EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS 18 March 2008

Money Market Contact Group

Teleconference held on Monday, 17 March 2008 at 15:00

The ad-hoc teleconference launched to gather members' feedback on euro money market conditions following the most recent developments revealed that funding conditions in the euro money market had again become more difficult. This seemed particularly true for maturities beyond 1-week, but also for the very short maturities, where liquidity was reportedly drying-up to some extent. Several members mentioned that the Euribor-OIS spreads had widened again with the 12-month spread reaching a new high beyond 100 basis points.

It was also mentioned that there seemed to be a reduction of some interbank credit lines, which was viewed as a source for concern, as it might contribute further to the observed decrease in market liquidity. Some members reported that there did not only seem to be a segregation between different banks, but also between different groups of banks, an assessment that was however not shared unanimously.

Regarding the secured repo markets, banks were reporting that the conditions in the triparty market were also becoming more challenging again with an overall decline of liquidity. This is reportedly a reflection of counterparties accepting fewer and fewer types of collateral (not only, but also reflecting rating downgrades for certain securities) and also applying higher haircuts to collateral they are still willing to accept. It was also mentioned that secured short-term rates are trading above unsecured rates for some time, which seemed counter-intuitive. Members argued that this might be related to the small sizes that could be transacted unsecured these days and that it might also be a reflection of some banks' problems to receive unsecured funding (as a result of the lack of unsecured credit lines).

The FX swap market was reported as still functioning decently well, but displaying some supply/demand imbalances resulting in difficulties to generate USD funds at reasonable price levels.

Some members feared that the market could be heading for a confidence crisis like in August 2007, while there is less assurance this time that the most recent central bank actions could improve the situation.

Following the Chairman's question, on what central banks may do in order to support a proper market functioning, the following suggestions were made: 1) to continue or possibly increase the front loading provided in the regular MROs; 2) to provide even more longer-term funds, possibly even in longer maturities than the current 3-month LTROs; and 3) to consider an increase of the Eurosystem's allotment amounts under the Federal Reserve's USD TAF auction.

There was also a short discussion about the idea to raise reserve requirements (in order to increase banks liquidity deficit so that the ECB could provide more term liquidity), but views on this proposal seemed to be rather mixed.

Finally, one participant stressed the importance of the still-ongoing process of de-leveraging, which was affecting many different segments of the financial market and which was putting significant strains on banks to fund their balance sheets.