



ECB BMCG

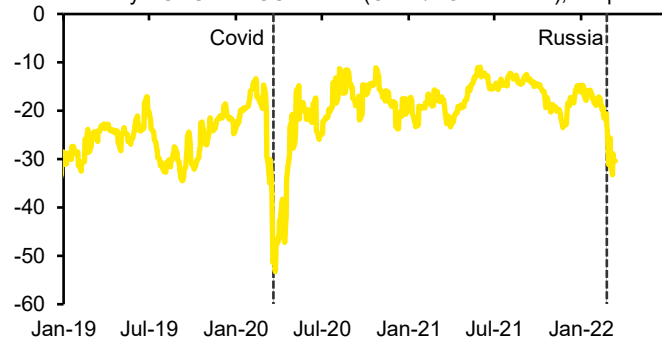
The role of repo in stressed markets

Christoph Rieger, 17 March 2022

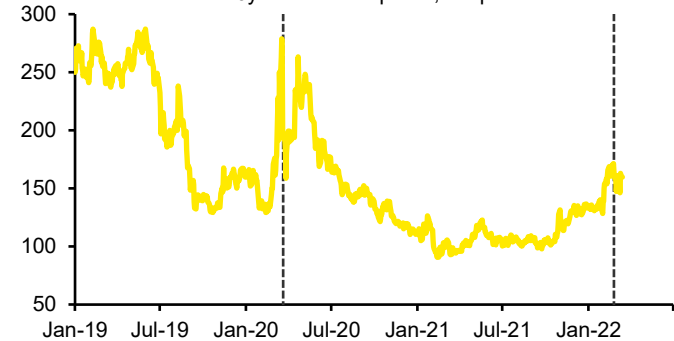
Each crisis is different!



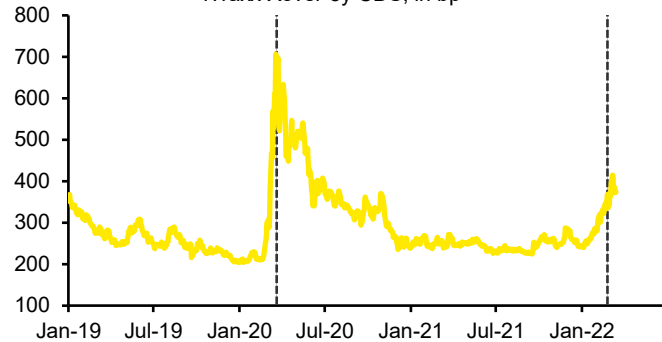
Dollar funding more expensive, but not impaired
1y EURUSD XCCY basis (€STR/SOFR based), in bp



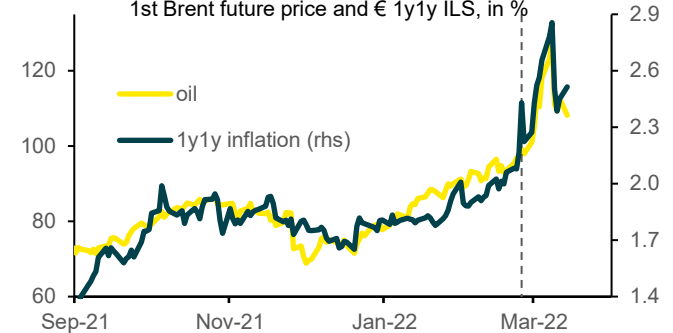
Periphery more afraid of ECB than Putin
10y BTP-Bund spread, in bp



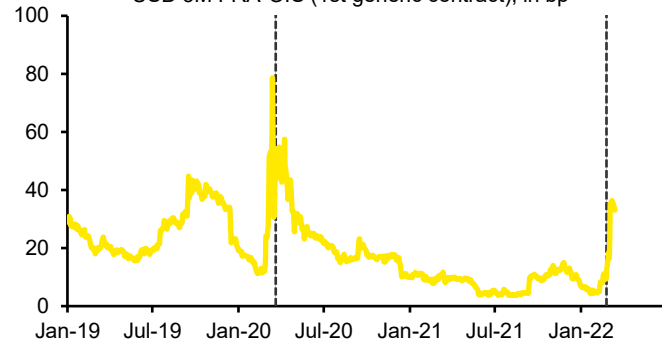
€ Credit most affected, but from low levels
iTraxx Xover 5y CDS, in bp



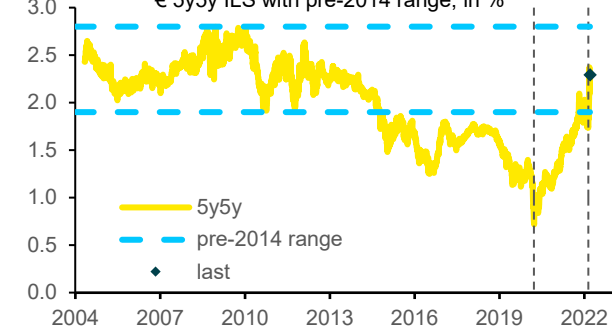
Short-end break-evens pressured by energy...
1st Brent future price and € 1y1y ILS, in %



Money markets still protected from excess liquidity
USD 3M FRA-OIS (1st generic contract), in bp



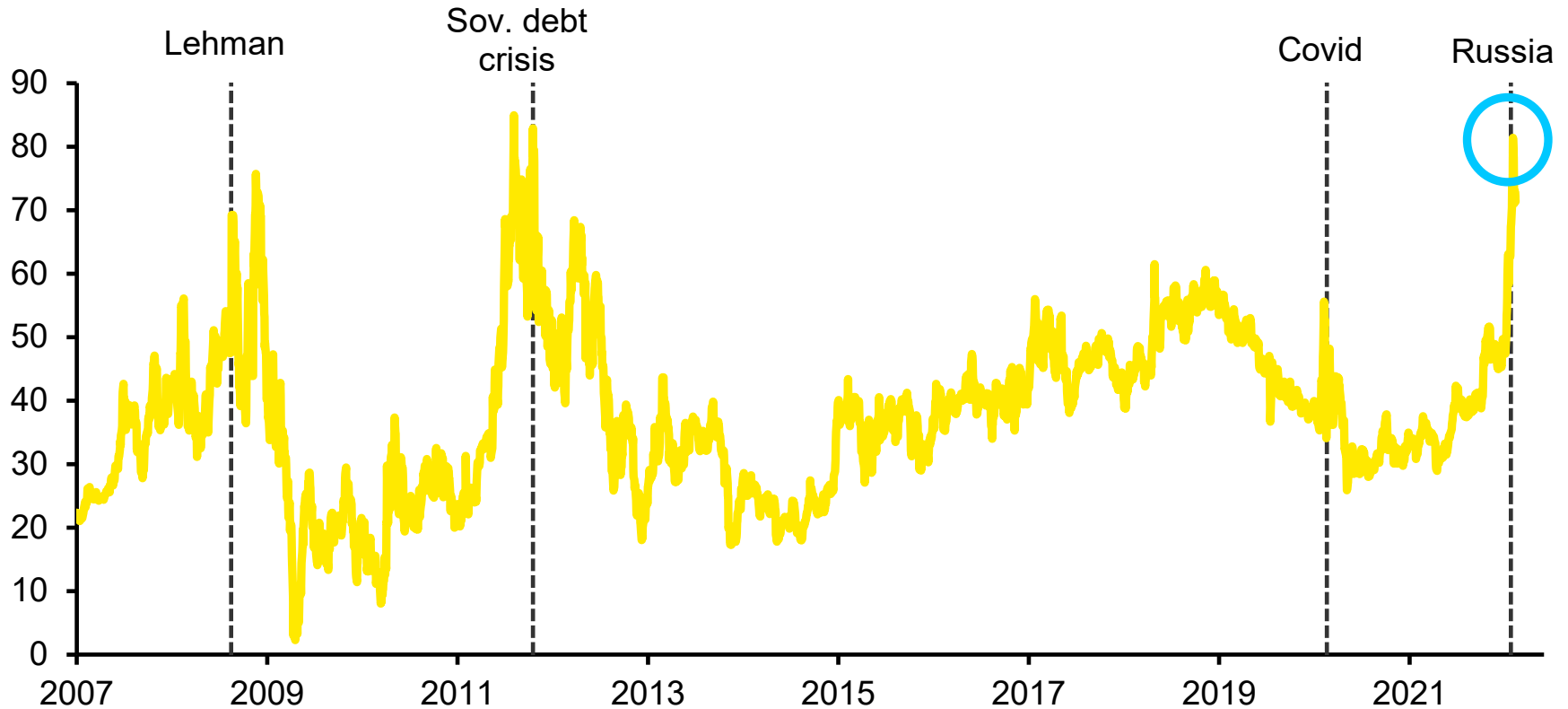
... but long-term break-evens still anchored!
€ 5y5y ILS with pre-2014 range, in %



Bund asset swap spreads rise to record!



10y Bund asset swap spread vs 1st generic future, in bp

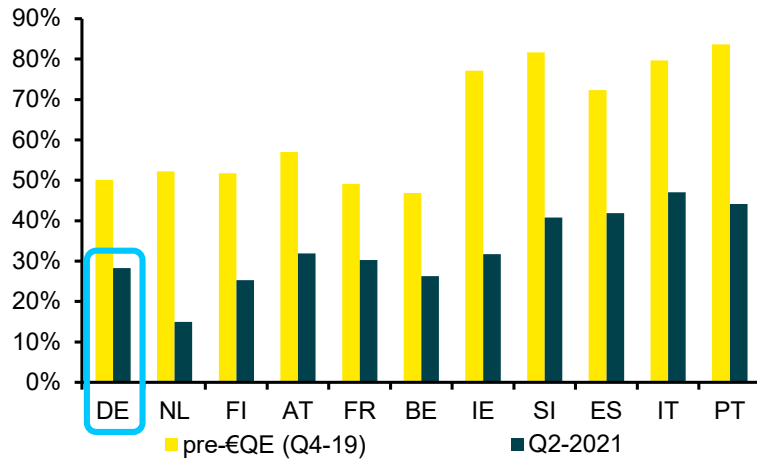


Source: Bloomberg, Commerzbank Research

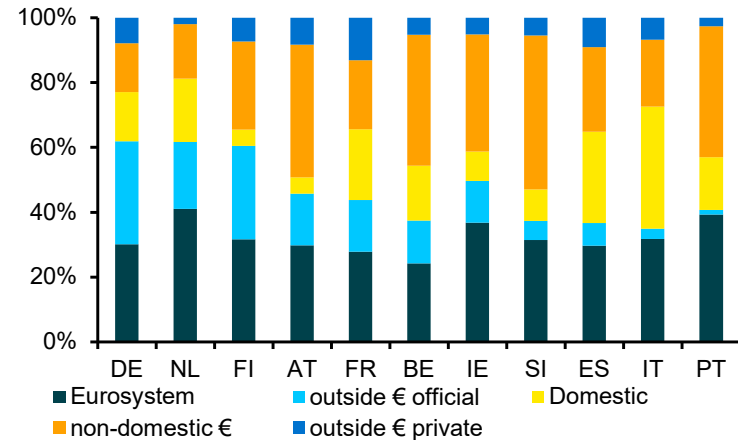
The structural view: Bund scarcity



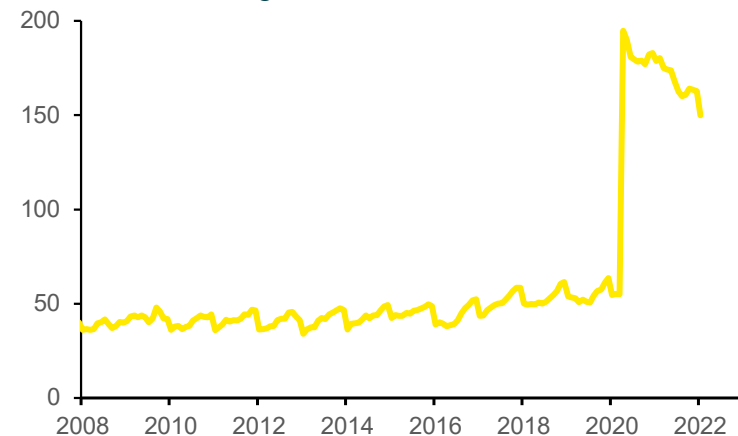
Free float of German paper has fallen below 30%
 Estimated EGB free-float*, in % of outstanding



Largest holders are Buba + foreign central banks...
 Sovereign bond holdings** by investor type, as of Q2-2021



... and the German Finanzagentur (DFA)
 DFA own holdings, in € bn



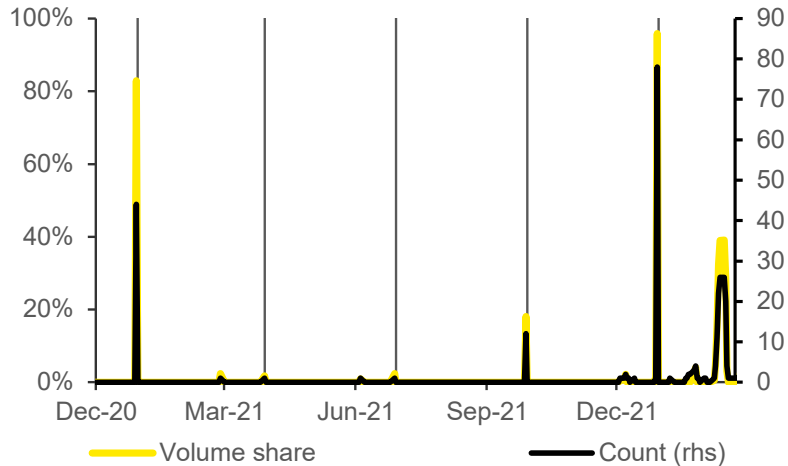
Sources: Bloomberg, ECB, IMF; World Bank, DFA, Commerzbank Research
 *) free float defined as 1y+ general government holdings excluding foreign official sector, Eurosystem, pension funds and insurance industry.
 **) 1y+ general government holdings

February was “special” ...



Year-end dynamics in mid-February

Bunds below -1% in repo (S/N), vertical lines: q-end

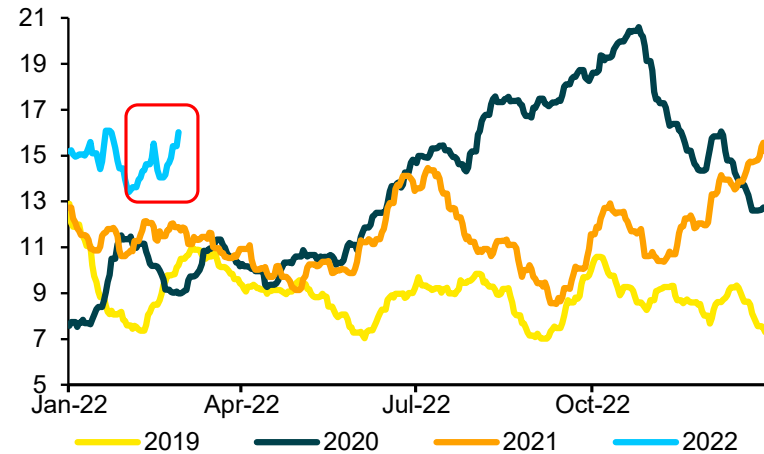


Source: Commerzbank Repo Desk and Research

- Repo valuations turned extreme in February with more than a third of outstanding Bunds trading at repo levels below -1%, but market was functioning
- Main reasons were significant short base and prevailing short ASW positions after year-end. Adjustment to the new CSDR settlement regime only played a minor role in our view. More arguments, see *Rates Radar, The crux with asset swap spreads*, 17 February.

Bund short base unusually high

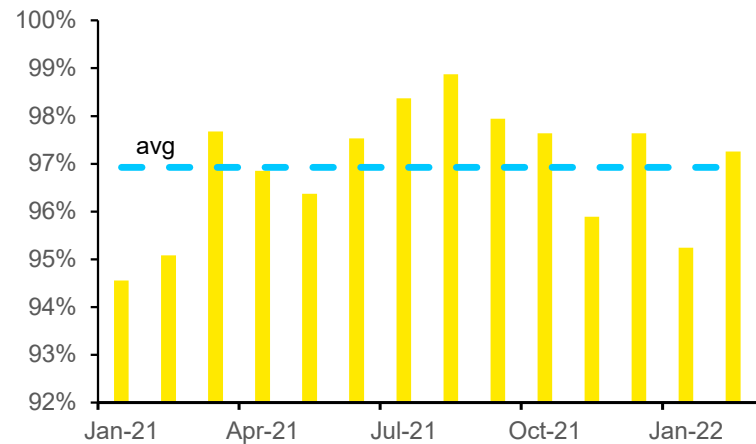
Eurex Repo traded volume in Bund specials, in € bn



Source: Eurex Repo

No increase in fails during February

Eurex Repo settlement efficiency

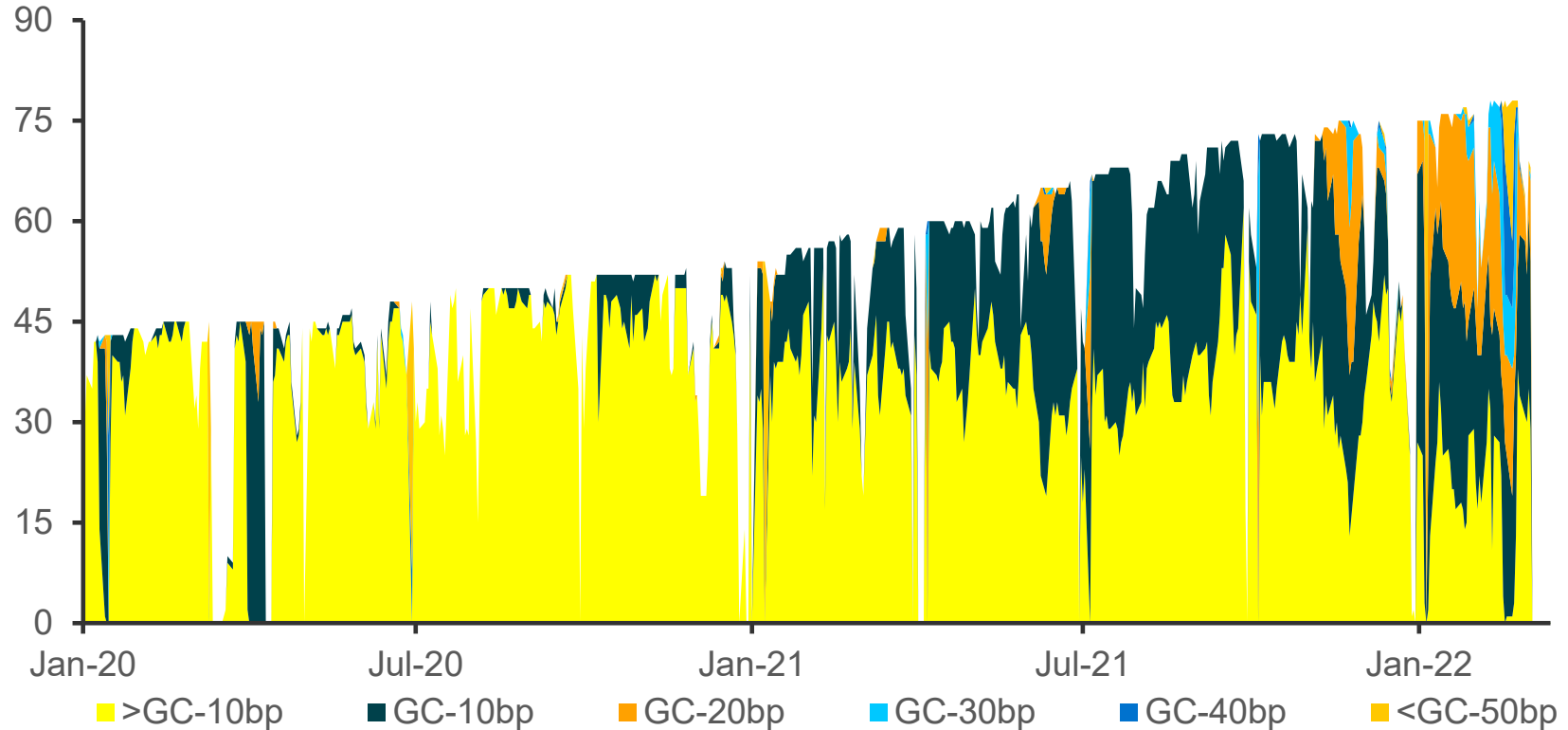


Source: Eurex Repo

...but specialness has been increasing for some time



Distribution of German specials (number of bonds per spread against GC)



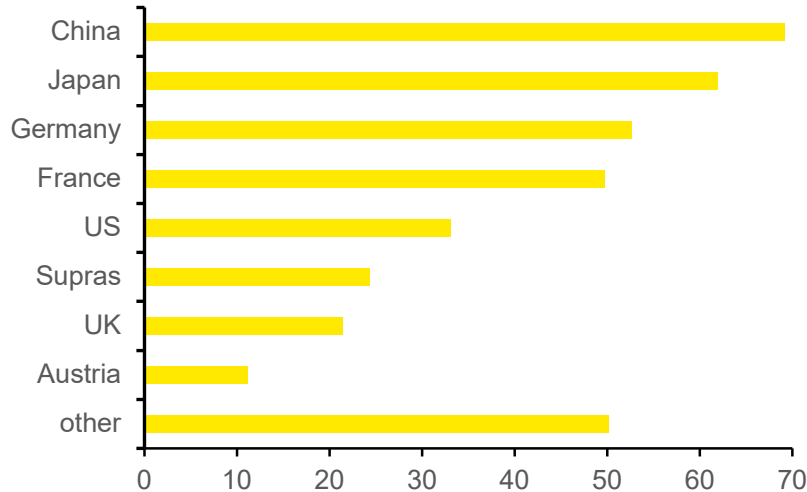
Source: Commerzbank Repo Desk and Research

Ukraine impact underlines role of DFA



Central Bank of Russia holds up to €50bn in Bunds

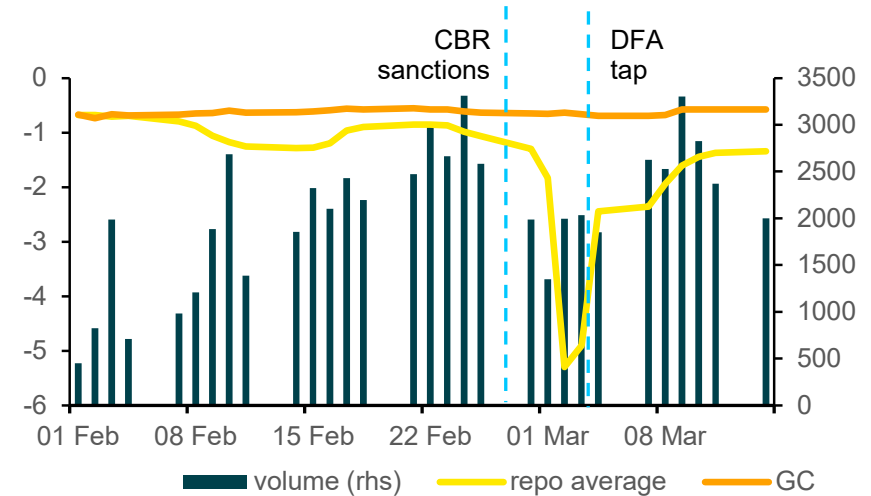
CBR assets in foreign currency by country, 1Jan21, in € bn



Source: Central Bank of Russia, Commerzbank Research

Schatz Mar24 falls victim to CBR sanctions

BKO Mar24 repo and GC averages, in %, and traded volumes, in € bn



Source: Commerzbank Repo Desk and Research

- As market trading became impaired with repo bids below -6% and no offers, DFA took unusual step of tapping BKO Mar24 by €2.5bn into own holdings
- DFA can otherwise only provide backstop via own holdings if it owns the bonds
- DFA is not concerned about market prices resulting from supply and demand
- It will not compromise on secondary trading liquidity or settlement efficiency though

Repo and ASW

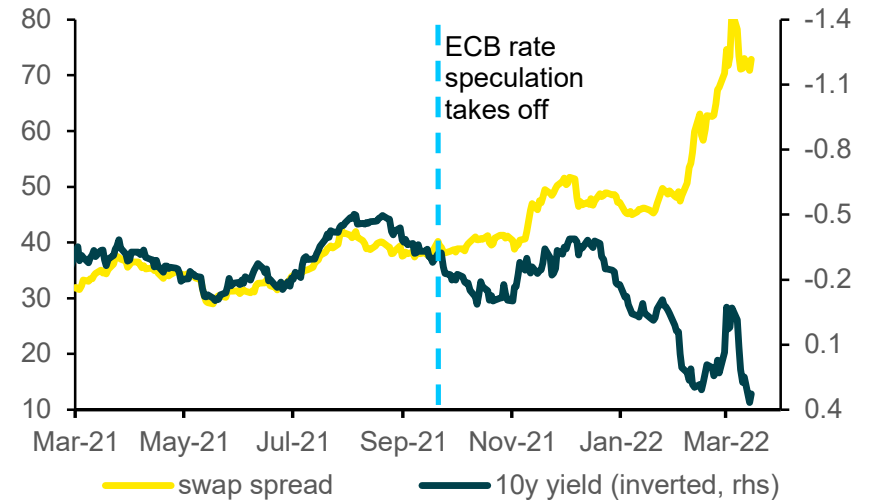


Higher funding spreads – higher asset swap spreads
 Spread of 10 most special DBRs against €STR and 10y Bund asset swap spread, in bp



Source: Bloomberg, Commerzbank Research

Rate hedging adds to swap spread widening
 10y Bund swap spread, in bp, and 10y yield, in %



Source: Bloomberg, Commerzbank Research

Discussion points:



- Which market segments are at risks from further dislocations due to the Russian war against Ukraine?
- What difference could a Russian default make?
- How can bond markets cope with larger crisis-related funding needs at times when the ECB is buying less?
- Do repo markets need more support?
- How could more harmonisation in lending criteria from DMOs and NCBs be achieved?

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	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Overweight	70%	0%
Marketweight	0%	0%
Underweight	30%	0%

Source: Commerzbank Research

Distribution of Commerzbank AG rates research recommendation as of 31 December 2021

	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Long/Buy	43%	0%
Neutral	16%	0%
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Source: Commerzbank Research

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