EUROPEAN CENTRAL BANK

EUROSYSTEM

Istvan Mak
DG-M/BMI

Key financial market developments

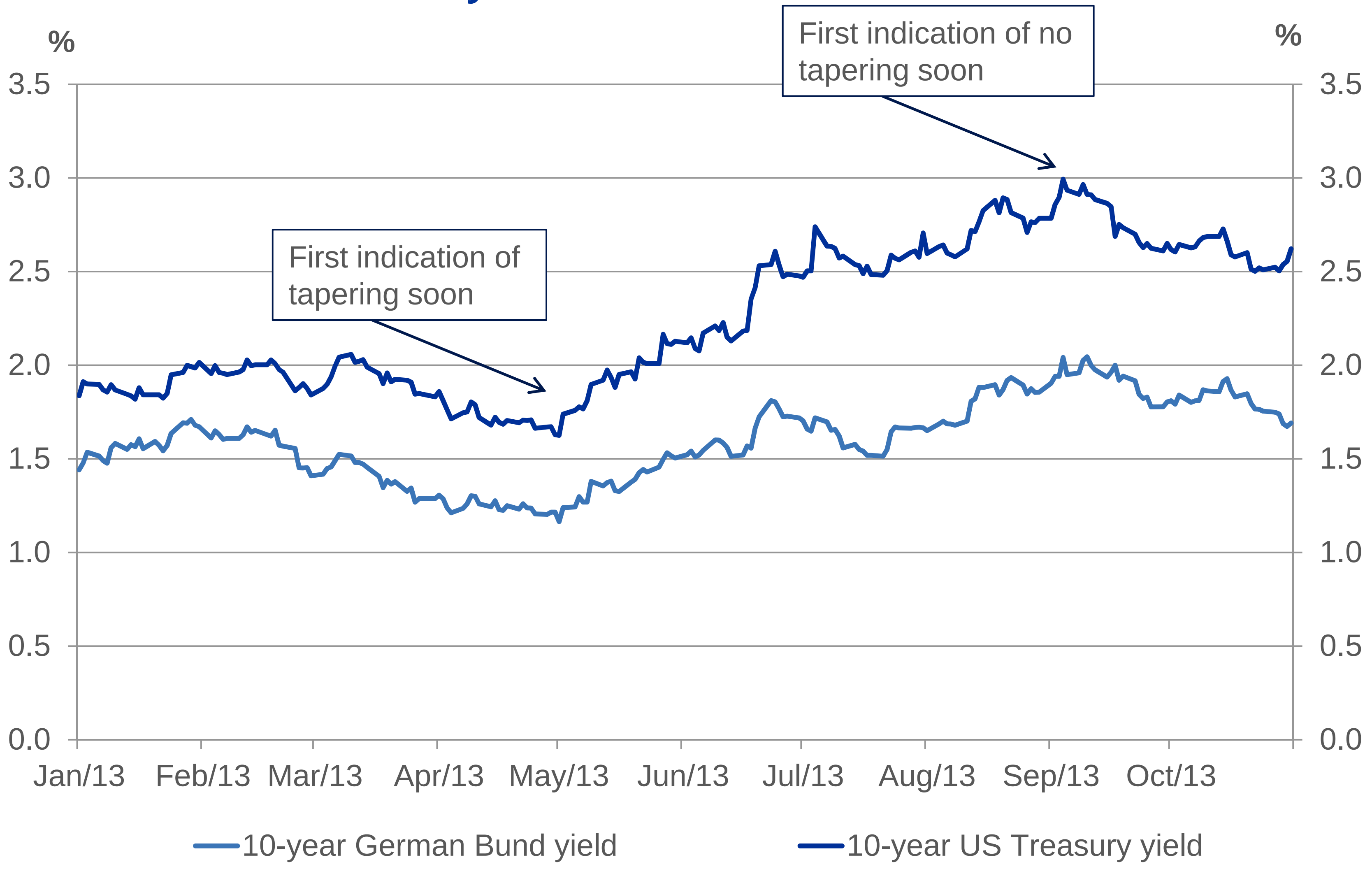
Operations Managers Contact Group Meeting

Frankfurt am Main, 5 November 2013

Financial markets – global environment

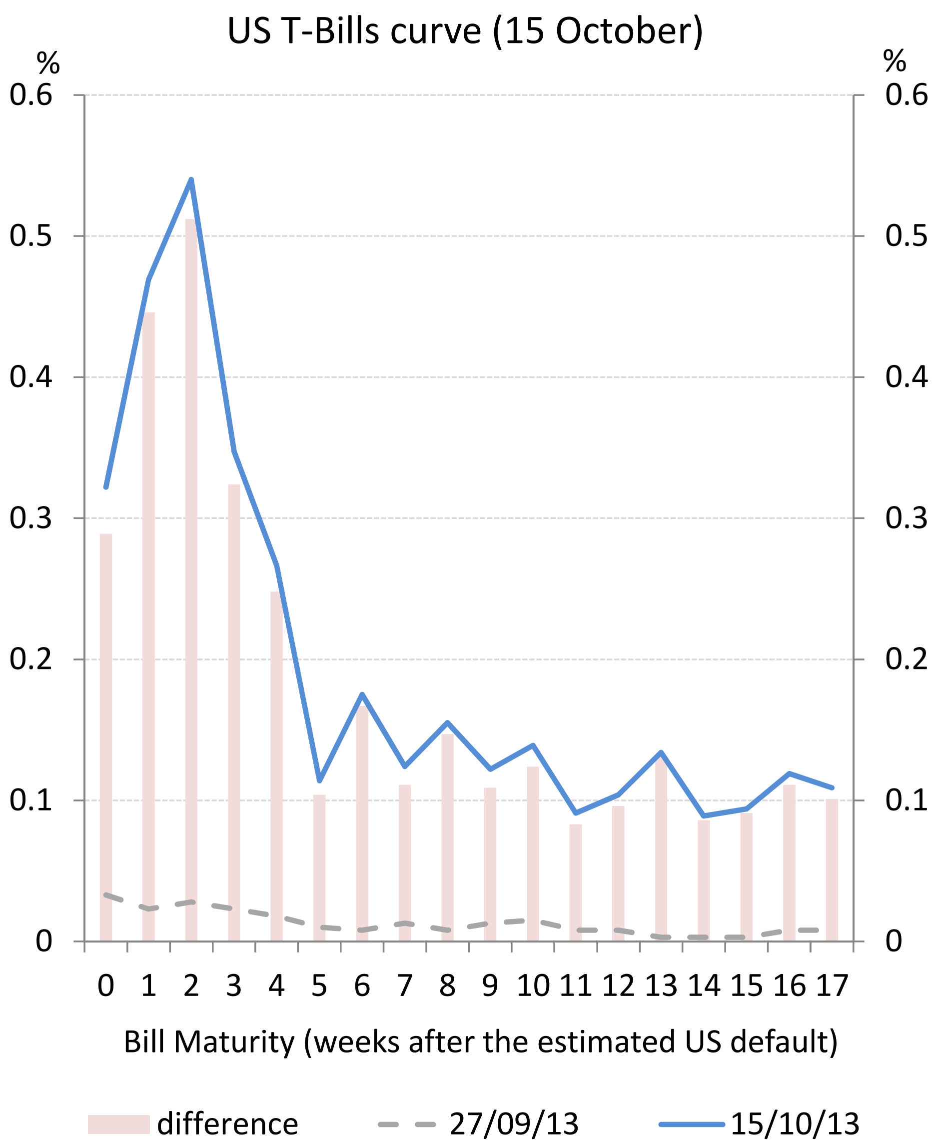
- Central bank policy remains key driver of asset price developments
- The review period can be divided into two phases
- Fed indicated tapering of asset purchases in Q2-2013
  - Risk assets sold off first when tapering talk was introduced
  - Capital outflows from US bond funds accelerated in Q3-2013
- In September 2013, the tapering of the Fed’s asset purchases was delayed, driving risk assets higher, US Treasury yields lower
- US Government shutdown and debt-ceiling issues in October 2013
  - Shortest term Treasury Bill rates spiked, USD dollar weakened

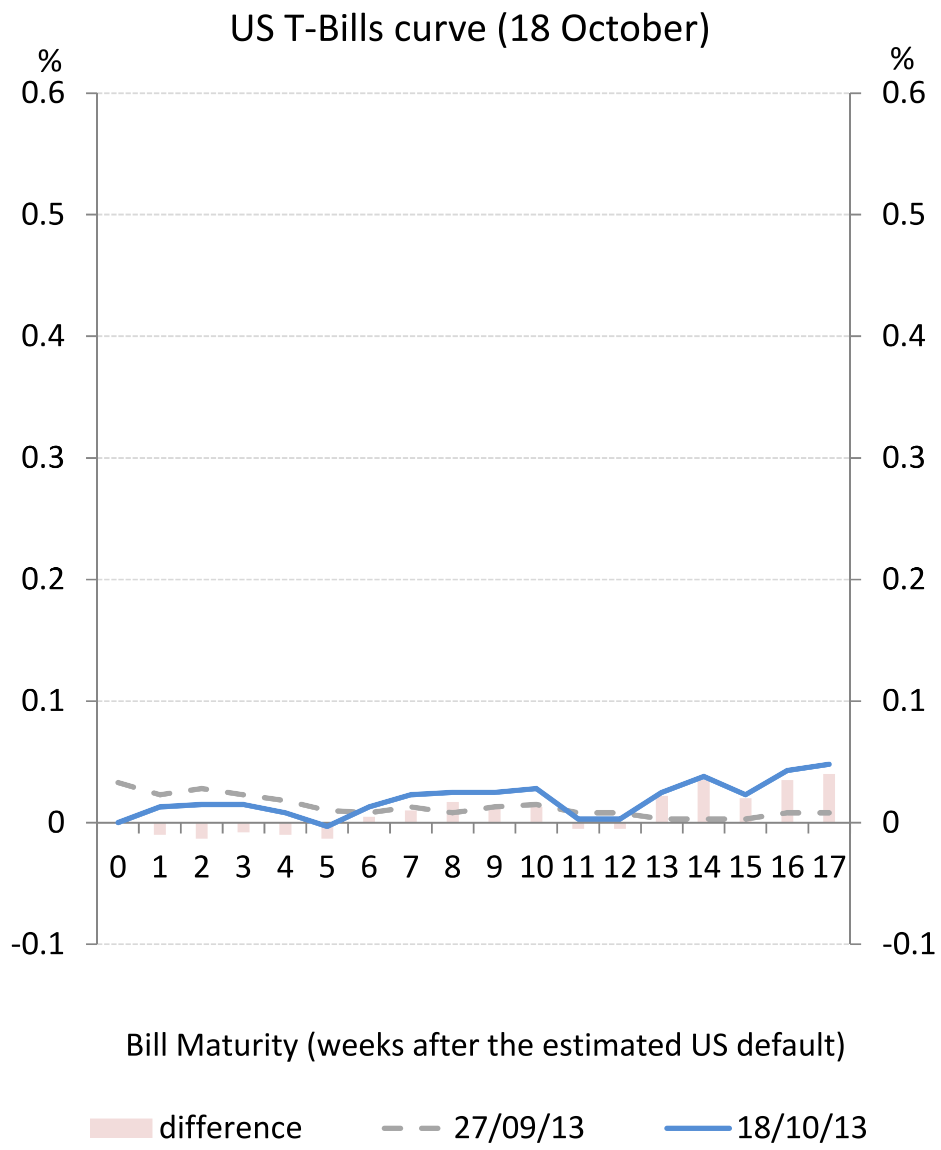
US and German 10-year government bond yields increase since May 2013



Source: Bloomberg.

US T-Bill curve around 17 October 2013



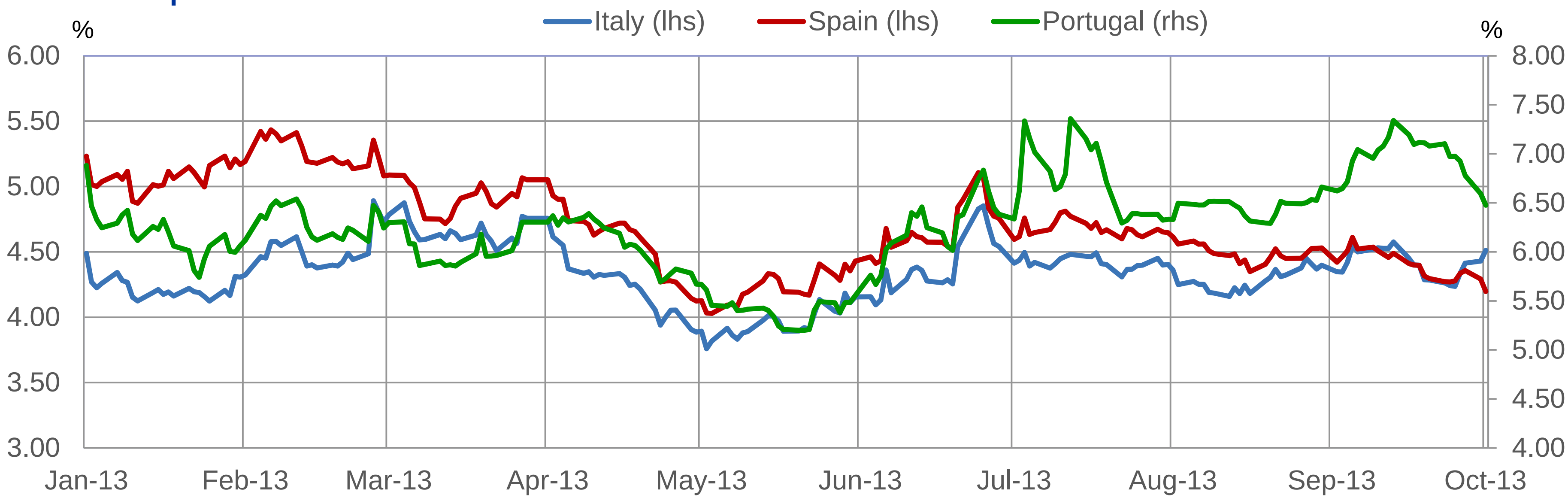


Source: Bloomberg.

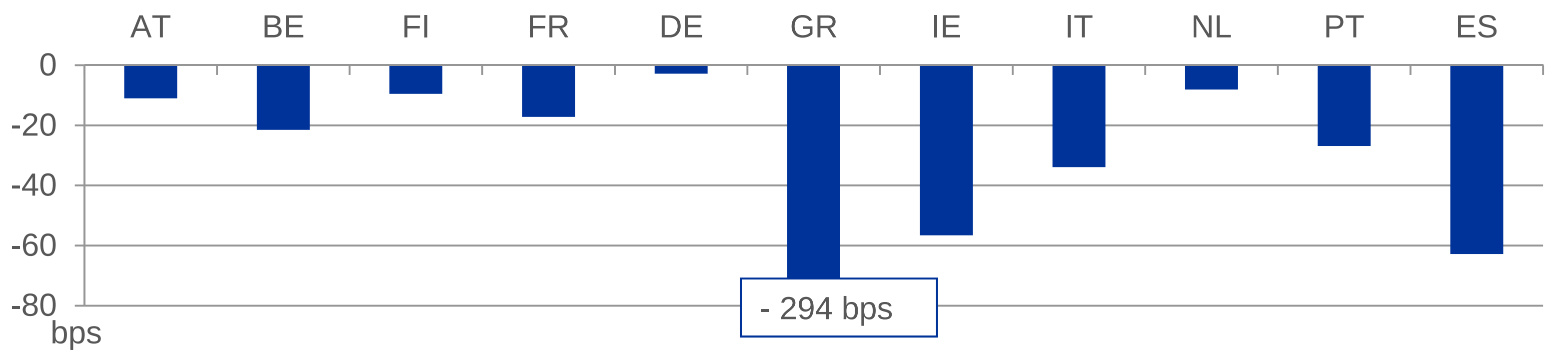
Financial markets – euro area developments

- Sovereign bond yield spreads decreased in the periphery, though some risk remain especially in Italy and Portugal
- Increasing issuance activity in the corporate bond markets
- Equity markets continued to benefit from capital inflows
- The euro appreciated significantly, driven by interest rate differentials and fundamental factors

Italian, Spanish and Portuguese 10yr government bond yield developments in 2013

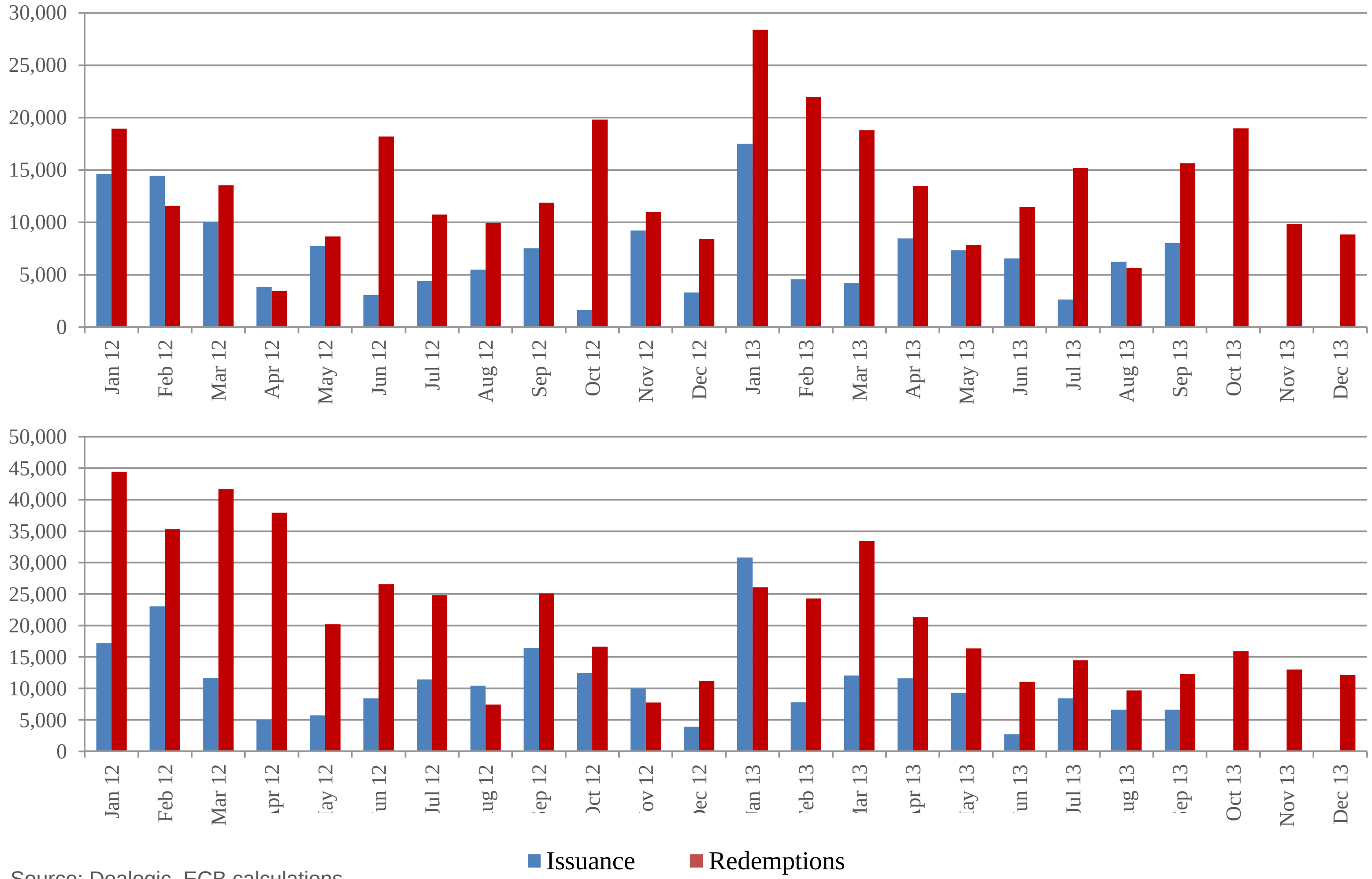


Changes in euro area 10-yr government bond yields since 1 July



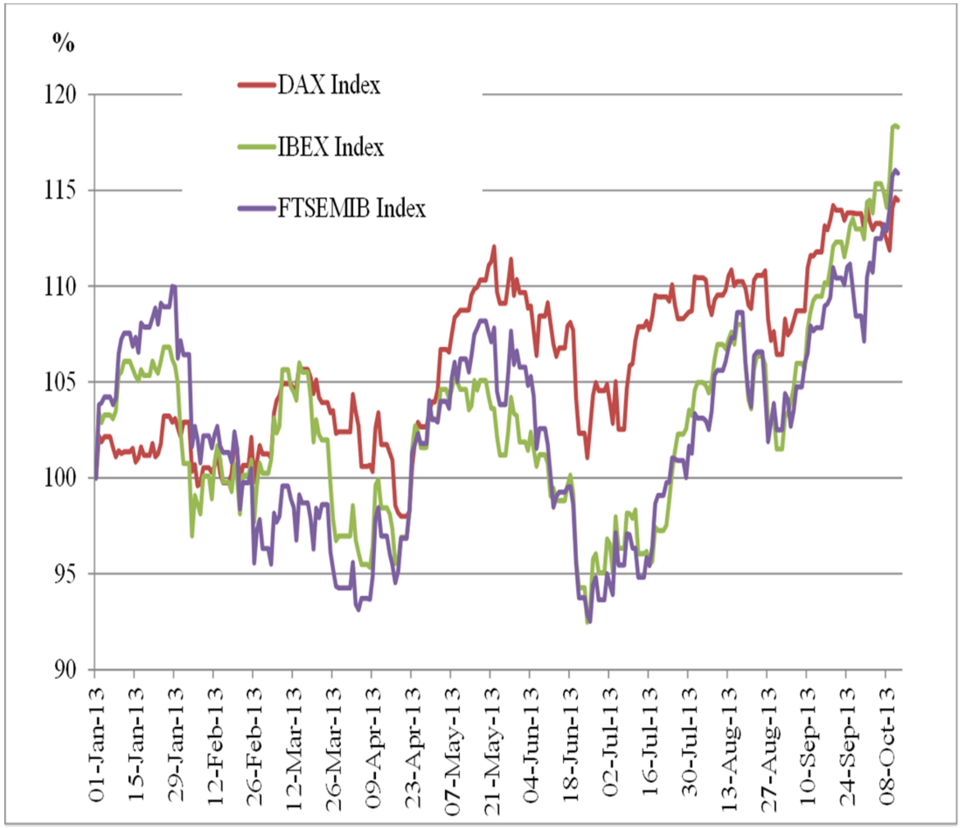
Source: Bloomberg; ECB calculations

Euro area covered (top) and senior unsecured (bottom) bond issuance and redemptions (EUR mn)

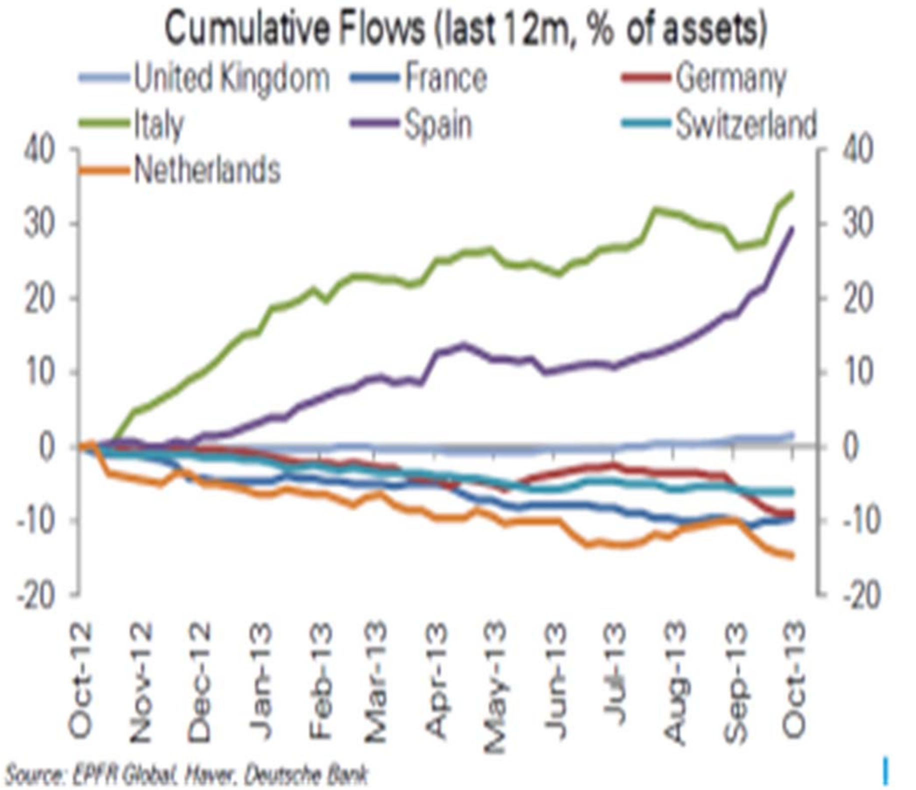


Source: Dealogic, ECB calculations

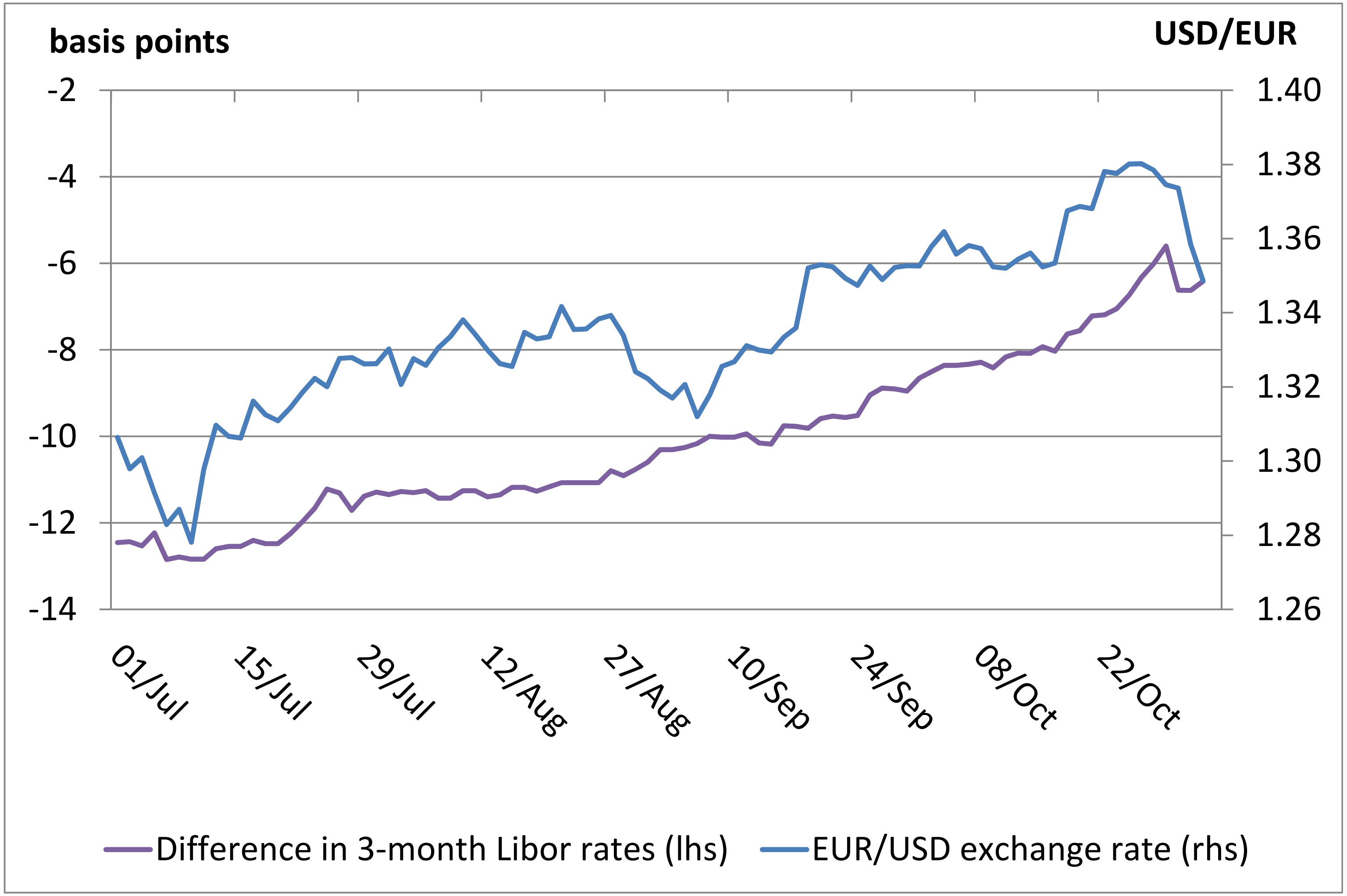
Spanish and Italian equities benefited from capital inflows in Q3 2013



Source: Bloomberg; ECB calculations



Interest rate difference has been a key driving factor of EUR/USD exchange rate developments

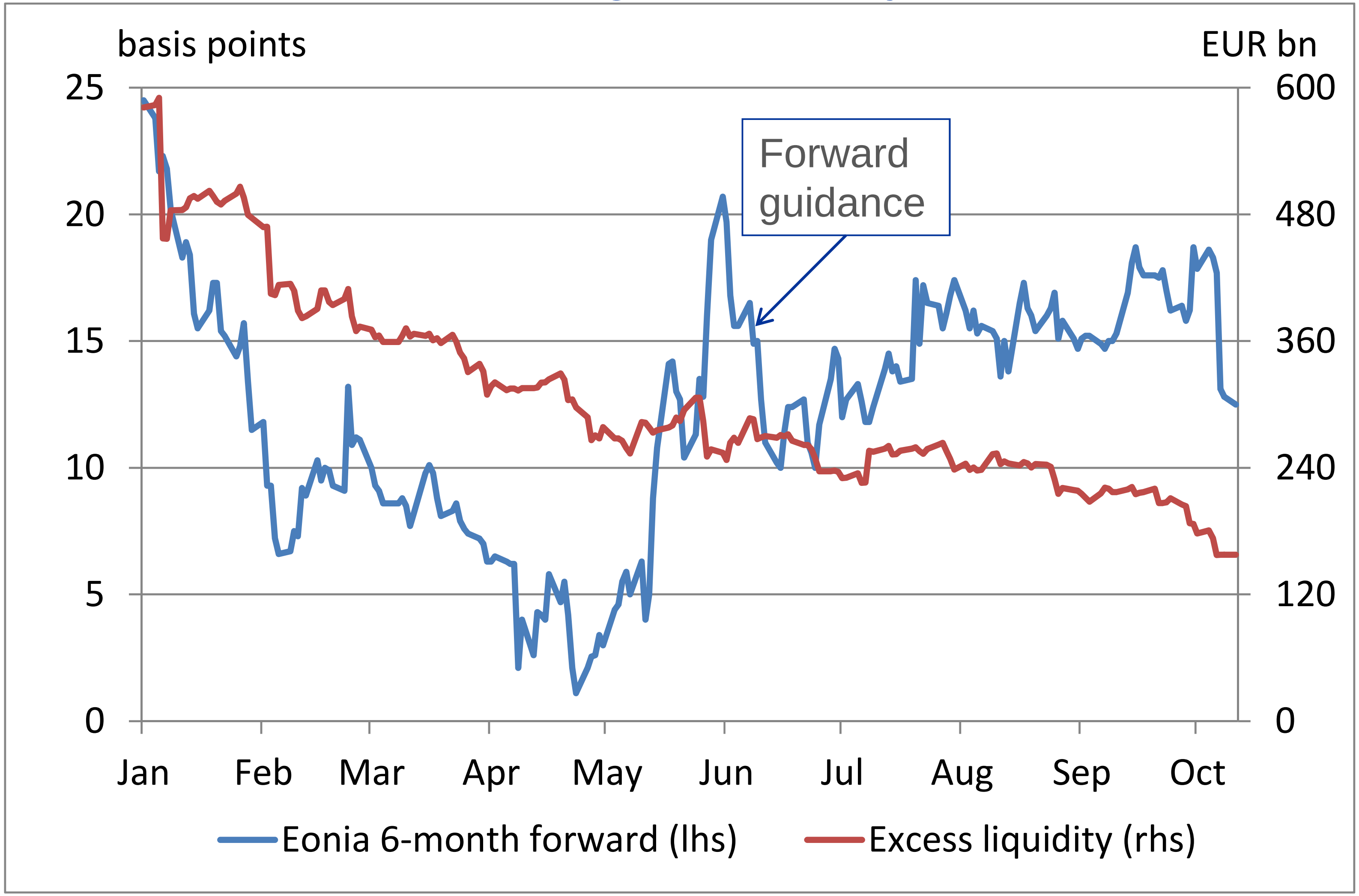


Source: Bloomberg.

Financial markets – euro money market developments

- Forward guidance introduced by the ECB resulting in decline in the volatility and stabilisation in the level of short term interest rates in Q3 2013.
- Declining excess liquidity in the Eurosystem prevents interest rates to fall significantly.

Declining excess liquidity prevents short term interest rates to fall significantly



Source: Bloomberg.