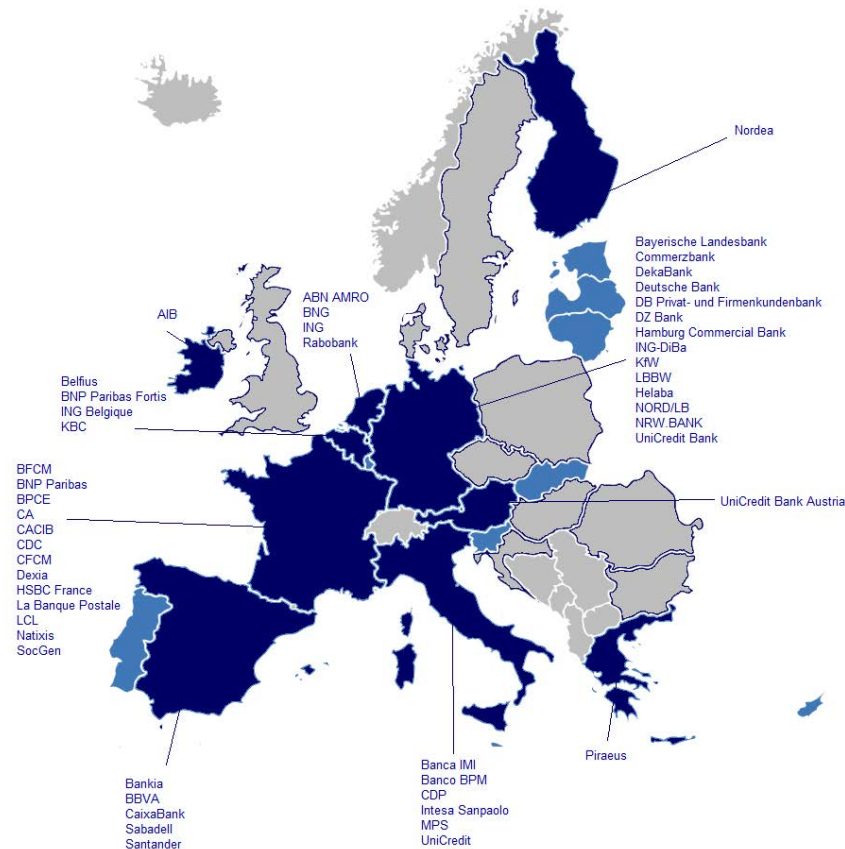




**María Encío**  
DG-Market Operations  
Division Money Market and Liquidity

## Main features of the euro money market

*Money market trends as observed through MMSR data*





EUROPEAN CENTRAL BANK

EUROSYSTEM

## Overview

**1** Main trends in euro money market:

MMSR data coverage

**2** Money Market segments:

A.Unsecured

B.Repo

C.Foreign exchange swap

D.Euro OIS curve

**3** From EONIA to the new €STR rate

**4** Key findings and conclusions

# 1. Enhanced Euro Money Market Study 2018

Changes compared to earlier editions

## Previous EMMS editions

- Last published in 2015
- Sample: 149 institutions
- Period covered: 2 years
- Annual survey based data on Q2 volume

## Enhanced EMMS 2018

- Next to be published in summer 2019
- Sample: 50 largest banks (MMSR reporting agents)
- Period covered: daily data for 2.5 years (Jun16- Dec18)
- Real transactions based data on unsecured, repo, OIS, and FX swap market

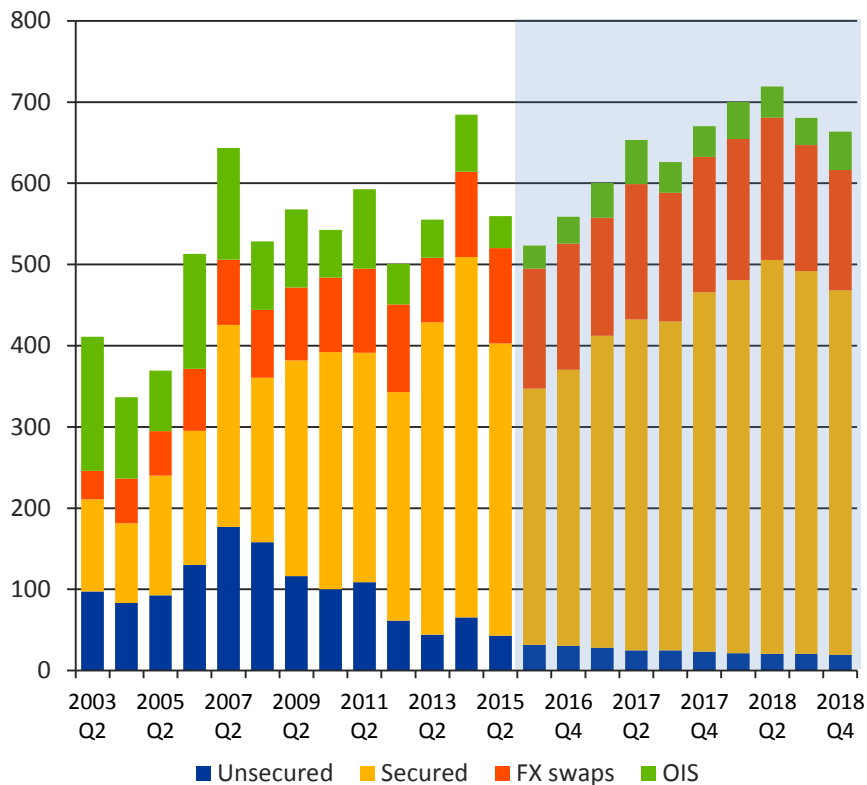


# 1. Market profile and trends in the Euro Area

Less diversified among segments than 15 years ago, featuring a strong dominance of secured money market

## Market Share of the Daily Average Volume per quarter

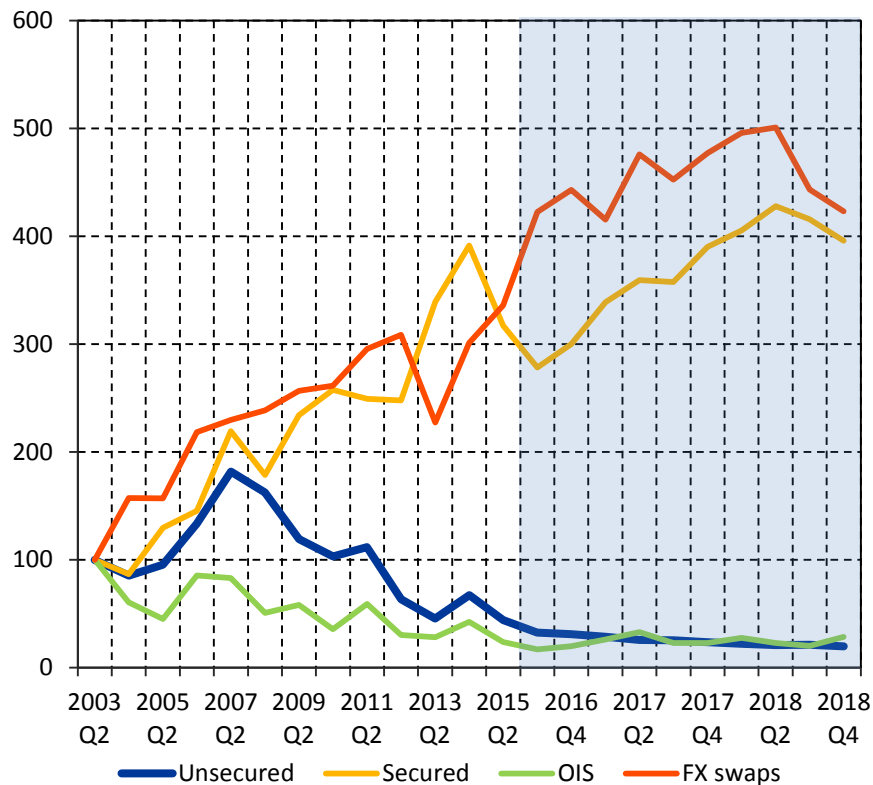
Y-axis: EUR billions



Sources: ECB – EMMS until 2015, MMSR from mid-2016 onwards  
Notes: An overlapping sample of 38 banks was used. The data refer to banks and CCPs as counterparties

## Turnover in money market segment

Index: total volume in 2003Q2 = 100

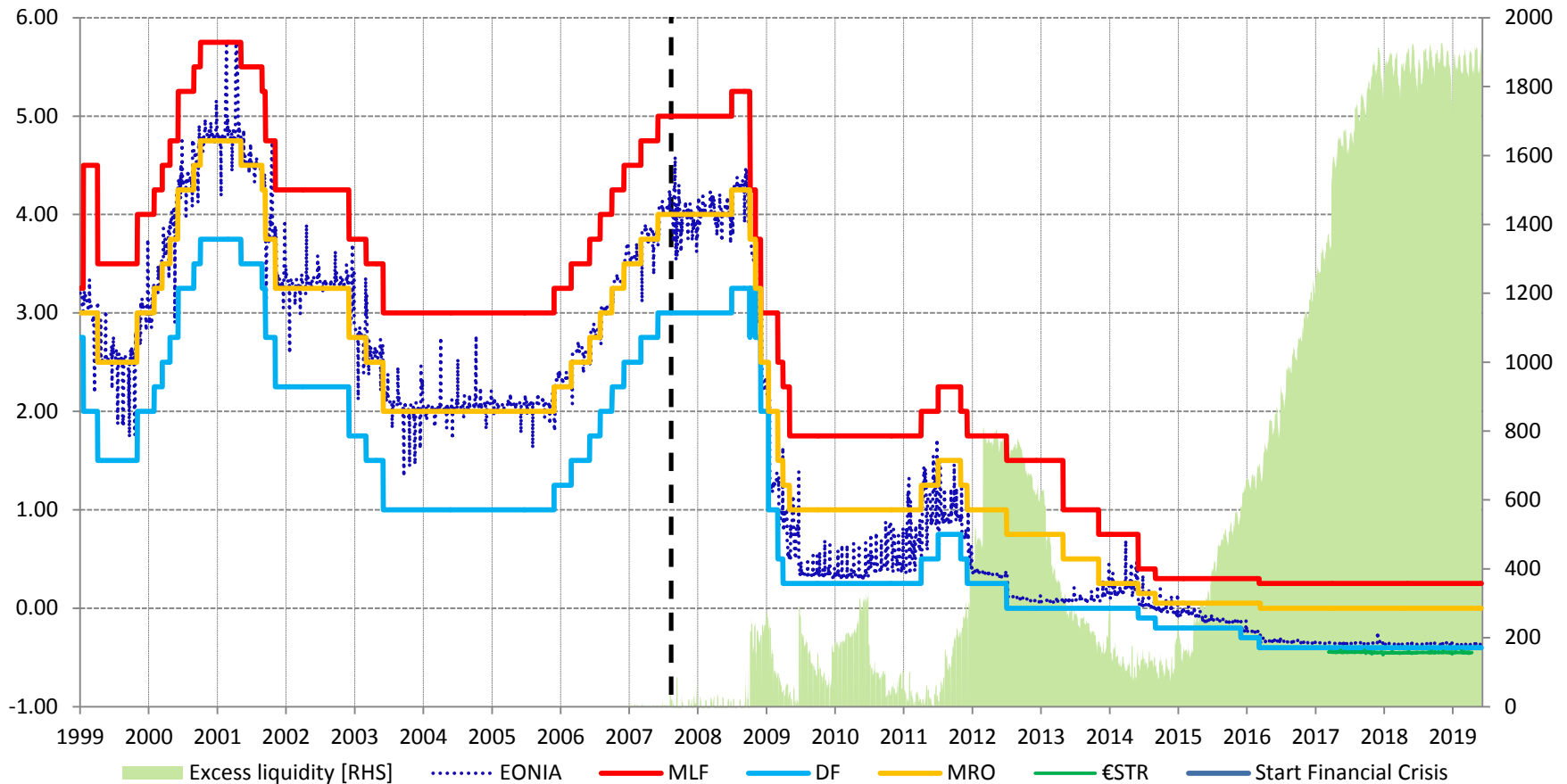


Sources: ECB – EMMS until 2015, MMSR from mid-2016 onwards  
Notes: An overlapping sample of 38 banks was used.

# 1. ECB Monetary Policy and O/N Money Market interest rates



Y-axis, LHS: percentages, RHS: EUR billion



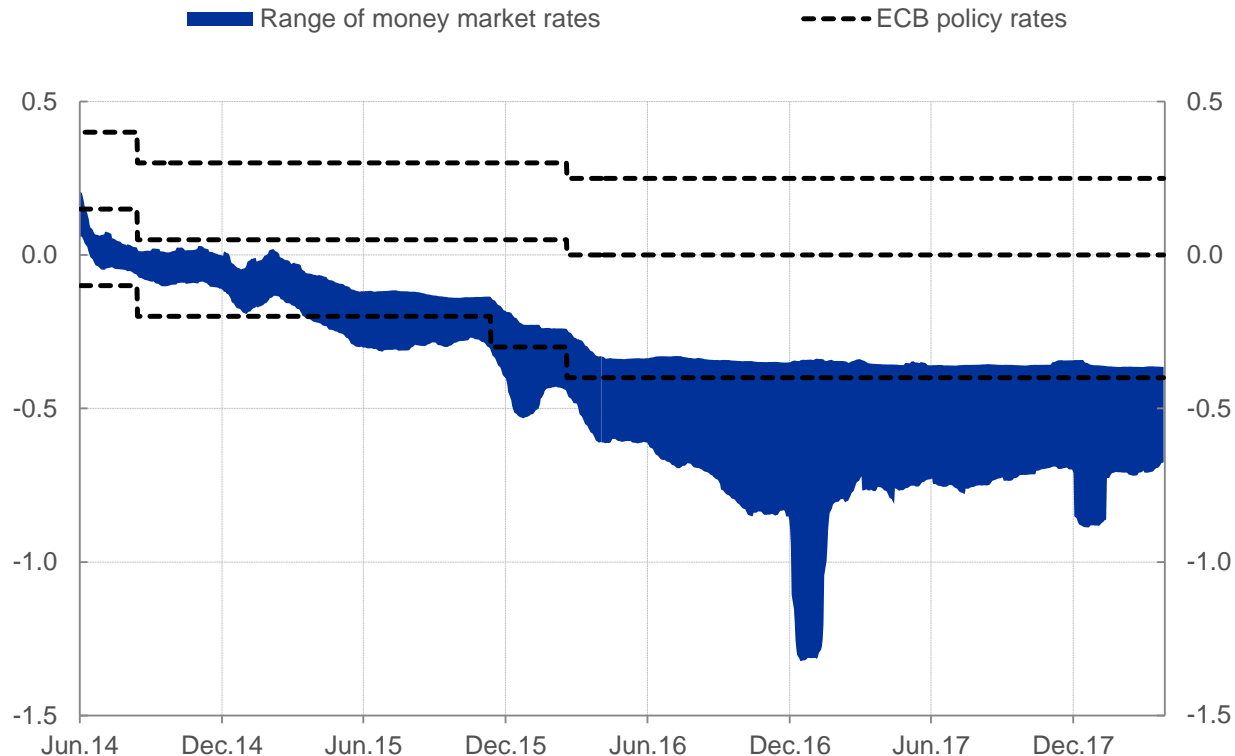
Source: ECB.

Latest observation: 11 June 2019

# 1. Developments in money market rates since June 2014



Y-axis: percentages



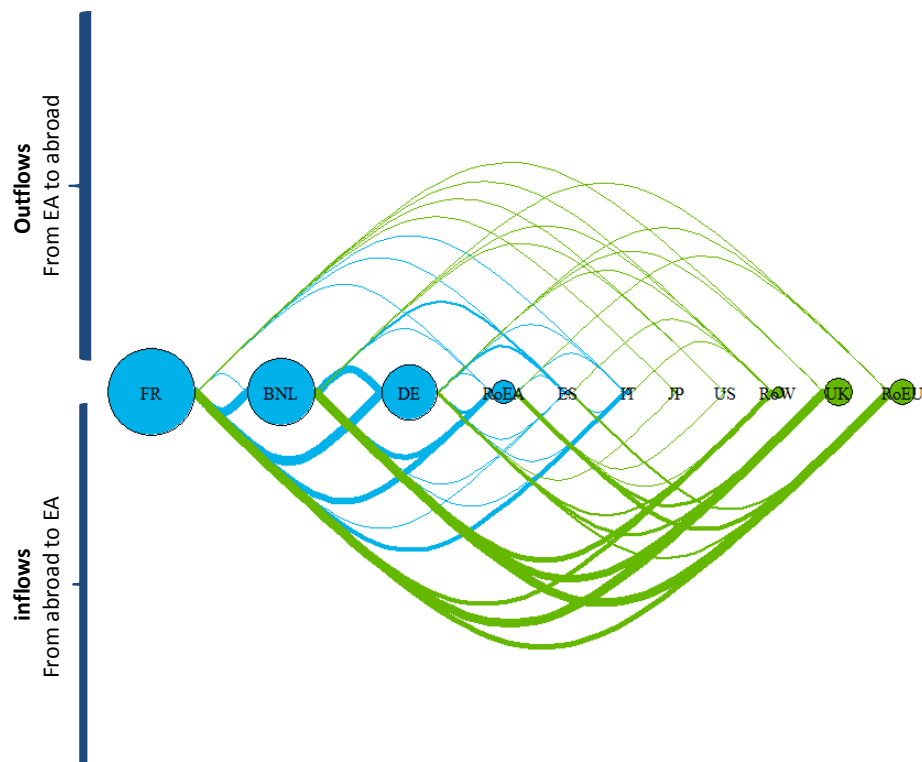
Sources: ECB, BrokerTec, and MTS.

Notes: Minimum and maximum money market rates refer to the minimum and maximum of the 30-days moving averages of the following rates: EONIA, T2 rate, GC pooling, GC Italy, GC Germany and Special German repo rate. T2 rate refers to an unsecured O/N rate derived from TARGET 2 payments system data. Latest observation: 23 April 2018.

## 2a. Unsecured segment (wholesale)

O/N unsecured rates moved below the DFR large inflows from abroad (i.e. no access to DF and non-operational deposits)

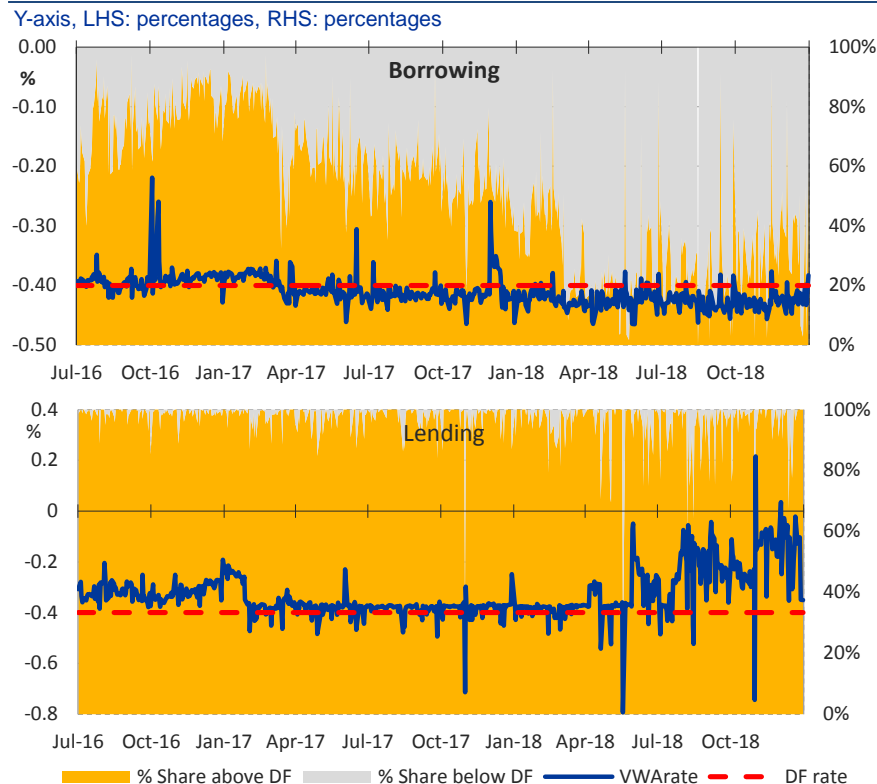
### Liquidity flows in the unsecured market (liquidity flow directions, relative volumes and pricing)



Sources: MMSR data of overnight transactions

Notes: The chart considers only deposit taking corporations located in the Euro Area within deposit instruments with fixed rate transactions. In the 2nd chart, trades between a credit institution and a CCP and all trades with positive rate reported by other credit institutions are excluded from the computation of the rate and the share of volumes seeking the representability of the data.

### Interbank overnight transactions within the euro area



Sources: MMSR data of overnight transactions

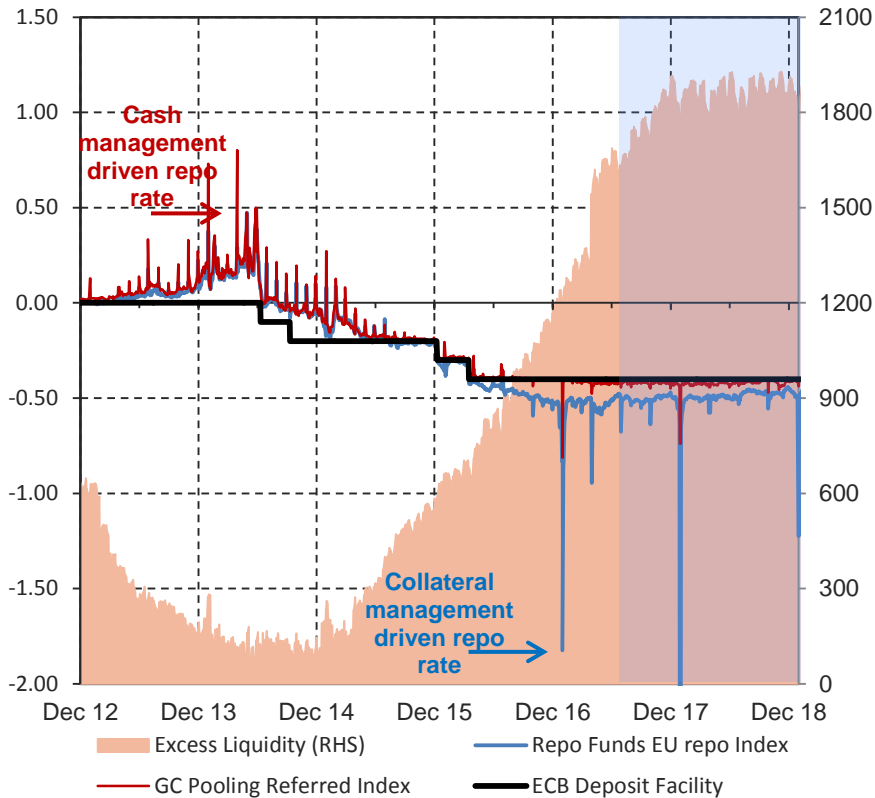
Notes: The chart considers only deposit taking corporations located in the Euro Area within deposit instruments with fixed rate transactions. In the 2nd chart, trades between a credit institution and a CCP and all trades with positive rate reported by other credit institutions are excluded from the computation of the rate and the share of volumes seeking the representability of the data.

Increasing role of the repo as a platform for collateral exchange



### Short term repo rate and excess liquidity conditions

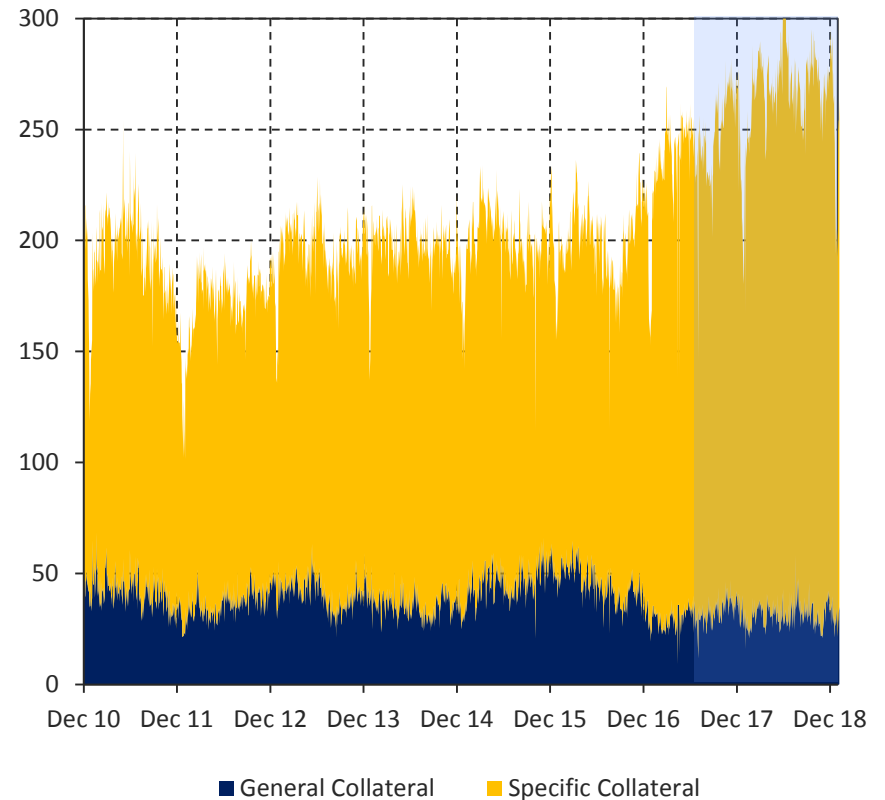
Y-axis, LHS: percentages, RHS: EUR billions



Sources: Brokertec, MTS, Bloomberg, MMSR data and ECB calculations

### Short term repo volume (O/N, S/T, T/N)

Y-axis: EUR billions



Sources: Brokertec, MTS, Bloomberg, MMSR data and ECB calculations

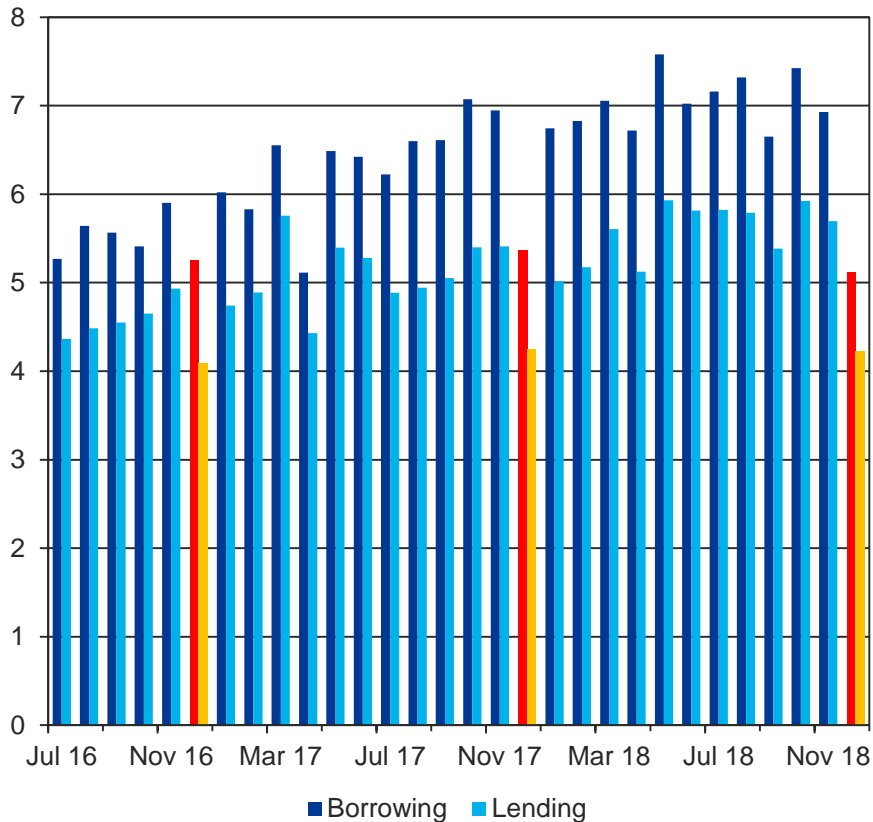




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## Breakdown of secured market turnover by month

Y-axis: EUR trillions



Sources: MMSR

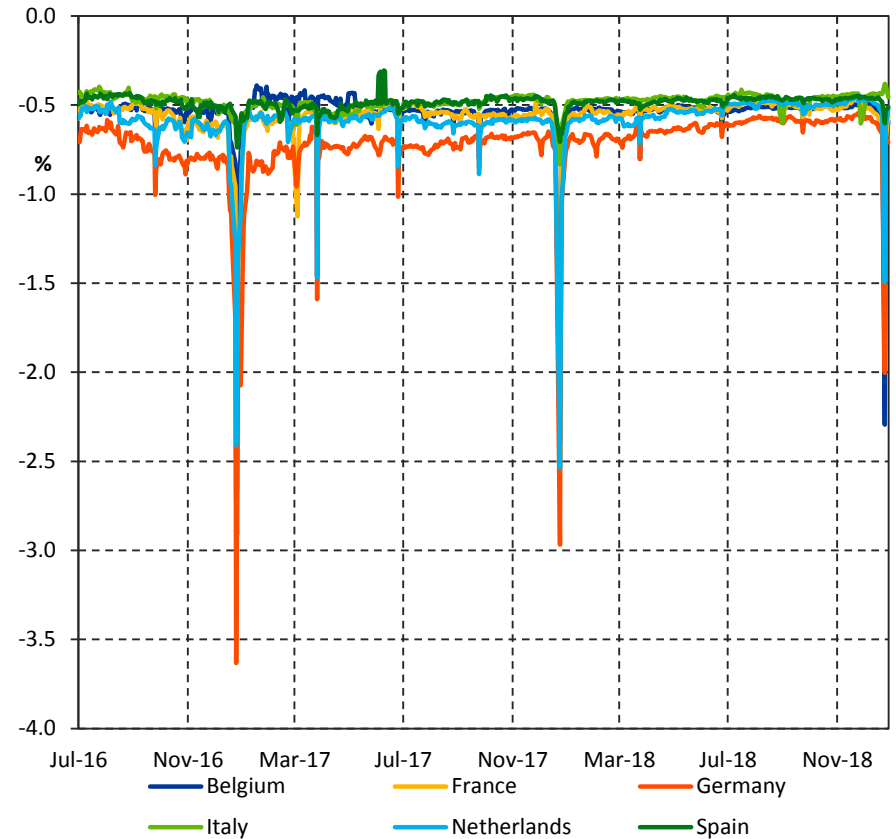
Notes: The bars in red and orange represent the month of December respectively on the borrowing and lending side

## 2b. Secured (repo) segment

... sensitive to balance sheet reporting dates

## Weighted average 1-day (O/N, S/N, T/N) borrowing rates by location of collateral issuer

Y-axis: EUR trillions



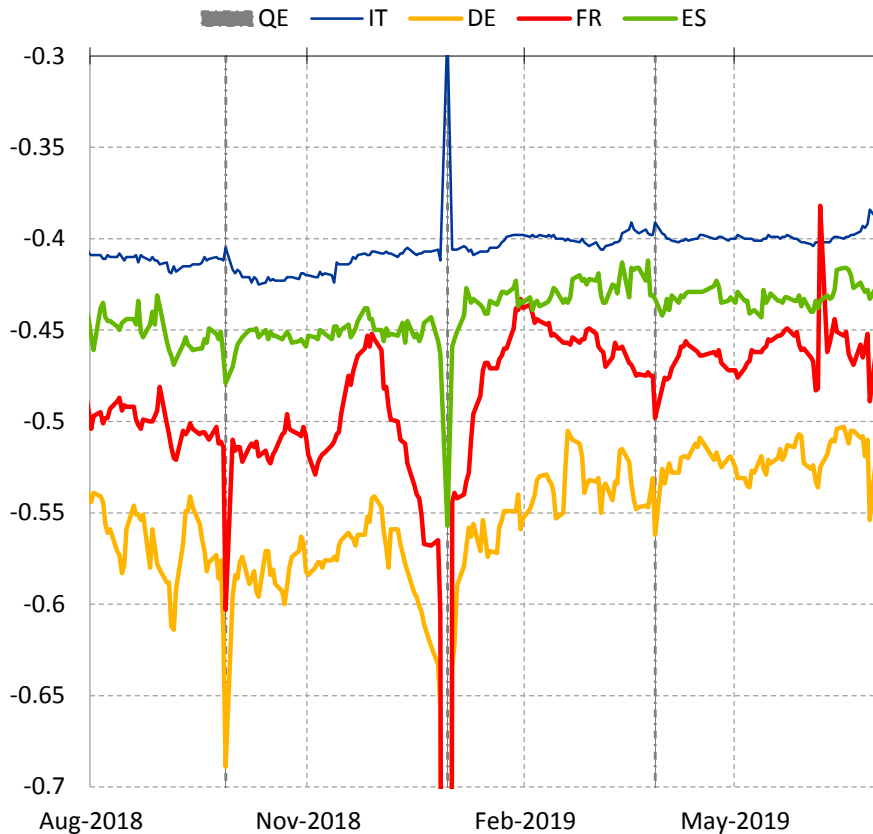
Sources: MMSR

## 2c. latest quarter end in repo and forex swaps

Orderly QE in June with quick normalisation: Usual decline in core-country and increase in Italian collateral rates in the repo market. Less pre-funding observed in FX swap market but rates are in line with March QE.

### Non-GC rates for short-term maturities

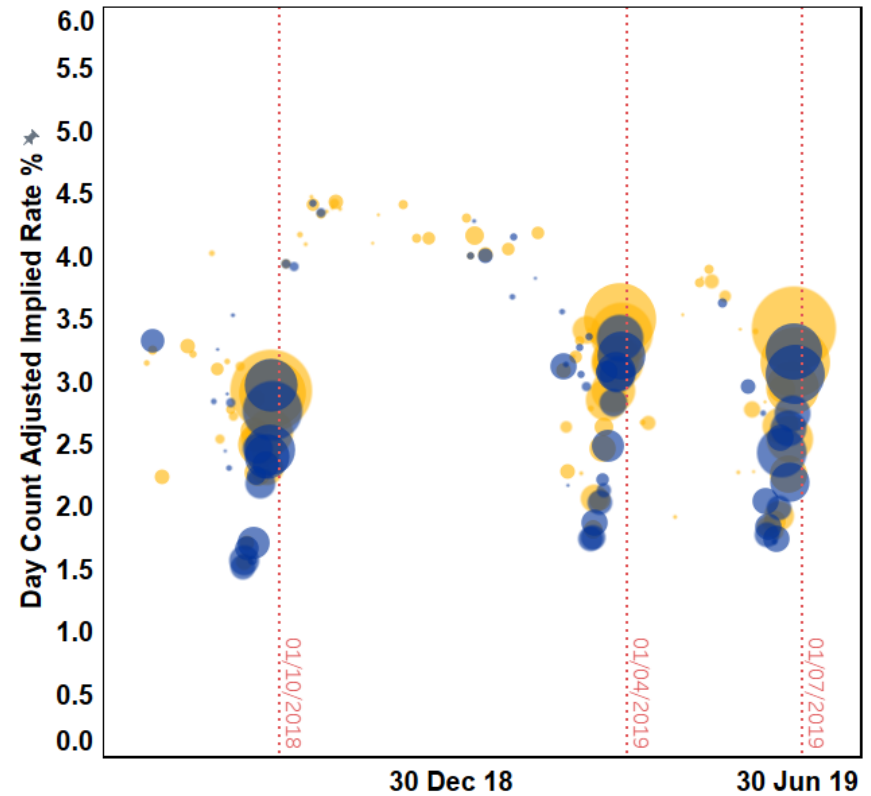
Y-axis: percentages



Source: MMSR, Bloomberg, internal calculations

### USD funding implied rates

Y-axis: percentages



Source: MMSR, Bloomberg, internal calculations

## 2d. Press release on 6 June 2019

‘Still confidence in the baseline, but in the midst of increased and prolonged uncertainty [...] readiness to act in case of adverse contingencies.’  
(ECB President)

- **Forward guidance:** “The Governing Council now expects the key ECB interest rates to remain at their present levels at least **through the first half of 2020...**” *[Press release]*
- **Negative rates:** “The Governing Council also assessed that, **at this point in time, the positive contribution of negative interest rates to the accommodative monetary policy stance and to the sustained convergence of inflation is not undermined** by possible side effects on bank-based intermediation. However, we will continue to monitor carefully the bank-based transmission channel of monetary policy and the case for mitigating measures.” *[Introductory statement]*
- **In the meeting:** “Several members raised the possibility of **further rate cuts**. Other members raised the possibility of **restarting the asset purchase programme**, or further **extensions in the forward guidance**.” *[Q&A]*
- **Rate cut:** “There is confidence in the present baseline, but also clear acknowledgement of the risks. The beginning of a granular discussion about what to do, one of which is exactly **cutting interest rates further, if adverse contingencies were to be realised**.” *[Q&A]*



## 2d. OIS rate reflects market expectations

Dovish comments by Executive Board members led to a decline in euro area OIS rates. OIS forward curve fully prices 10 bps DFR cut for September 2019 and March 2020.

### EONIA 1Y1Y forward swap rate

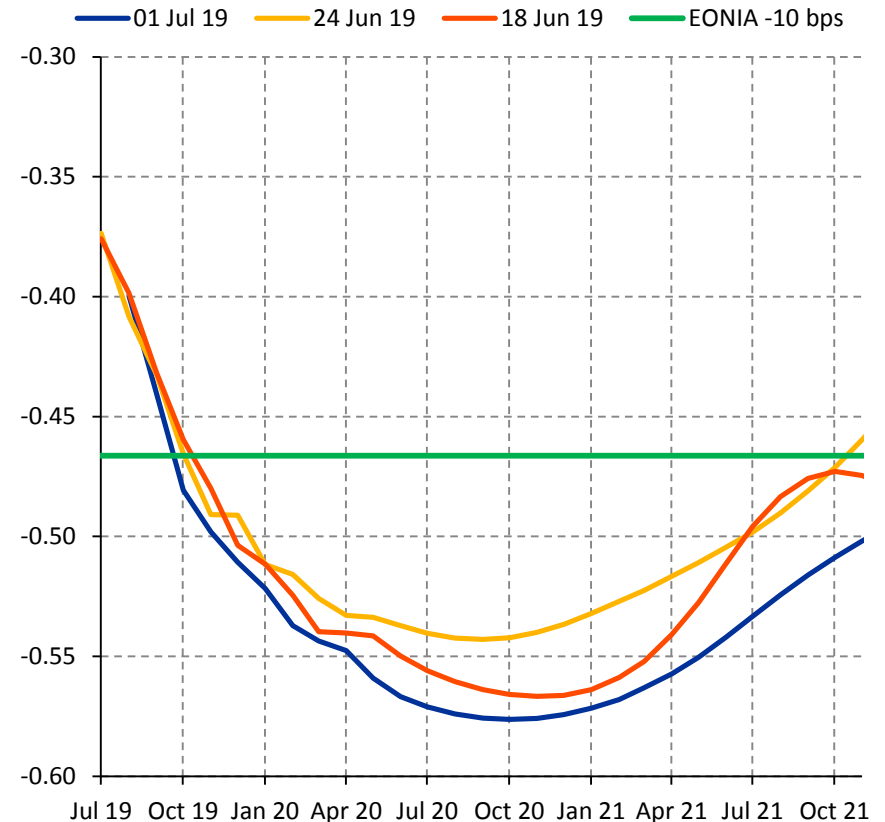
Y-axis: percentages



Source: MMSR, Bloomberg, internal calculations

### 1-month OIS forward curve

Y-axis: percentages



Source: MMSR, Bloomberg, internal calculations

## EONIA vs. ECB Euro Short term Rate (€STR)

EONIA	Euro Short-Term rate
EUR	EUR
Overnight	Overnight
Unsecured	Unsecured
Transaction Based	Transaction Based
<b>Unstable</b> Panel	<b>Stable</b> reporting sample
<b>Interbank</b>	<b>Wholesale</b>
Bank <b>lending</b>	Bank <b>Borrowing</b>
Published on <b>T</b>	Published on <b>T+1</b>

Source: MMSR, Bloomberg, internal calculations

Source: MMSR, Bloomberg, internal calculations



## Main features of the rate

Scope: unsecured overnight deposits to measure borrowing costs

Calculation: weighted average, trimming 25%

Data sufficiency policy: contingency triggers (20 banks, 75% top 5 banks' concentration ratio)

Governance and processes: €STR published by 9:00 am Frankfurt time

Publication policy and transparency on errors

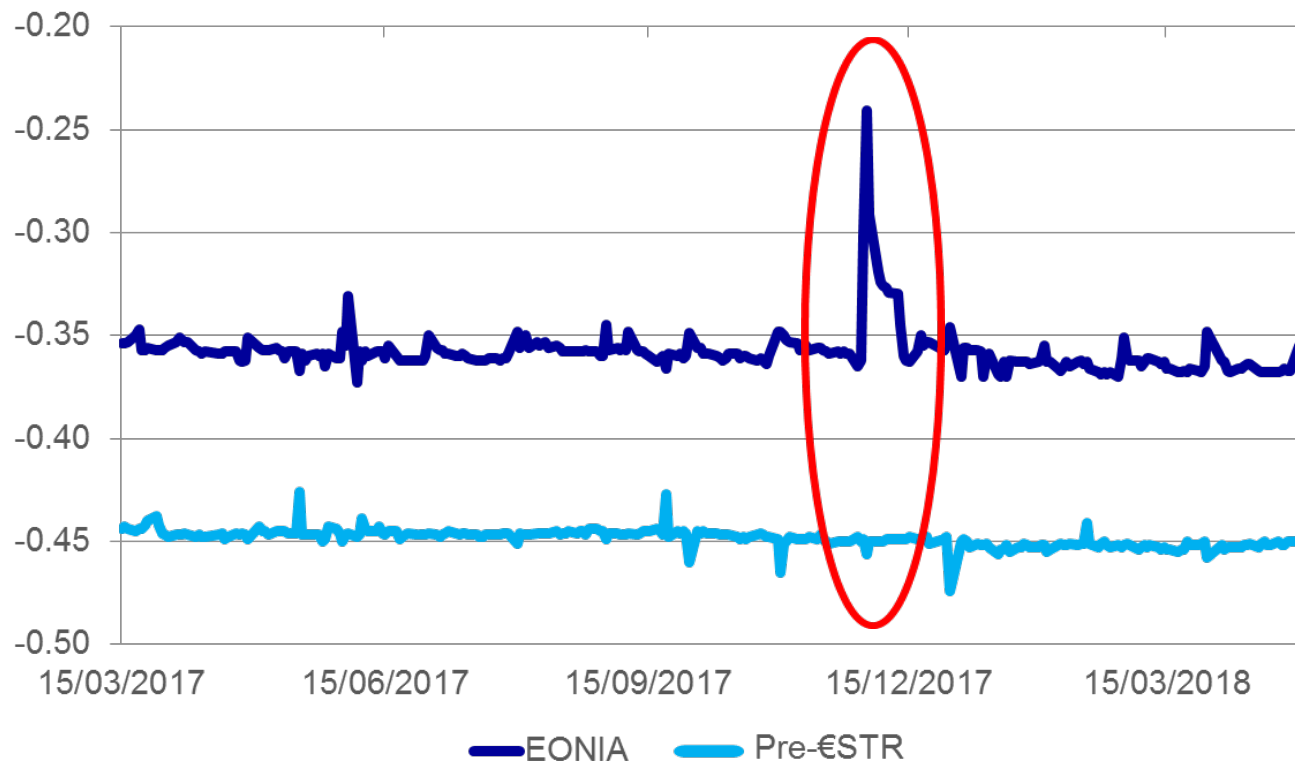
Rate published daily from 2 October 2019  
Pre-€STR publications since 28 June

[Do you want to know more?](#)

Parameters more detailed in the statement of methodology  
[https://www.ecb.europa.eu/paym/initiatives/interest\\_rate\\_benchmarks/s\\_hared/pdf/ecb.ESTER\\_methodology\\_and\\_policies.en.pdf](https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/s_hared/pdf/ecb.ESTER_methodology_and_policies.en.pdf)

## Trimming: outliers filtered out

Y-axis: percentages

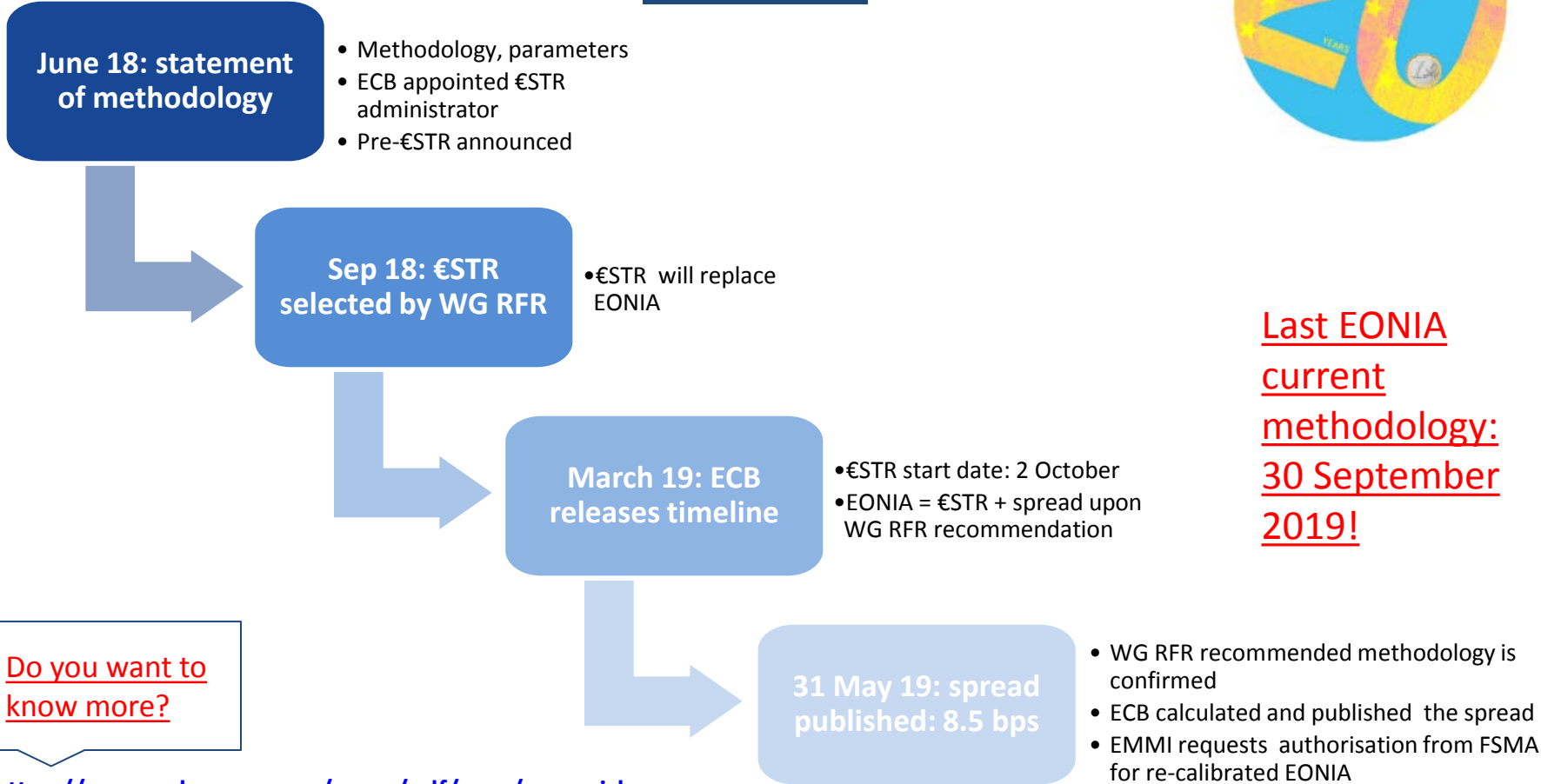


- Rate reacts to market factors (Excess Liquidity, rate falls at quarter-ends)
- While being less vulnerable to outliers
- Pre-€STR (post corrections) very similar to €STR (based on 7:00 data)

# 3. Adoption and transition to €STR



## Timeline



Last EONIA current methodology: 30 September 2019!

[Do you want to know more?](#)

[https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.eoniatransitionreport201812.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.eoniatransitionreport201812.en.pdf)



### 3. The move from EONIA in T to €STR in T+1



## Timeline

**30 September by 19:00  
CET**

Last EONIA published  
under current  
methodology

**2 October by 9:00 CET**

€STR based on 1 October  
transactions

**2 October at or shortly  
after 9:15 CET**

re-calibrated EONIA

**1 October:**

No overnight rate  
published



## 4. Summary of main findings and key messages



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- **Better ECB understanding of how money markets evolve thanks to the Money market statistical reporting dataset (MMSR):** daily data on transactions conducted by the largest banks in the euro money market.
- **Role of unsecured interbank market very limited. The bulk of the activity in the unsecured market is outside the interbank sector,** concentrated at the overnight tenor with borrowing rates below the DFR. Large inflows from abroad.
- **Having access (or not) to the deposit facility and regulatory classification of deposits** “operational vs. non-operational deposits” have implications for transaction cost and liquidity flow dynamics.
- **Repo market continued to gain in importance** overtaking by far the unsecured market, as also reflected in increased focus on this market segment by major central banks.
- Overall repo market turnover has increased but divergence observed between **cash and collateral driven function** in reaction to **a high amount of ECB excess liquidity** and **high demand for HQLA** to comply with regulatory requirements triggering sensitivity to balance sheet reporting dates.
- **Forward OIS curve** fully prices 10 bps DFR cut for September 2019 and a second cut in March 2020.
- **Interest rate benchmarks** are essential for the smooth functioning of the financial market. **The ECB decided to develop a euro short-term rate (€STR)** reflecting the wholesale euro unsecured overnight borrowing costs of euro area banks and will complement existing benchmark rates produced by the private sector, serving as a backstop reference rate.

