



EUROPEAN CENTRAL BANK
EUROSYSTEM

DG MARKET OPERATIONS

ECB-UNRESTRICTED

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Money Market Contact Group

Frankfurt, Tuesday, 8 December 2015, 13:15 – 17:15 CET

Summary of the discussion

1. Presentation of the main results of the quarterly MMCG Euro Money Market Survey

Julija Jakovicka presented the main findings of the MMCG Euro Money Market Survey conducted in the third quarter of 2015. The quarterly survey showed a decline in activity for transactions related to unsecured borrowing, with the qualitative feedback suggesting that higher levels of aggregate excess liquidity have lowered the share of market participants with liquidity needs, which has impacted the level of market activity. In contrast, activity in respect of unsecured lending increased in the third quarter of 2015, perhaps owing to higher inflows from non-bank market players. In the secured segment, the survey pointed to a significant rise in lending volumes, concentrated mainly in shorter tenors, as well as an increase in borrowing activity for tenors of between three and six months (the latter development very likely driven by regulatory factors). As regards foreign exchange swaps and forwards, it was reported that activity was lower as a result of the summer period and a reduced need for funding in foreign currencies.

2. Review of the latest market developments and other topics of relevance

Werner Driscart reviewed the main developments in the euro money market since the last meeting. In particular, members of the Money Market Contact Group (MMCG) discussed market reactions following the 3 December 2015 meeting of the ECB's Governing Council and the decision to lower the deposit facility rate to -0.30%. Several members were of the opinion that market expectations had become excessively dovish in the weeks preceding this ECB meeting, thereby triggering a repricing after the final decision. In particular, some members attributed the repricing that occurred as a correction in market expectations of a more pronounced rate cut, i.e. one possibly accompanied by a scheme in which part of the excess reserves would not be remunerated at the deposit facility rate.

Hanno Hirvinen introduced the topic of the pass-through of negative rates and recounted the latest developments in money market rates. In the discussion that followed, members of the MMCG noted that the pass-through of negative rates differs according to the type of customer involved: while negative rates have usually been passed on to institutional clients, there has generally been a reluctance to pass them on to retail customers – partly because of: (i) the legal constraints present in some countries; (ii) banks' interest in maintaining commercial relations and such stable sources of funding; and (iii) their regulatory value. In addition, members of the MMCG

noted a general tendency on the part of banks to curb the size of their balance sheets, notably by limiting cash deposits, thereby exacerbating the decline in money market turnover. In contrast, the use of off-balance-sheet transactions such as collateral swaps was favoured for balance sheet optimisation purposes.

Jan Misch introduced the topic of excess liquidity and its impact on market turnover. During the related discussion, members of the MMCG concluded that while higher levels of excess liquidity are likely to have had an adverse impact on turnover in the unsecured interbank market, the regulatory impact on the interbank market was equally important. As both factors will apply for at least some time, no recovery in market trading volumes is expected in the near future.

In addition, members of the MMCG also discussed recent developments in US dollar liquidity. In particular, they noticed lower activity on the part of some usual liquidity suppliers in the US dollar market, which could be attributed to various factors, such as the slowdown in emerging markets, lower commodity prices and, perhaps, regulatory constraints discouraging the normal US dollar lending. During the related discussion, some members of the MMCG underlined that cross-currency spreads had also widened for longer tenors, suggesting that US dollar funding could remain scarce on a structural basis.

3. Other items

a. Update on money market benchmarks and on the ongoing reform process

Guido Ravoet from the European Money Markets Institute (EMMI) joined the meeting by means of a conference call and provided an update on the status of the reform of the euro interbank offered rate (EURIBOR). Members of the MMCG were invited to reply to the pending consultation before the end of January 2016. In the course of the discussion, members of the MMCG generally expressed support for the new EURIBOR based on real transactions scheduled for implementation in the summer of 2016. However, some members were concerned about the timeline for the new benchmark, given that some important features of the new EURIBOR are to depend on the outcome of the consultation and the fact that the required infrastructure for reporting transactions was still under development. On this last point, the EMMI confirmed that the synergies with the reporting infrastructure for Regulation (EU) No 1333/2014 of the European Central Bank of 26 November 2014 concerning statistics on the money markets – the Money Market Statistical Reporting Regulation or MMSR – should be exploited for the banks in the reporting panel and for the first wave of banks involved in the MMSR in order to limit the operational burden. Furthermore, members of the MMCG underlined the necessity of a broad reporting panel to enhance the quality of the new EURIBOR benchmark and discussed the possible means and incentives to support it, including a mandatory contribution by all banks.

In addition, due to the low volumes reported for the EONIA benchmark over the last months, the EMMI recalled that an EMMI task force had met on 15 December 2015 to discuss contingency scenarios, and encouraged members of the MMCG and other market participants to join the task force. Moreover, the EMMI announced that a new repo market benchmark is envisaged to be launched at the end of 2016 or in early 2017. The methodology for the new benchmark should become available during the first quarter of 2016, following the conclusion of the public consultation process.

b. Update on the Eurosystem's securities lending arrangements

Roberto Schiavi updated the MMCG on the securities lending arrangements of the Eurosystem. Since the Group's meeting of September 2015, the main development had involved the Deutsche Bundesbank: in October 2015 the national central bank launched new securities lending arrangements, which would provide a backstop to the market demand for holdings of securities purchased by the Deutsche Bundesbank under the Public Sector Purchase Programme (PSPP). As in previous months, no scarcity of collateral had been observed, suggesting that the programme was not disrupting market functioning so far.

c. Update on the ECB's Money Market Statistical Reporting Regulation and relevant milestones

Pascal Nicoloso updated the Group on the progress made and relevant milestones in the implementation of the Money Market Statistical Reporting Regulation. Implementation was said to be on track and the first mandatory reporting of daily data has been scheduled for 1 July 2016. In addition, members of the MMCG took note that publication of the aggregated statistical results was expected to improve the availability of data on wholesale market activity, i.e. in terms of coverage, frequency and timeliness.

d. Planning of the next meeting

The next meeting of the MMCG will take place on 15 March 2015 in Frankfurt am Main, from 13:00 to 17:00.