

Money Market Contact Group

Teleconference held on Tuesday, 16 September 2008 at 11:30

The ad-hoc teleconference was launched in order to receive banks' feedback on ECB operations and on general market developments.

The main points mentioned by the members of the group were as follows:

On EUR liquidity:

- There seems to be a two-tier market. Different names have to pay different prices; for some names liquidity is available until 1m, otherwise only very short-term maturities.
- Banks are concerned about the uneven intra-day distribution of liquidity/turnover, with only little trading taking place in the morning and the bulk being traded between 16.00 and 18.00.
- Reasons for this seem to be: a) hoarding of liquidity; b) uncertainty about the own liquidity position at the end of the day; c) uncertainty about counterparty credit risk; d) hope to be able to swap EUR into USD once the US markets are active.
- Short-term repo markets are distorted (even in top collateral like AAA government bonds). There was a lot of settlement uncertainty related to Lehman.

On USD liquidity

- This seems to be the main problem at the moment: It is almost impossible to raise unsecured USD cash or to generate USD via FX swaps during most of the European trading hours.
- As banks without US presence (access to the discount facility) are eager to close their liquidity shortages early in the day, short-term USD rates remain very high (and to a large extent indicative).
- Many banks claim that the Fed liquidity injections come too late in the day (time zone difference) to calm down the European USD trading. They ask the ECB to provide even more USD on behalf of the Fed to overcome this time zone problem.
- A simple increase in the TAF amounts would be welcome, but would probably not be the banks' first choice. They seemed to be interested in a shorter instrument, like an additional 1-week TAF operation or O/N FX swaps. A few banks were of the view that a more forceful liquidity provision of the Fed early in the US day could also have a positive impact on European USD liquidity.