



EUROPEAN CENTRAL BANK

EUROSYSTEM

Pascal Nicoloso
MML

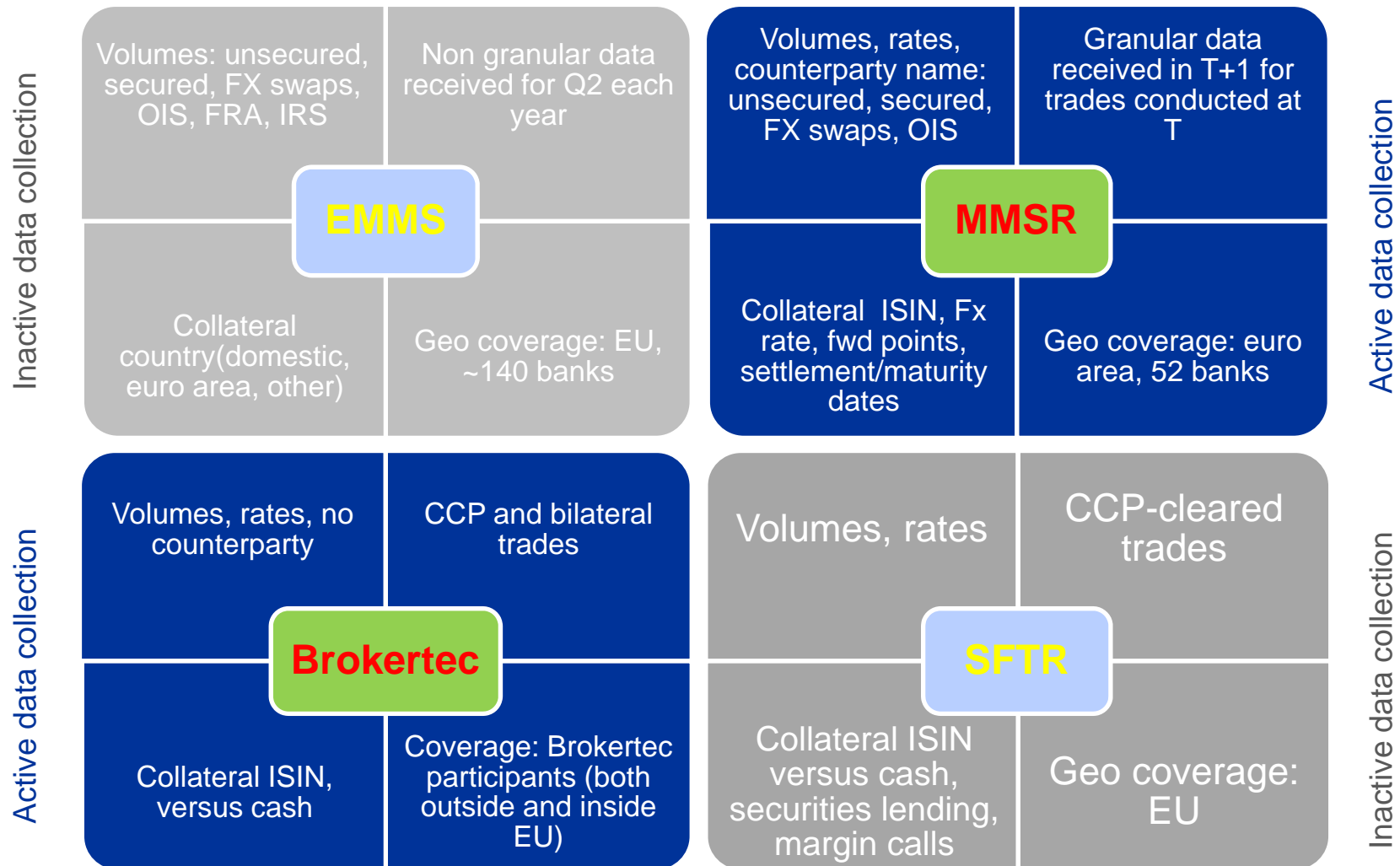
Money Market Workshop

**Assessment of fragmentation
based on Euro Money Market Survey
and Money Market Statistical
Regulation data**

ECB Money Market Workshop
Frankfurt - 7 November 2017

Data sources on money markets

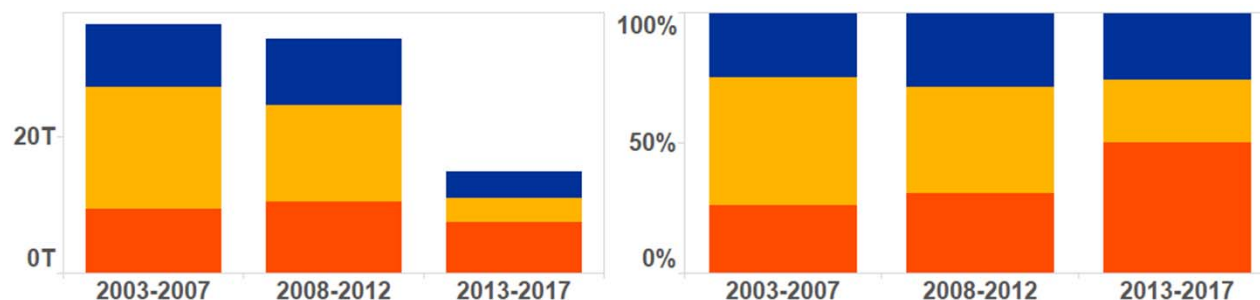
What these datasets show and do not show



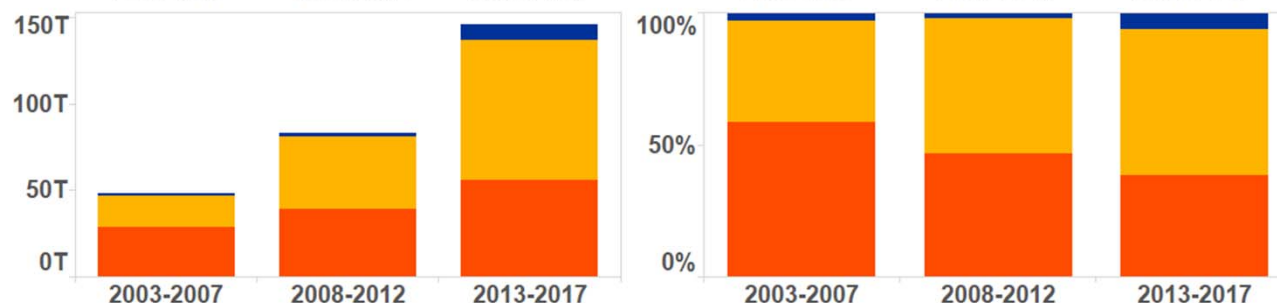
EMMS and MMSR: Volume overview and local bias

- Absolute volumes decreased in unsecured market (-49%), while they rose in secured (+201%) and FX market (+139%)
- Relatively, local bias increased in the unsecured but decreased in the secured market

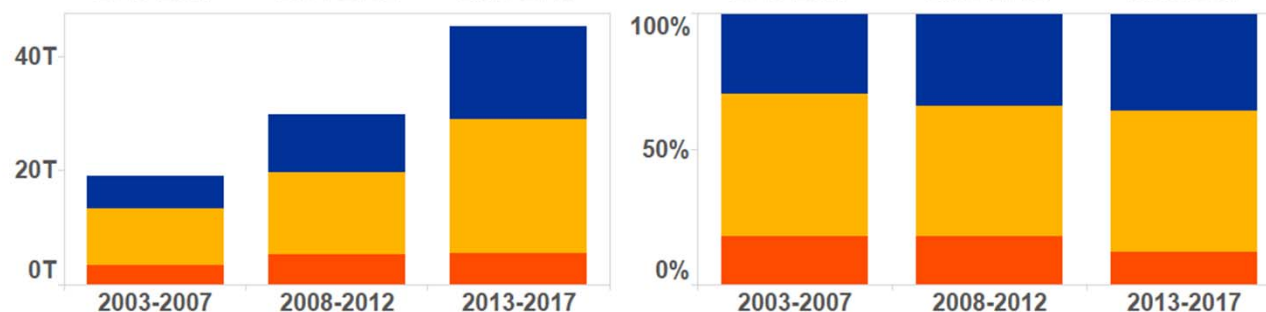
Unsecured segment:
distribution across
counterparty location (%)



Secured segment:
distribution across collateral
issuer location (%)



FX segment:
distribution across
counterparty location (%)

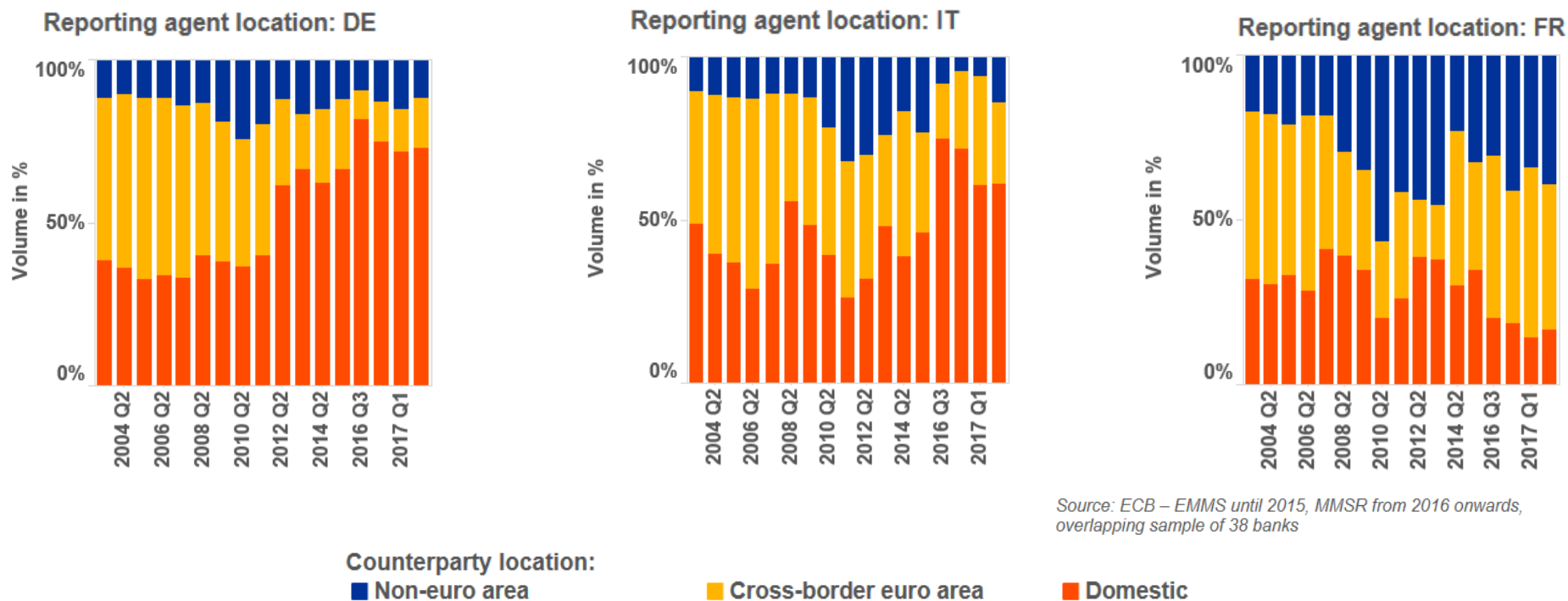


Counterparty location (unsecured and fx market)/ Collateral Issuer location (secured market):
■ Non-euro area ■ Cross-border euro area ■ Domestic

Source: ECB – EMMS until 2015, MMSR from 2016 onwards, overlapping sample of 38 banks

Access to the cross-border unsecured market

- Unsecured market evolves into national market as conservative credit risk guidelines limit exposure to non-domestic counterparties
- However country differences exist

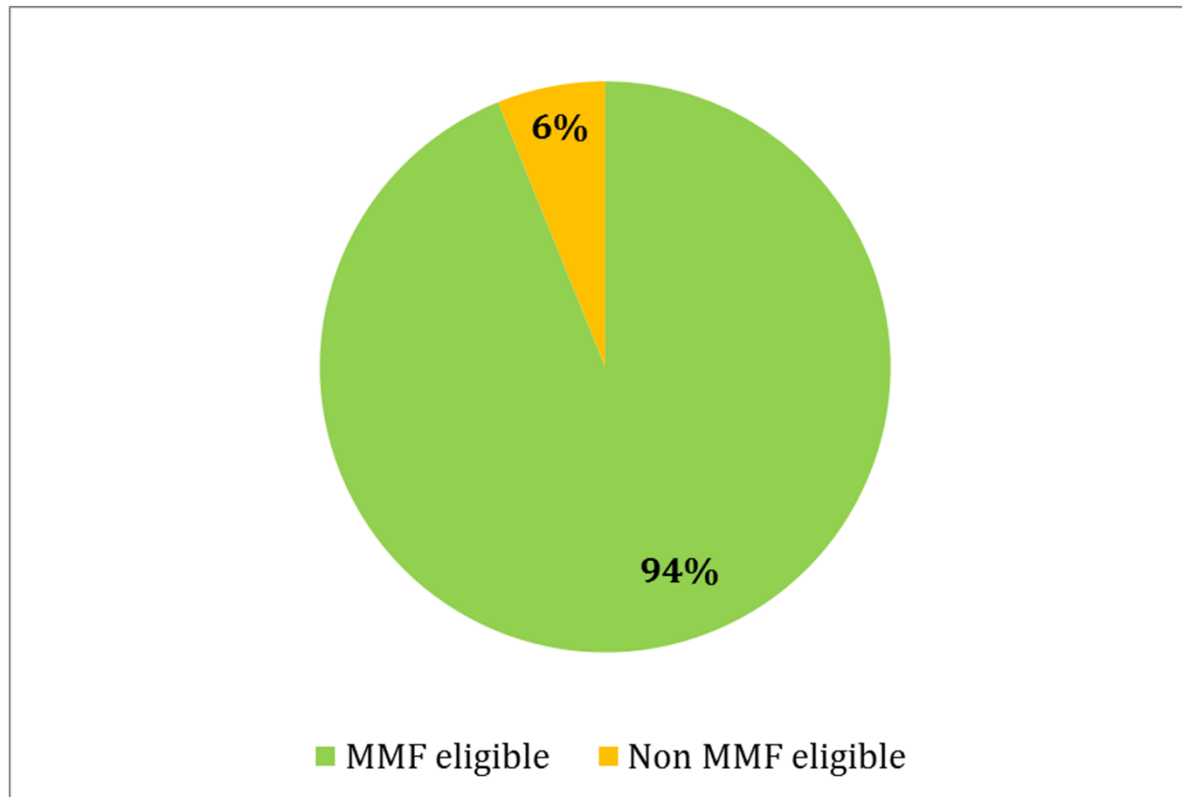


Source: ECB – EMMS until 2015, MMSR from 2016 onwards, overlapping sample of 38 banks

Access to the unsecured market: the role of ratings

- Participation to unsecured money markets depends on the rating of the reporting bank, i.e. the lower the rating of a bank, the more difficult the access is

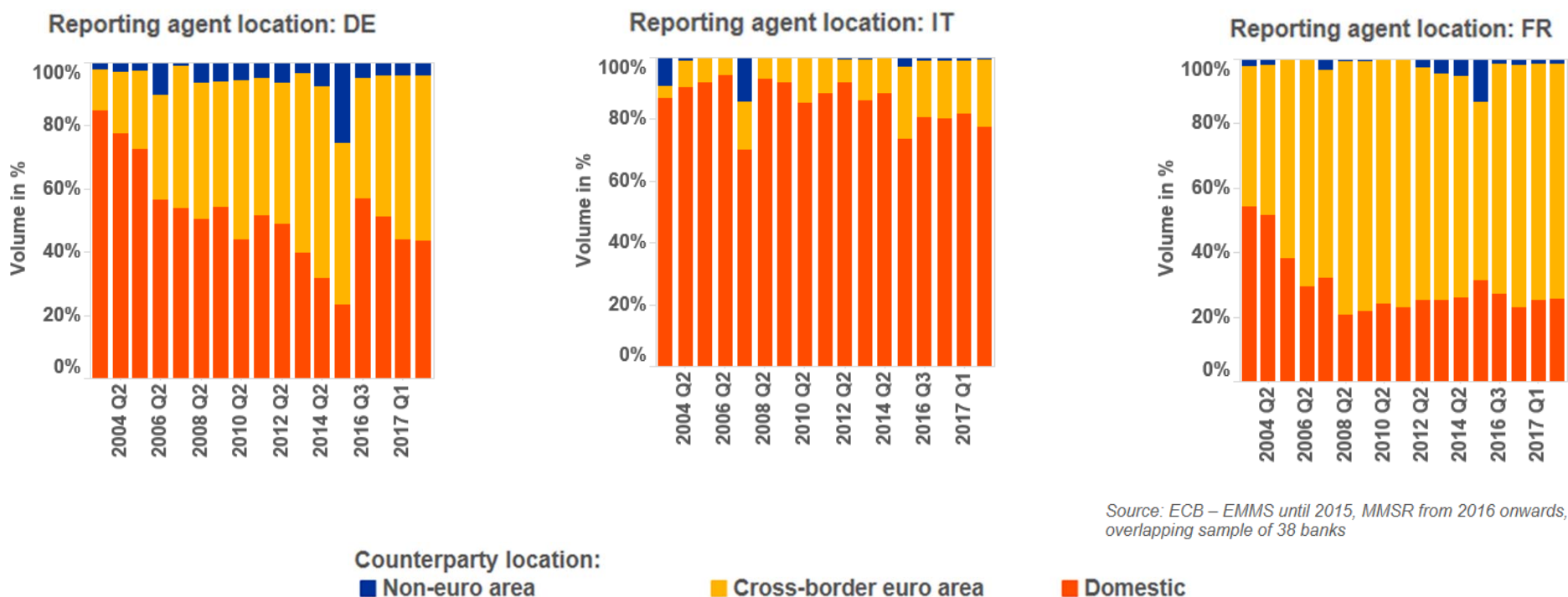
Unsecured trading volume of reporting banks: share of money market funds eligible versus non-money market funds eligible ratings (all maturities, borrowing and lending since 1/7/2016)



Source: MMSR
since 1/7/2016

Secured money market: local bias is less visible

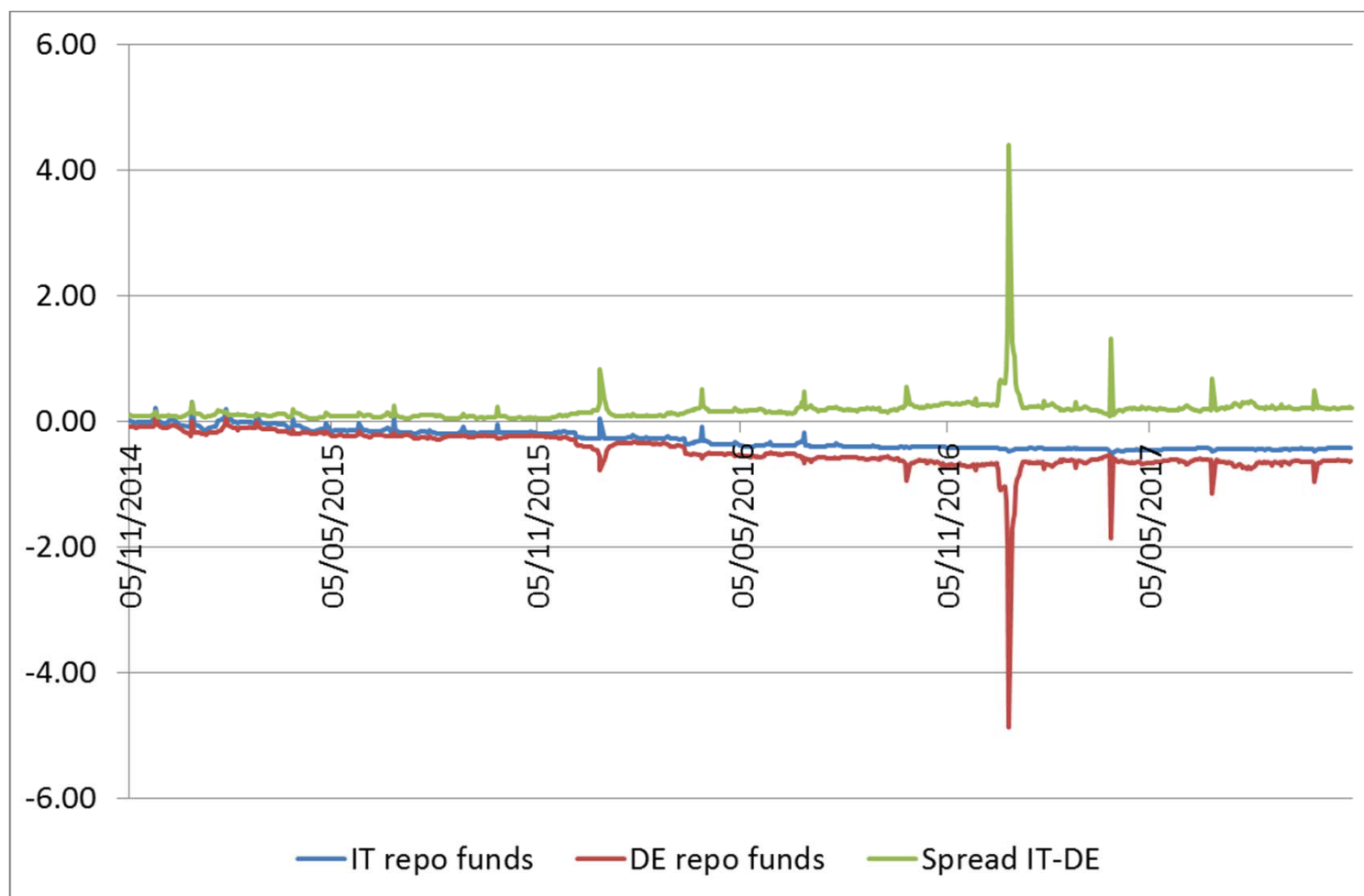
- Increase in secured volumes across countries mainly driven by the active usage of cross-border collateral (more pronounced for German and French banks)
- In Italy, a strong local bias in collateral usage remains



Secured market: rate dispersion

- Rate dispersion is driven by diverging risk as well as supply and demand factors associated with the collateral issuer location

Spread between German and Italian collateral in repo funds



Source: Bloomberg, ICAP

General assessment of fragmentation in the money markets

- The analysis of EMMS and MMSR data indicates different levels of fragmentation, depending on the market segment

Unsecured: local bias persists as cross-border flows suffered the most from the crisis

Secured: cross-border use of collateral more widespread except for Italy, and a certain price differentiation exists

FX Swaps: cross-border flows unaffected by the financial crisis (role of CLS as risk mitigation factor)