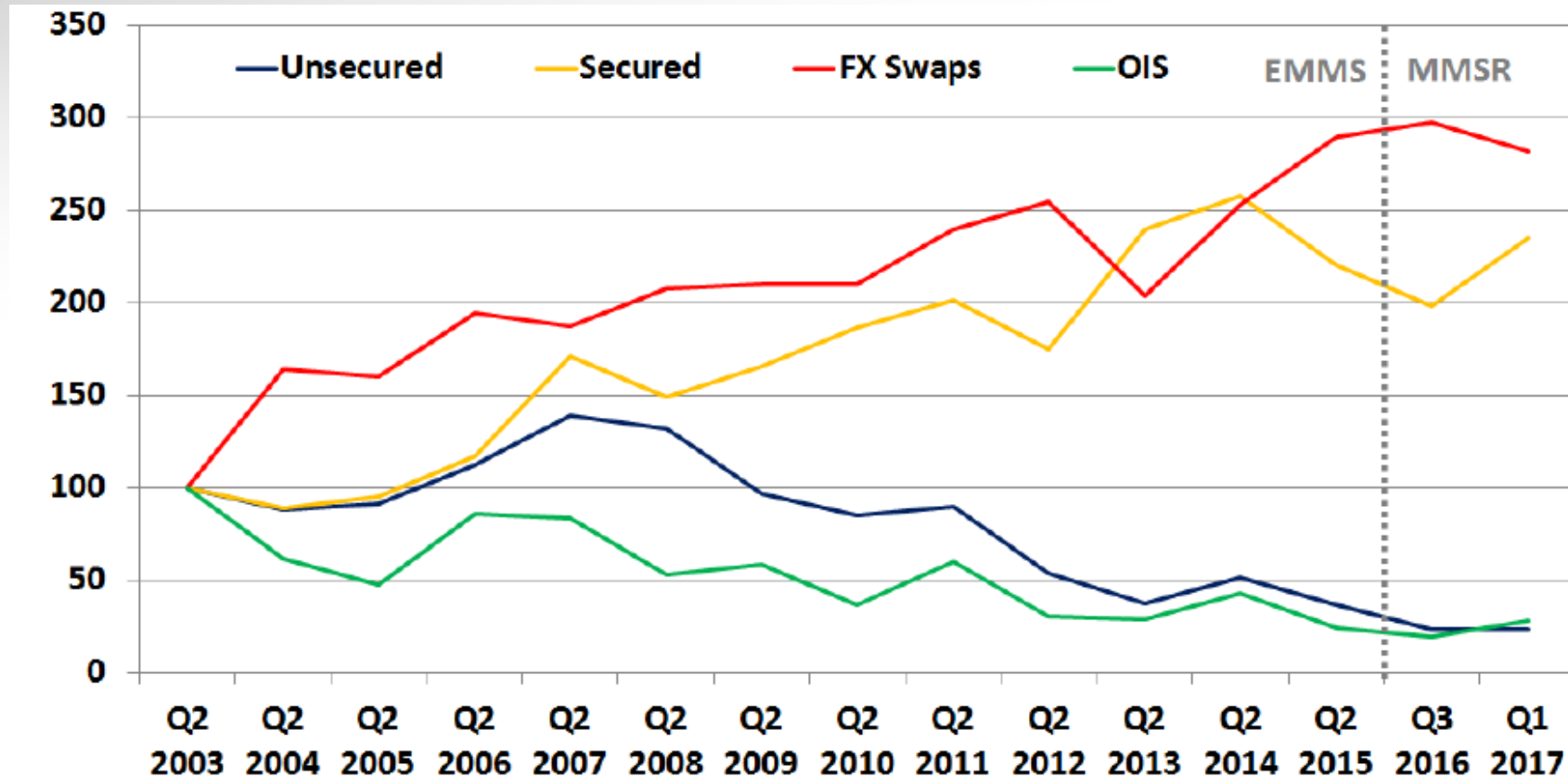


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FX swap market : resilient and increasing volumes

Turnover in various money market segments

(2003-2017, index 100 in 2003)





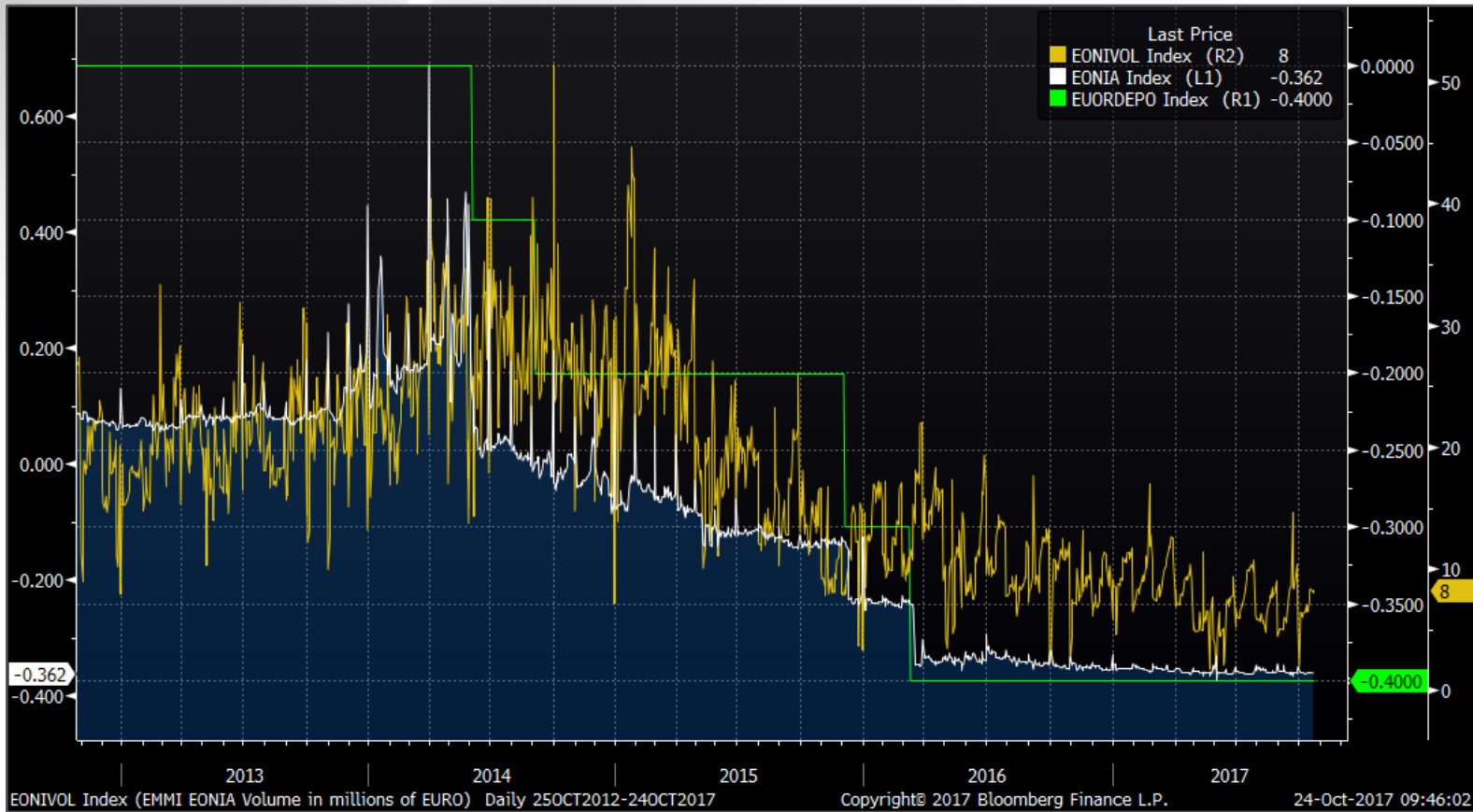
Unsecured Money Market: contraction continues (1/3)

- **Due to excess liquidity and regulatory changes, unsecured market has become a residual activity**
 - **Inter bank term cash market non existent**
 - IBOR is to a large extent a modeled benchmark
 - Balance sheet & capital cost simply too high
 - **Inter bank short term cash less relevant in terms of volume and distribution: last resort instrument**
 - Eonia is still supported but discrepancies across markets
 - ECB to publish a new unsecured overnight interest rate (2020)
 - **Intraday liquidity management becoming more and more important**



Unsecured Money Market: contraction continues (2/3)

Excess liquidity marginalizing Eonia fixing





Unsecured Money Market: contraction continues (3/3)

Eonia basis compressed leaving no value
(example 1y*3m)

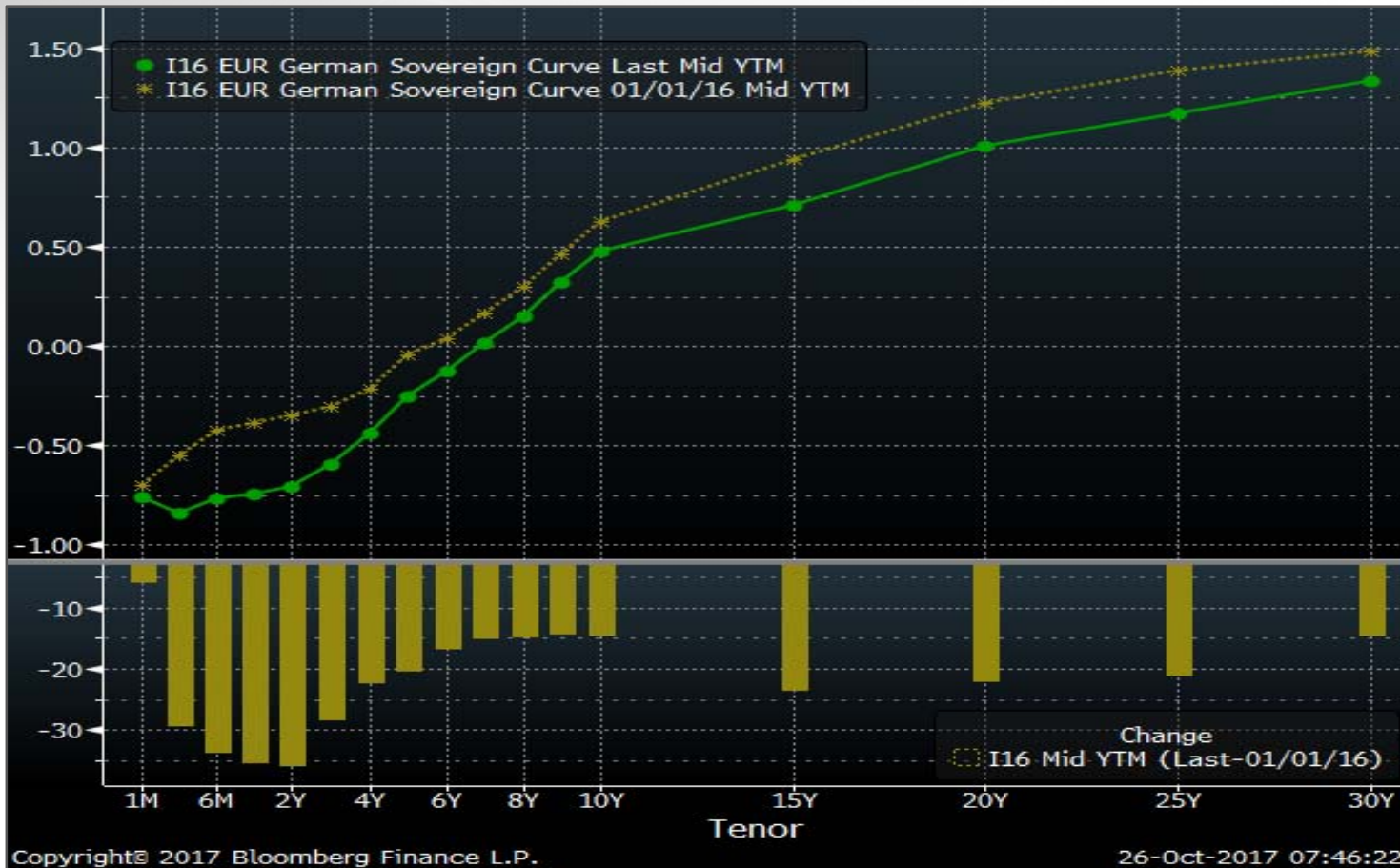




Rates

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German sovereign curve





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Rate expectations

Schatz CTD EONIA spread





Regulatory developments Repo & lending markets - Opportunities

- **Upcoming MIFID II, SFTR, MIFIR, ... is consuming gigantic budgets to be ready**
 - Uncertainty about the scope and ambiguity in the RTS leaving room for interpretation. This is creating confusion
- **Hurdle to enter the market**
- **NSFR**
- **Opportunities for balance sheet netting in T2S**
 - Offsetting of financial assets and liabilities arising from transactions settled through the T2S single settlement platform in accordance with International Accounting Standards. (IAS 32)
- **Eurobonds in T2S**
 - ECB proposed to develop a harmonized collateral management solution for Euro system credit operations, the Euro system Collateral Management System (ECMS)



How will the market react to reduced liquidity

- US we are getting QT
- ECB is scaling back QE
- Long term refinance operations are rolling off
 - Quid replacement due to regulatory pressure

20170028	LTRO	29/03/2017	24/03/2021	1456	233.47 bn
20160133	LTRO	21/12/2016	16/12/2020	1456	62.16 bn
20160103	LTRO	28/09/2016	30/09/2020	1463	45.27 bn
20160063	LTRO	29/06/2016	26/09/2018	819	6.72 bn
20160065	LTRO	29/06/2016	24/06/2020	1456	399.29 bn
20160026	LTRO	30/03/2016	26/09/2018	910	7.34 bn
20150125	LTRO	16/12/2015	26/09/2018	1015	18.3 bn
20150097	LTRO	30/09/2015	26/09/2018	1092	15.55 bn
20150065	LTRO	24/06/2015	26/09/2018	1190	73.79 bn
20150034	LTRO	25/03/2015	26/09/2018	1281	97.85 bn
20140242	LTRO	17/12/2014	26/09/2018	1379	129.84 bn
20140189	LTRO	24/09/2014	26/09/2018	1463	82.6 bn



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