



DG MARKET OPERATIONS

13 October 2008

Money Market Contact Group

Teleconference held on Friday, 10 October 2008 at 15:00

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:

- There was broad appreciation of the ECB's decision to move to a fixed rate MRO with full allotment.
- Some banks suggested the ECB should offer something similar for the LTROs (at MRO rate plus a certain spread).
- Several banks suggested that the narrowing of the corridor (or more precisely the rising of the deposit facility) was counterproductive, as it reduced the opportunity cost for not lending in the market to only 50 bps. Some other banks argued, however, that in the current conditions credit risk considerations are so important that even with higher opportunity costs the use of the deposit facility would still be very large.
- Availability of collateral does not seem to be a widespread concern (in spite of the large EUR and USD providing operations). Some banks cautioned, however, that this might become an issue going forward and suggested that the ECB should consider an enlargement of the list of eligible collateral.
- There were some critical comments regarding the different level of rates in the USD O/N auctions of the ECB, the SNB and the BoE.
- Some banks mentioned that these differences seemed to be mainly related to the different types of eligible collateral accepted by the various central banks.
- There was some demand for a further increase of the size of the TAF operations and/or the introduction of a fixed rate/full allotment procedure also for the USD operations.
- There seems to be a link between banks'/investors' liquidity needs and the declines in stock and non-government bond prices - i.e. there were significant liquidations in these markets in order to generate cash.
- There was also some concern about a potential distortion of the level playing field among European banks over the medium term (due to the different approaches taken by various governments as regards capital injections / state guarantees).