# Money Market Contact Group

## *Update on OBFR*

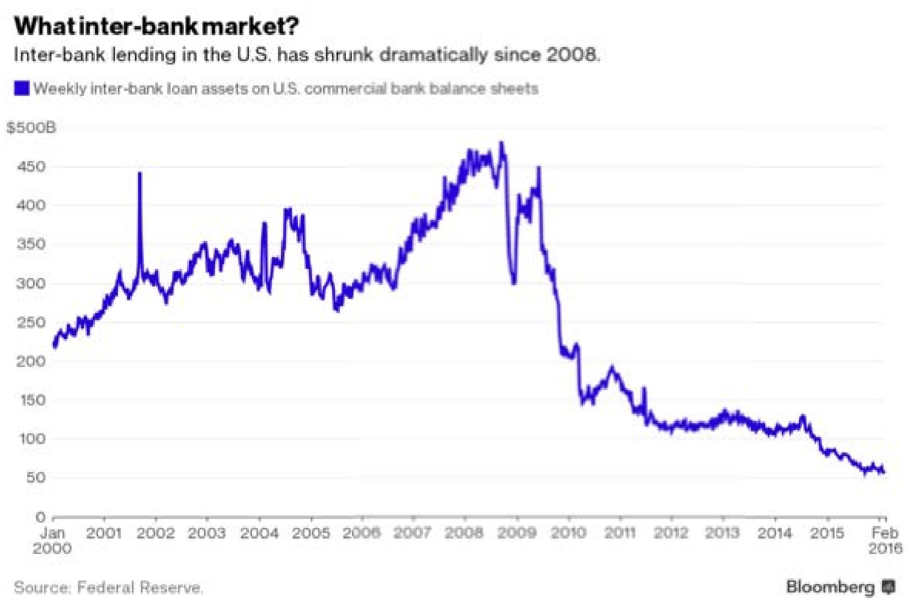
Frankfurt, 15th March 2016

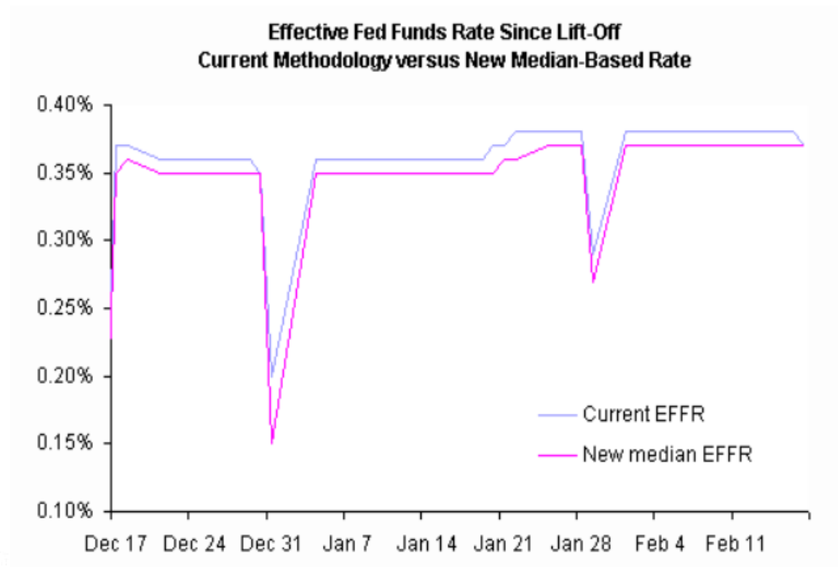
# US Federal Reserve – changes on O/N fixings

Beginning on March '16 the Federal Reserve Bank of New York has introduced two changes in the calculation of the daily O/N fixings:

- Calculation of the O/N FED Effective Rate from a *volume weighted mean* to a *volume weighted median* (under current market conditions the new rate likely to be lower, approx -1bp)
- Publishing of a new Overnight Bank Funding Rate (OBFR) alongside the FED EFF

Both changes are due to the shrinkage of the short-date interbank lending, and OBFR tries to capture a wider selection of trades (Fed Funds market + cash Euro$ depos + MMF and non-banks depos)




source: www.wrightson.com

# US Federal Reserve – new Overnight Bank Funding Rate

In the last few years Fed Funds share of O/N market has significantly reduced.

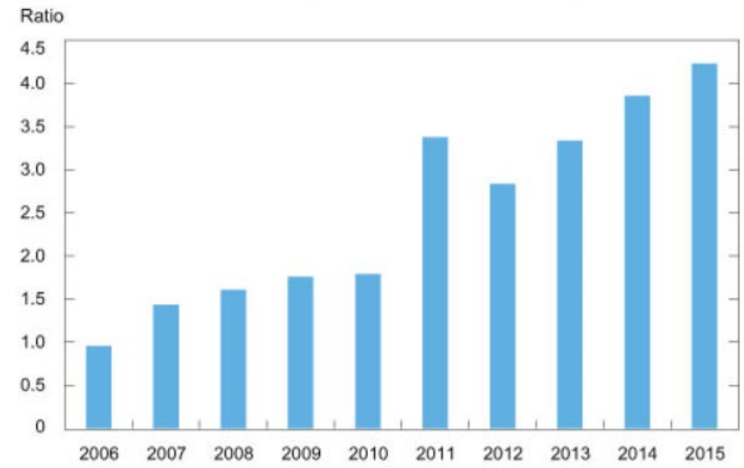
Fed Funds daily activity is estimated around $70bn and dominated by GSEs-FHLBs (over 90% of lenders volume), which cannot place their liquidity to the FED, contrary to the banks.

The O/N daily activity captured by the new OBFR is much wider, around $300-350bn, adding to the Fed Funds market a large part of Eurodollar market (US$ unsecured depos held at banks or foreign branches or borrowed domestically through IBFs); trades with MMF and non-banks are included.

The FED may consider in the future the OBFR as the true level of short dated interest rates and use it as their main guide policy tool. Therefore the OIS market may need to reset the fixing base.

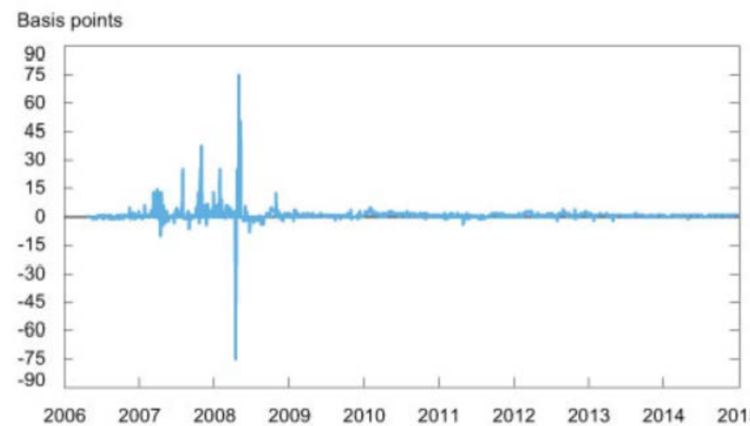
Looking at historical analysis, (done by FRBNY via brokered deals) OBFR would be more volatile than Fed Eff but would more appropriately reflect market conditions.

Transaction Volume Ratio (Eurodollars/Fed Funds)




source: Liberty Street Economics / FRBNY

Brokered OBFR Minus Brokered Fed Funds Rate




source: Liberty Street Economics / FRBNY