EUROPEAN CENTRAL BANK

EUROSYSTEM

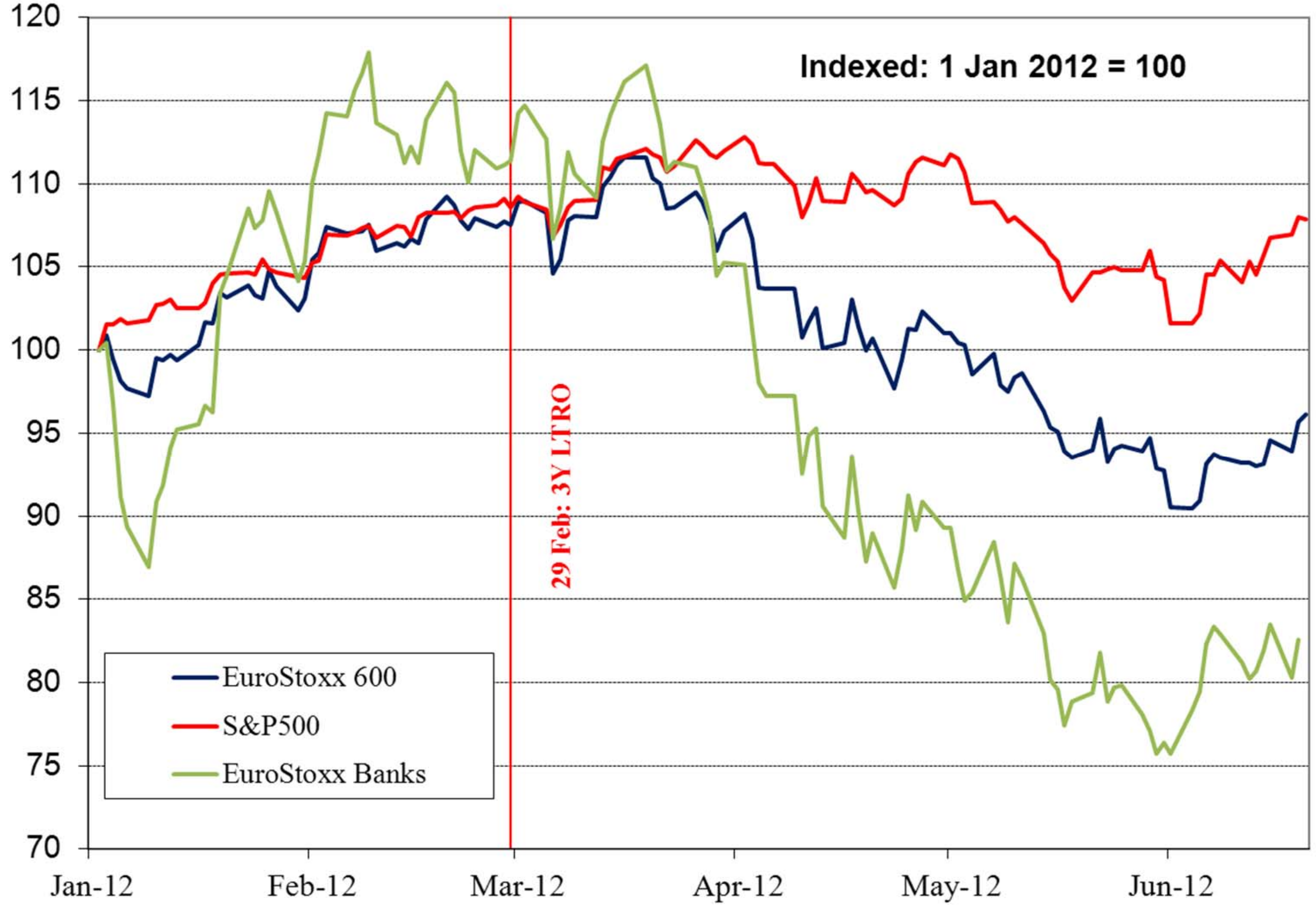
Recent developments in the euro money market

Money Market Contact Group

Frankfurt, 25 June 2012

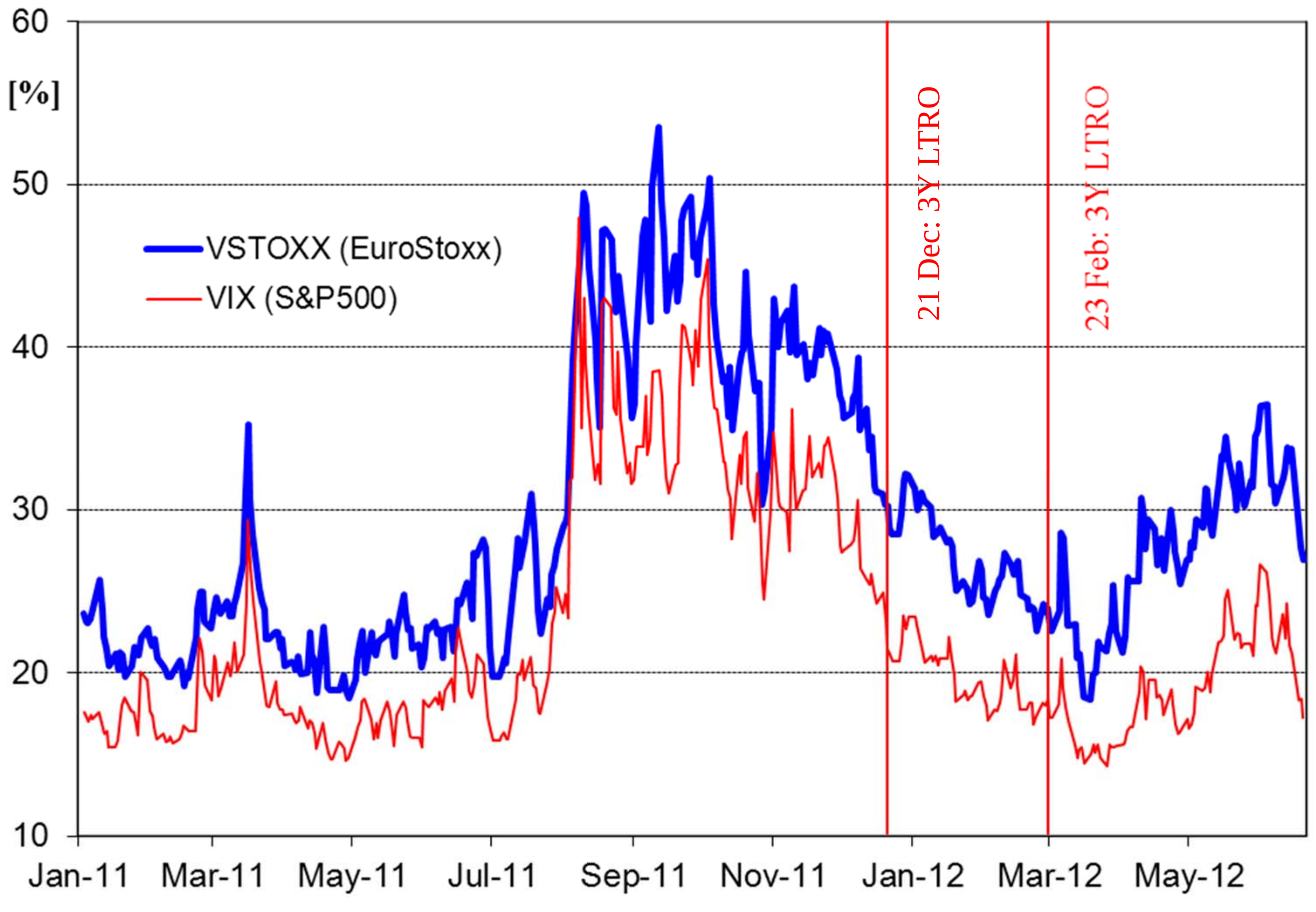
Overall financial market background

1) Deterioration in risk sentiment with a particular focus on Europe and a strong underperformance of banking shares



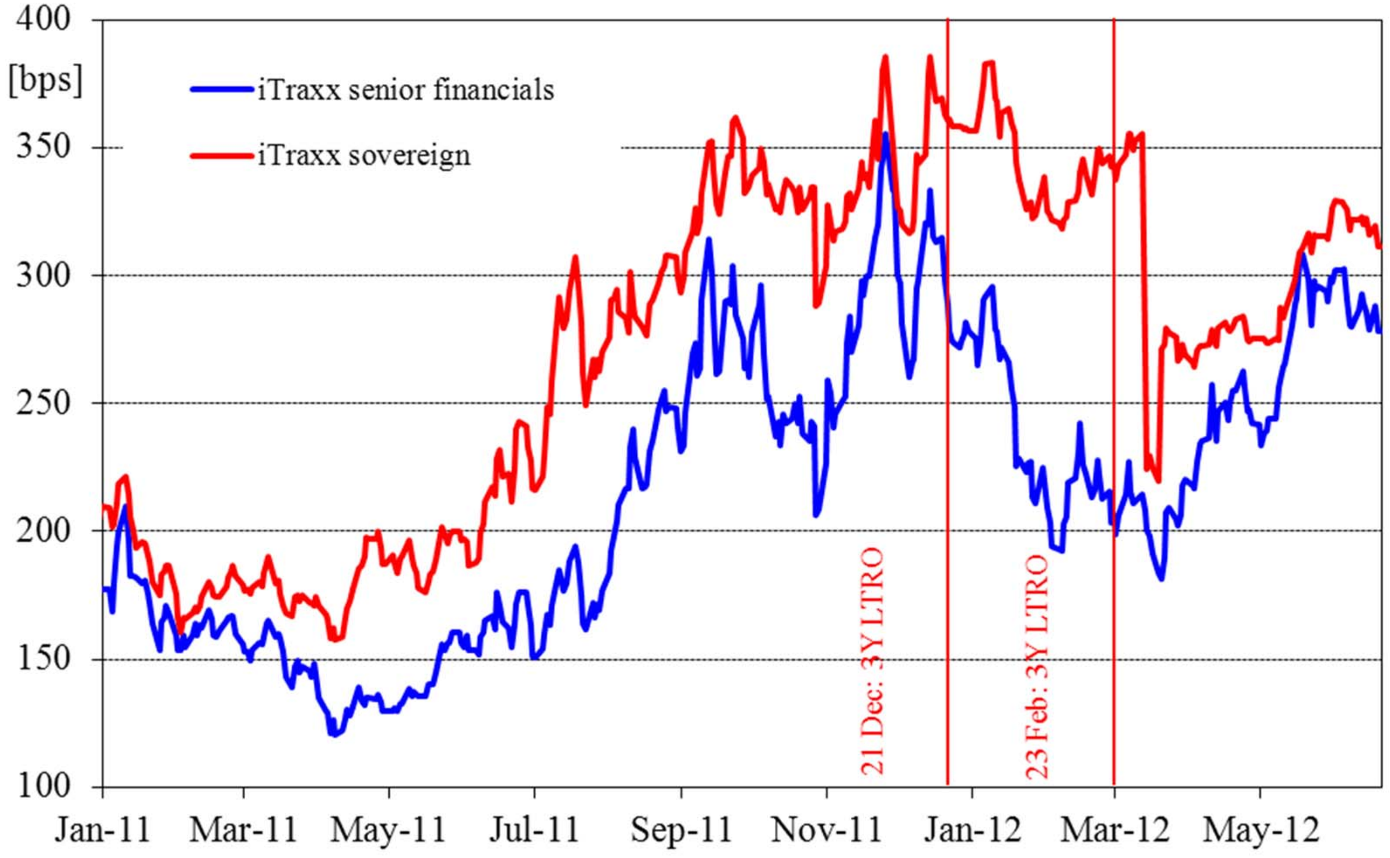
Overall financial market background

2) A marked increase in market volatility but still contained below last year's highs



Overall financial market background

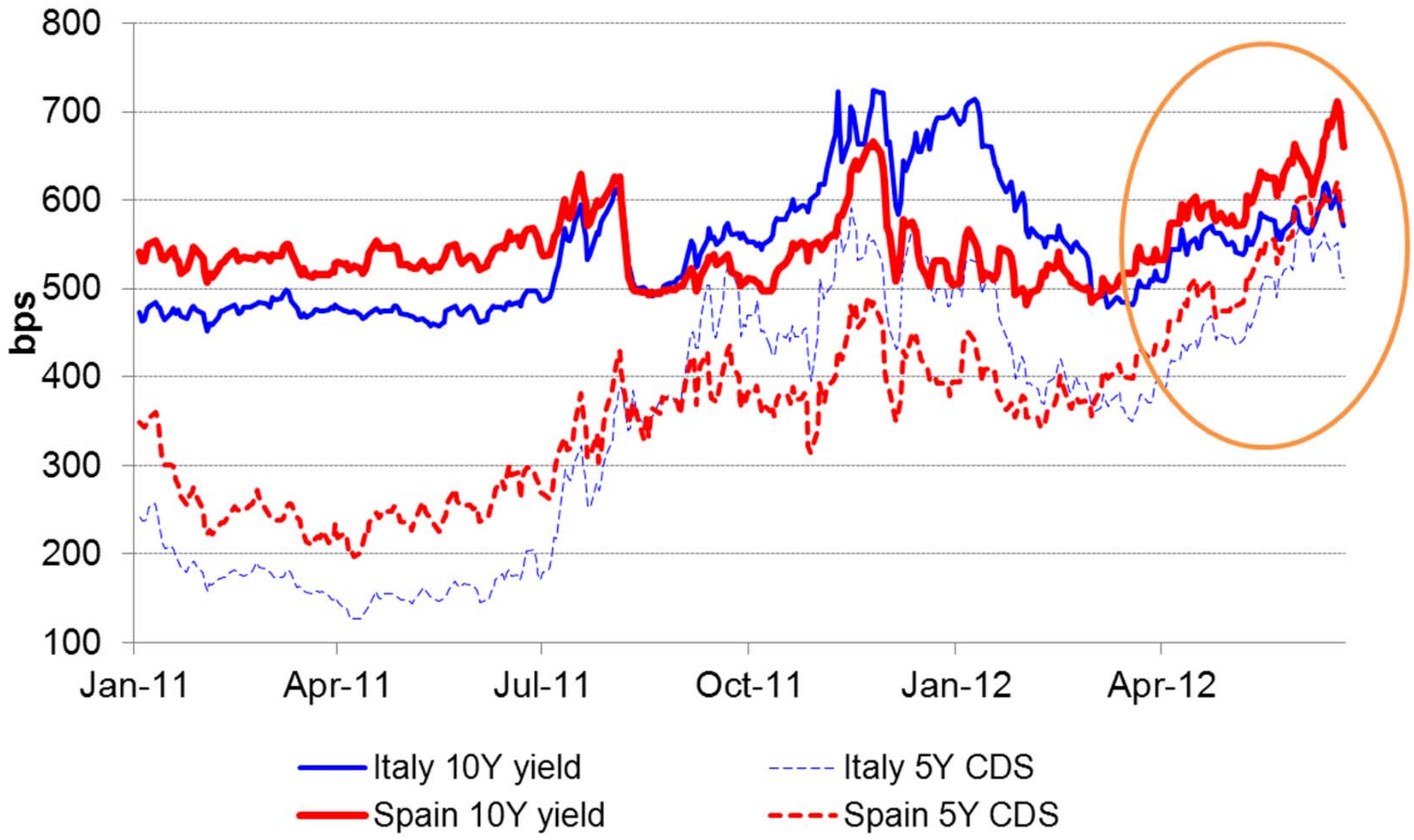
3) Perceived credit risk of senior financials closely linked to market concerns about sovereigns



Overall financial market background

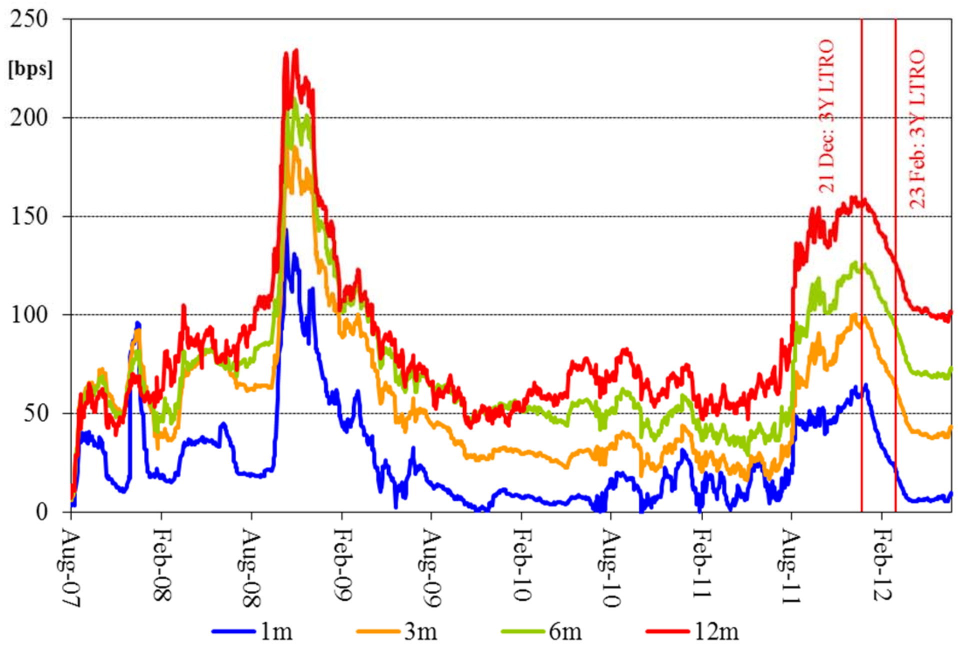
4) Resurging market concerns about the euro area sovereigns

Spanish and Italian 10-year sovereign yields and 5-year CDS

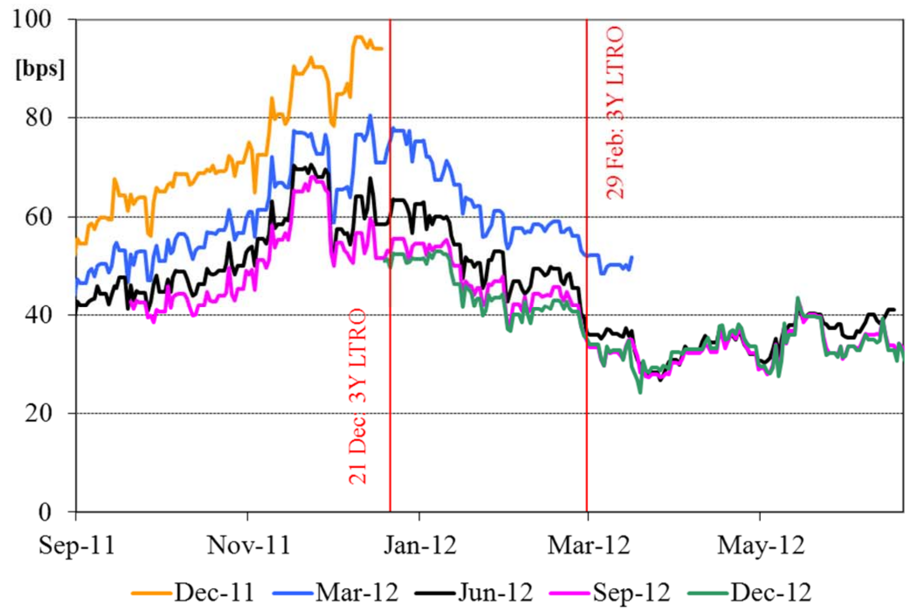


EURIBOR - OIS spreads

Money markets so far shielded by the abundant liquidity

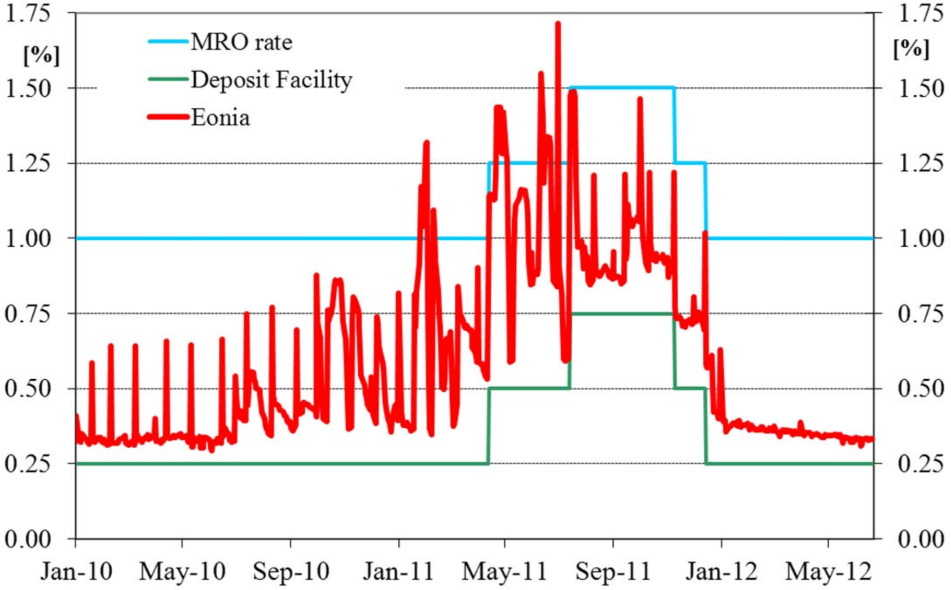


also in the forward spreads

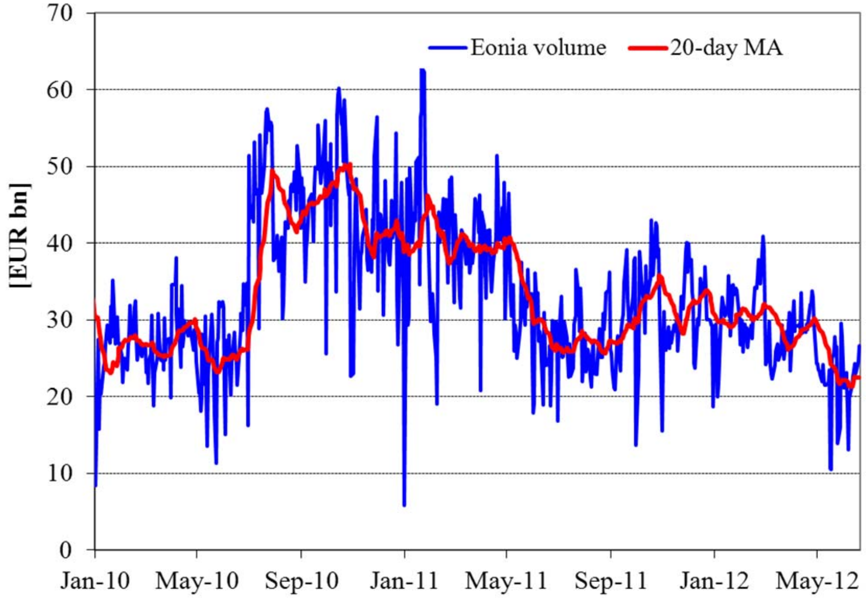


EONIA rates and volumes

EONIA rates remain stable close to the deposit facility rate

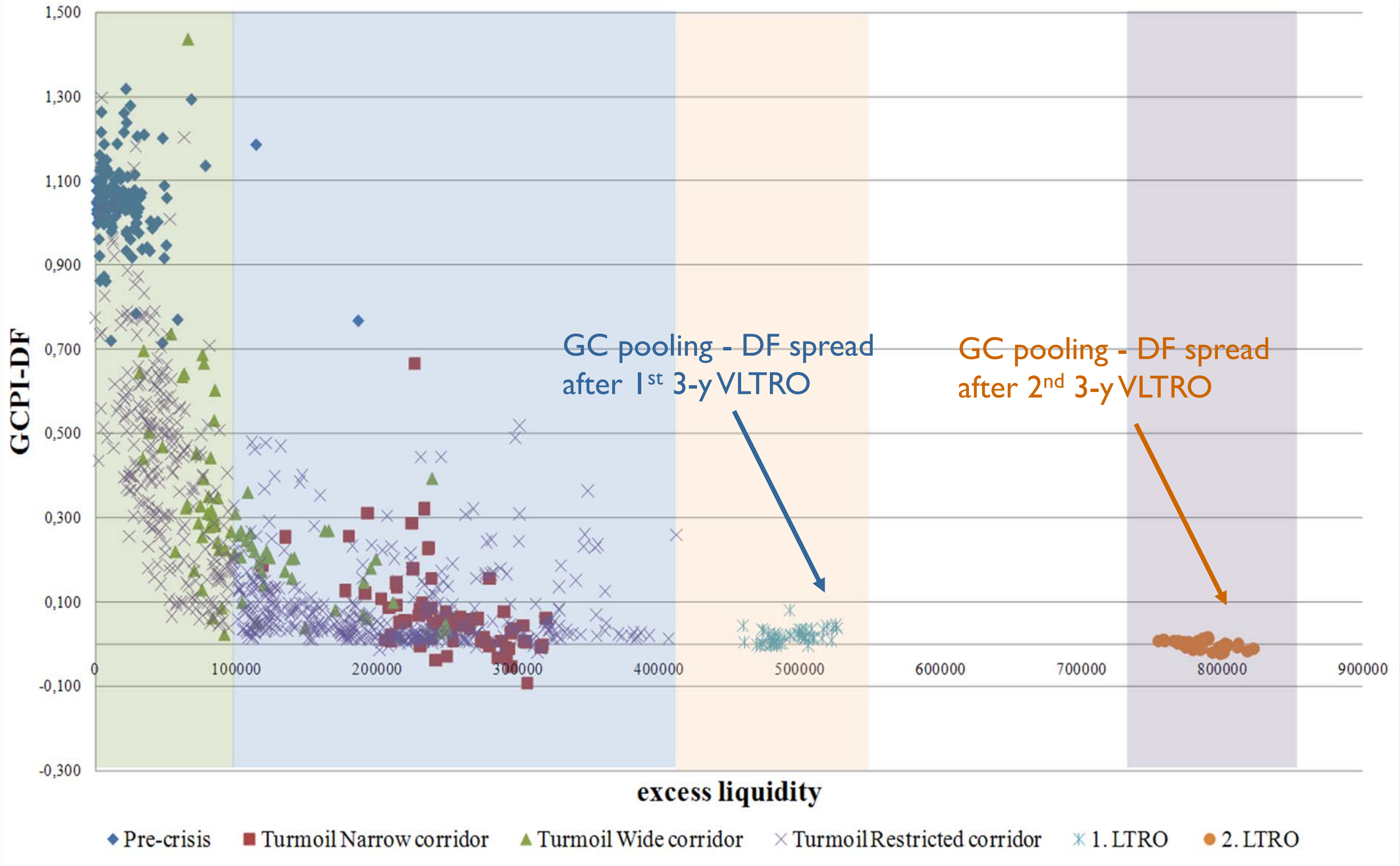


amid subdued interbank volumes



Excess liquidity and money market rates

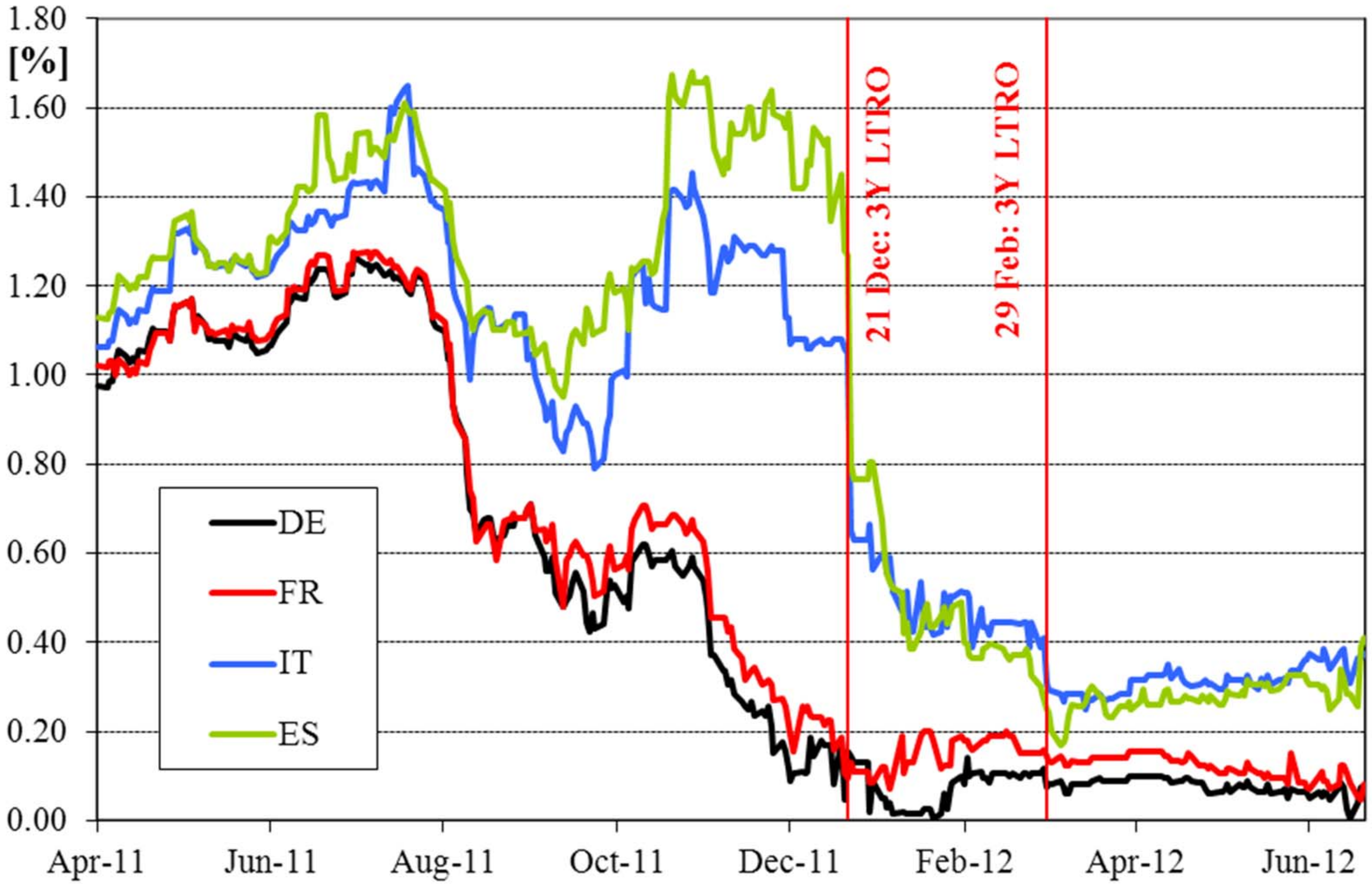
GC pooling O/N index – deposit facility spread vs. excess liquidity



Source: Deutsche Bundesbank

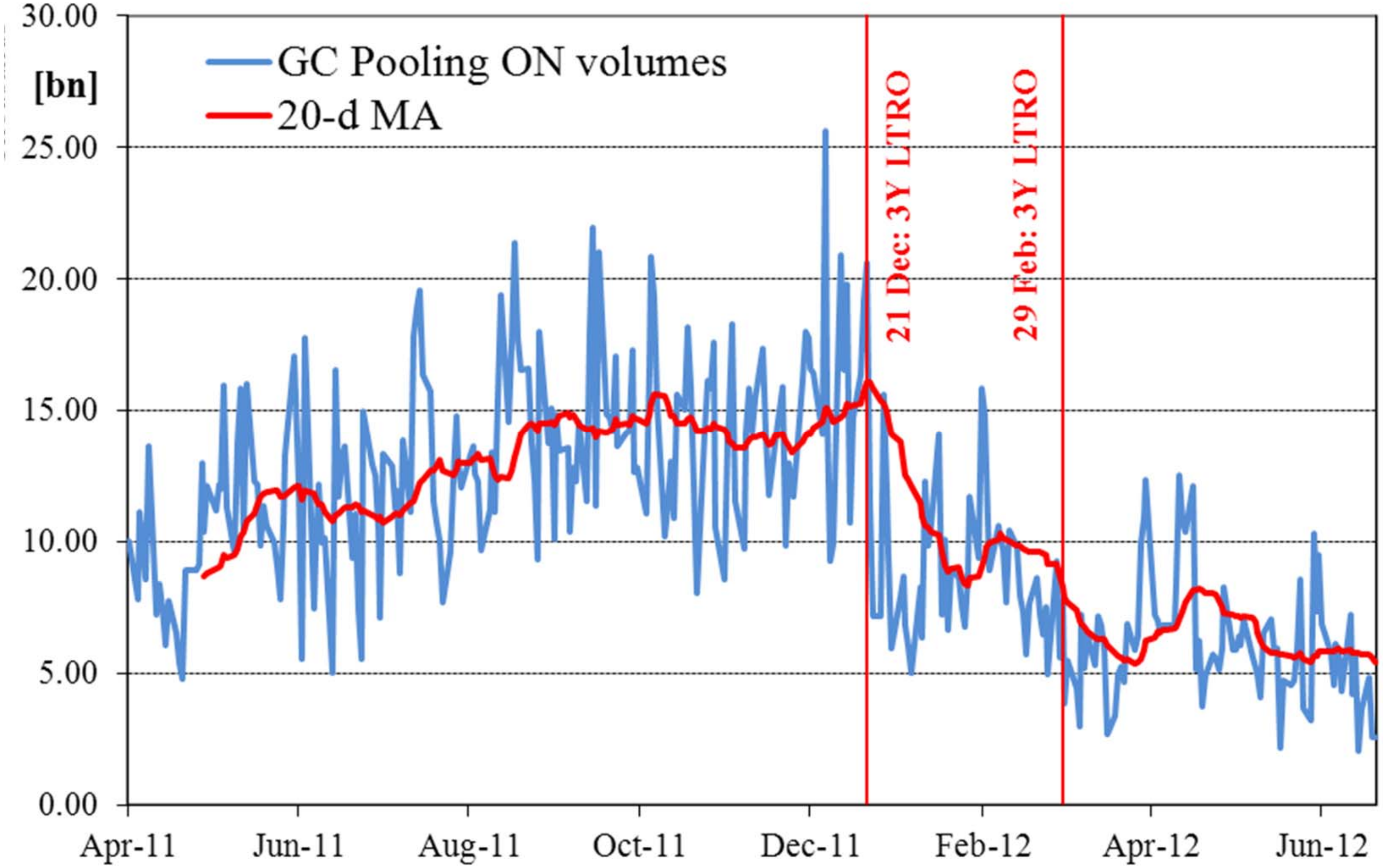
Repo market remains resilient to sovereign market tensions

3-month repo rates for different types of collateral



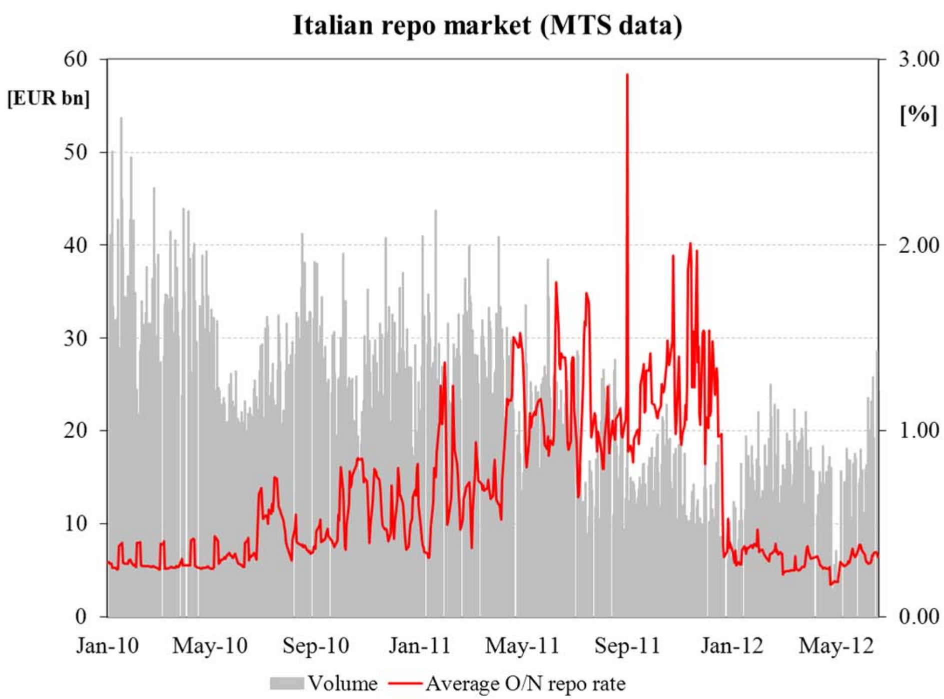
Repo market volumes remain subdued

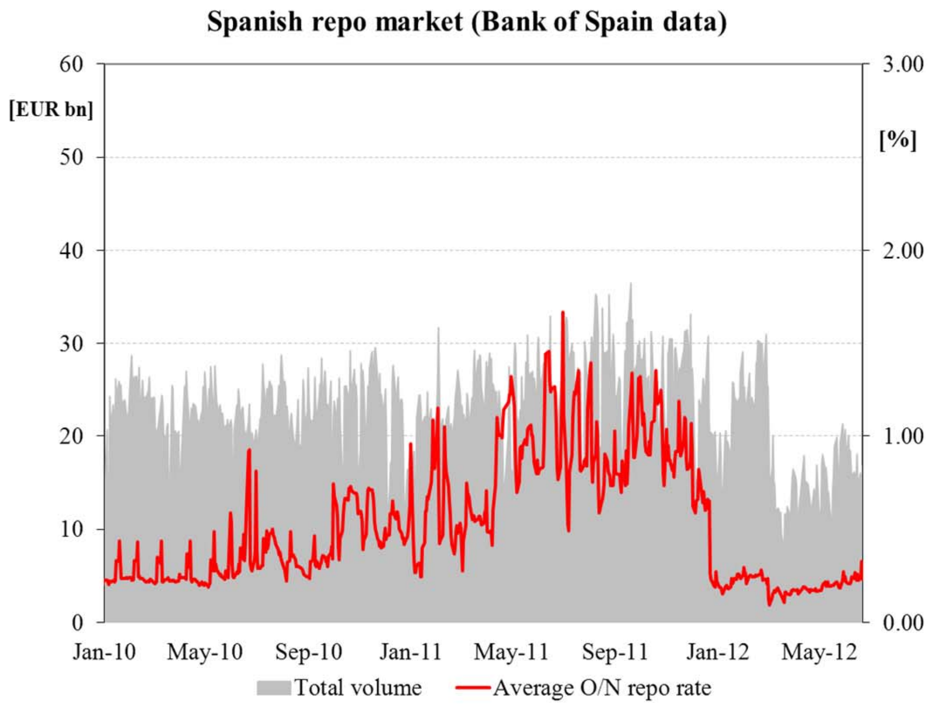
GC pooling O/N trading volumes



Repo market volumes

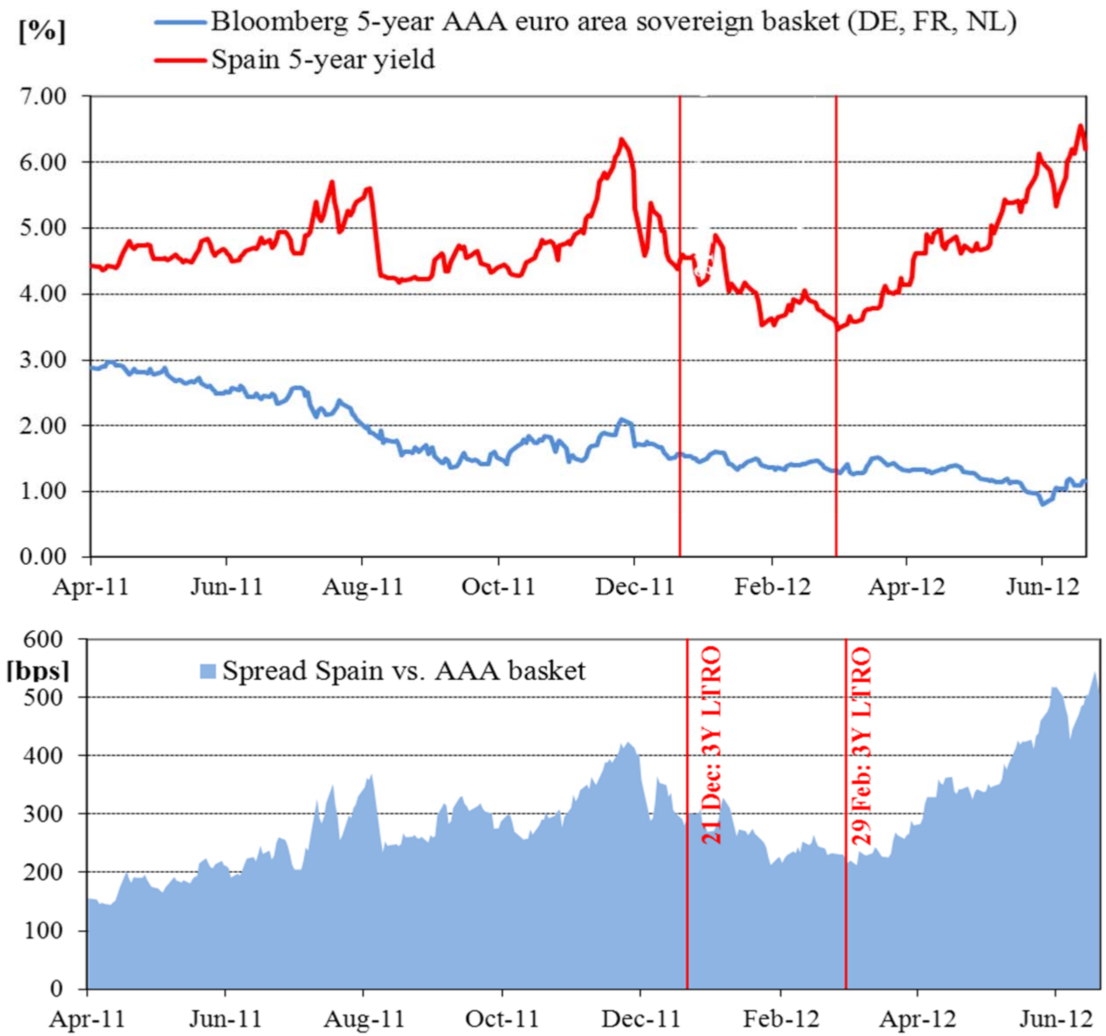
Italian and Spanish repo market developments





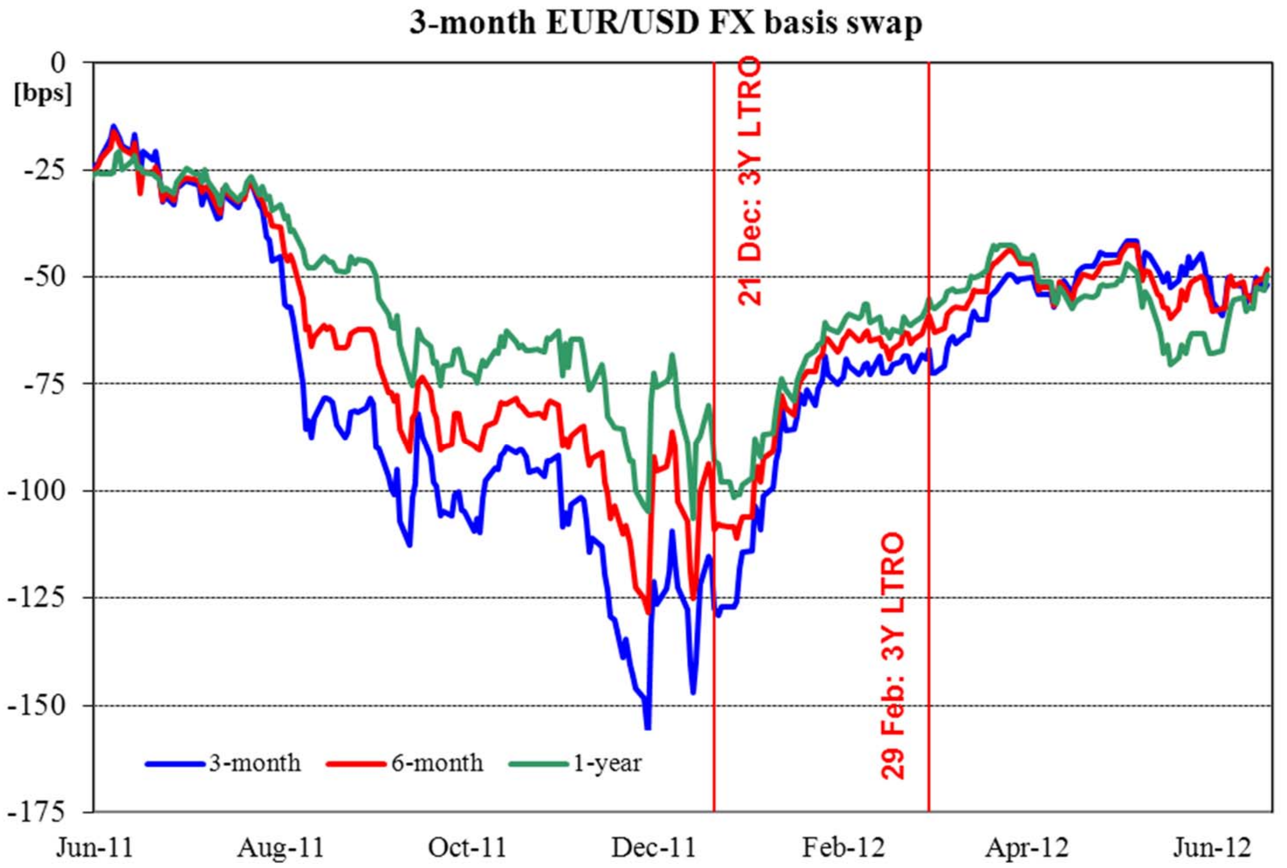
Repo market: risk factors from the sovereign debt market

Spanish 5-year spread to AAA basket

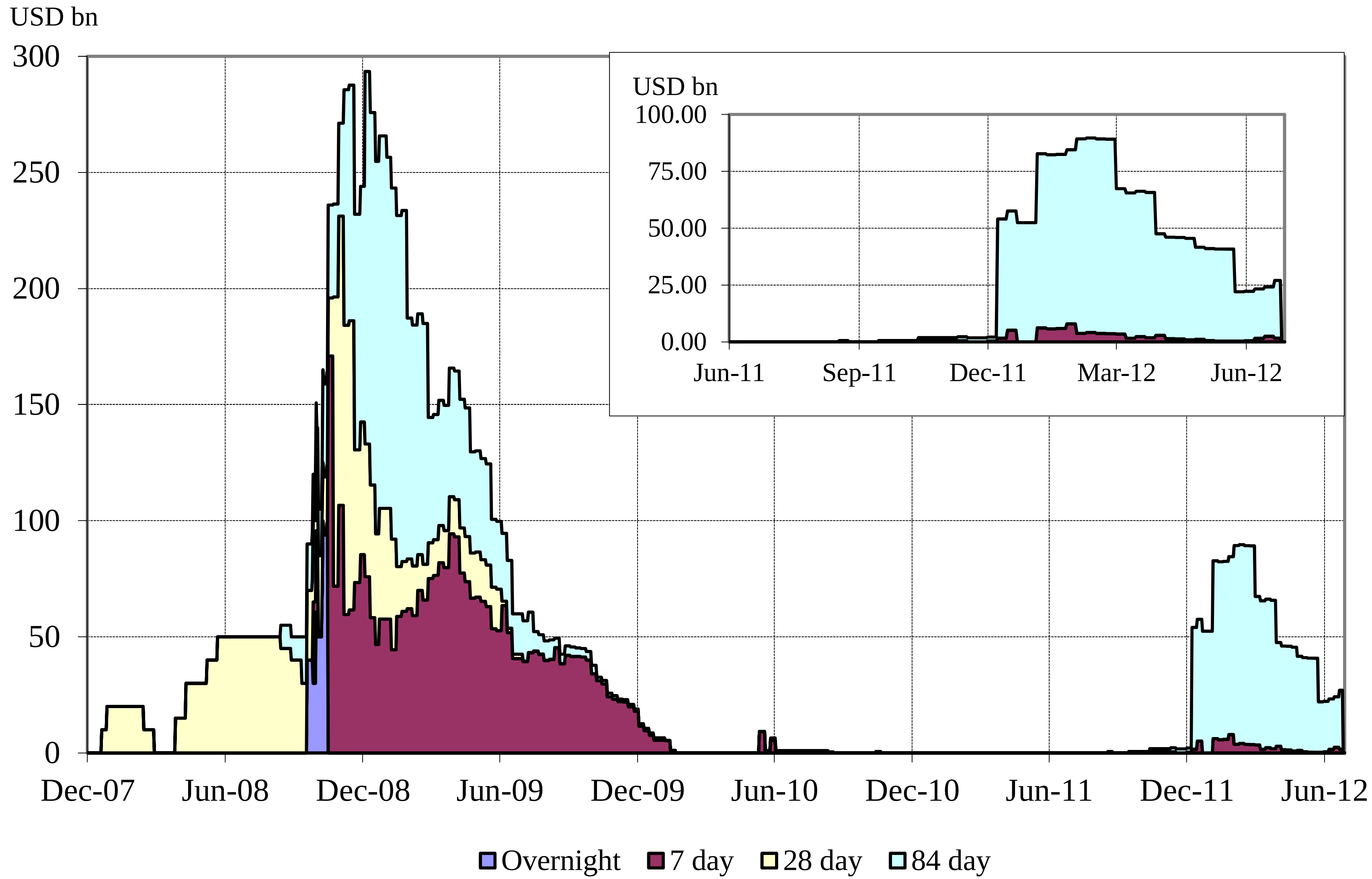


USD funding situation

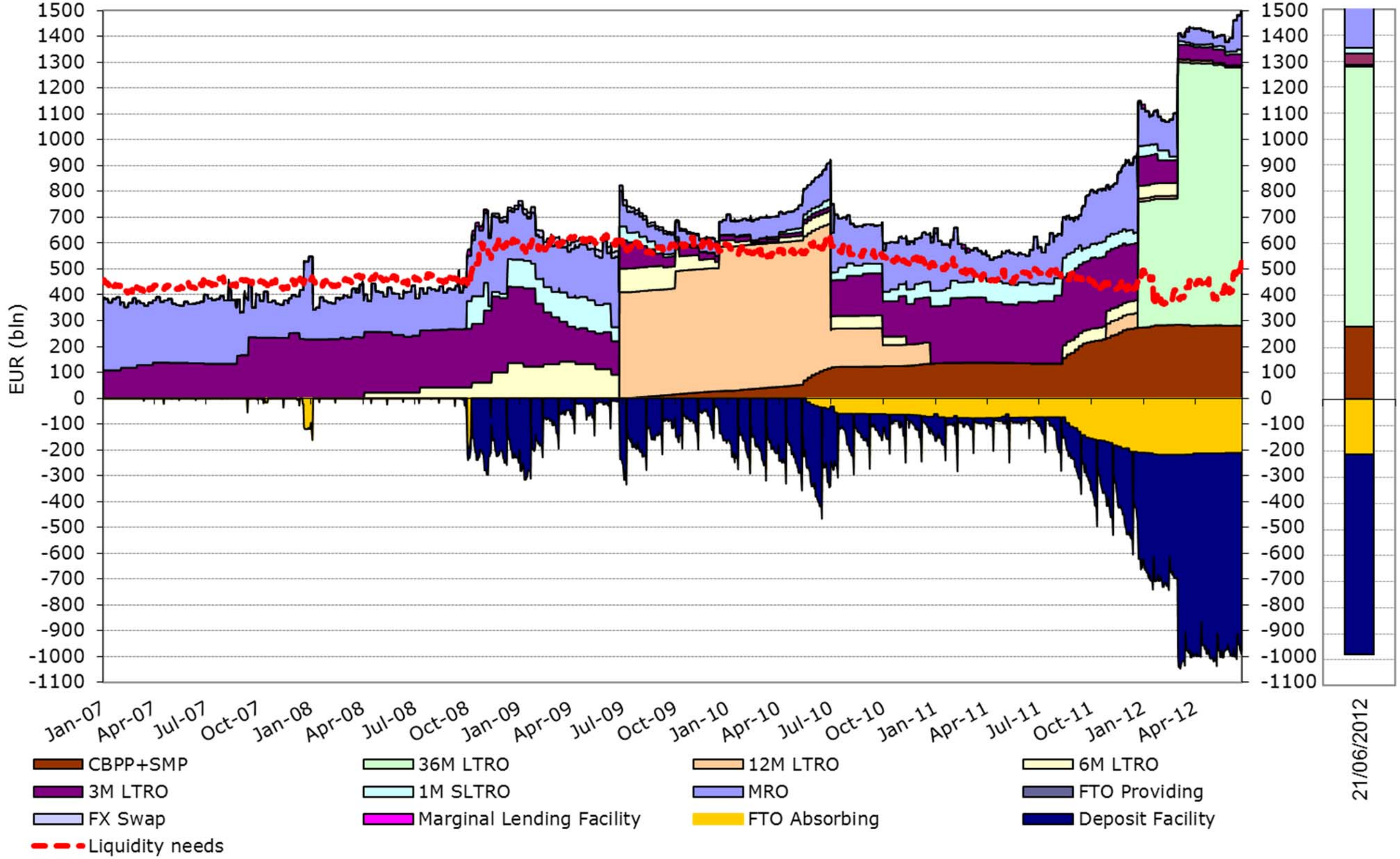
EUR/USD FX swap premium remains broadly stable



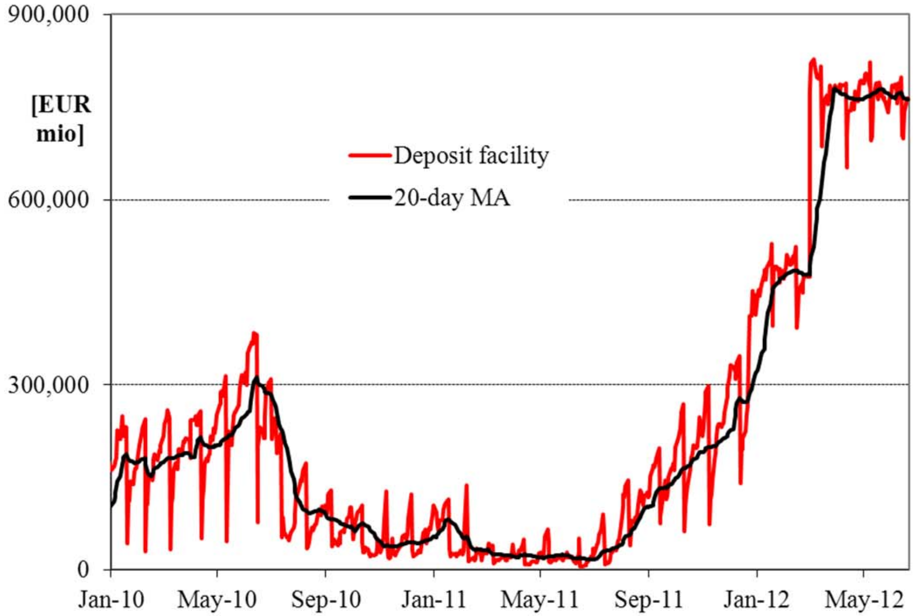
The Eurosystem's provision of USD liquidity



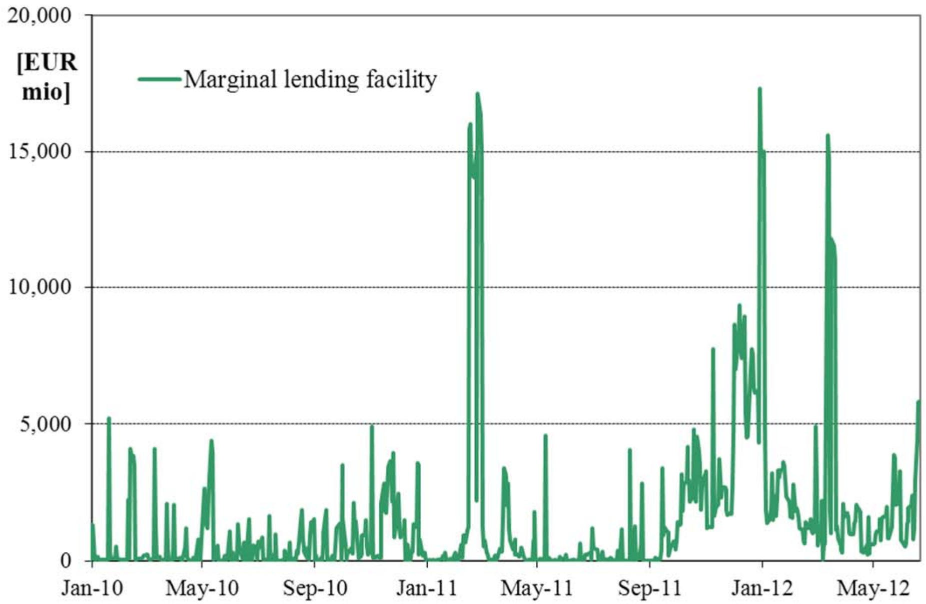
Maturity breakdown of the ECB's liquidity provision



Use of the ECB's standing facilities



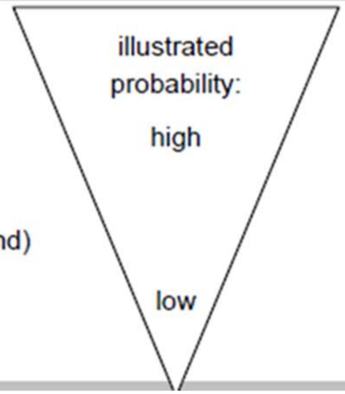
Deposit facility



Marginal lending facility

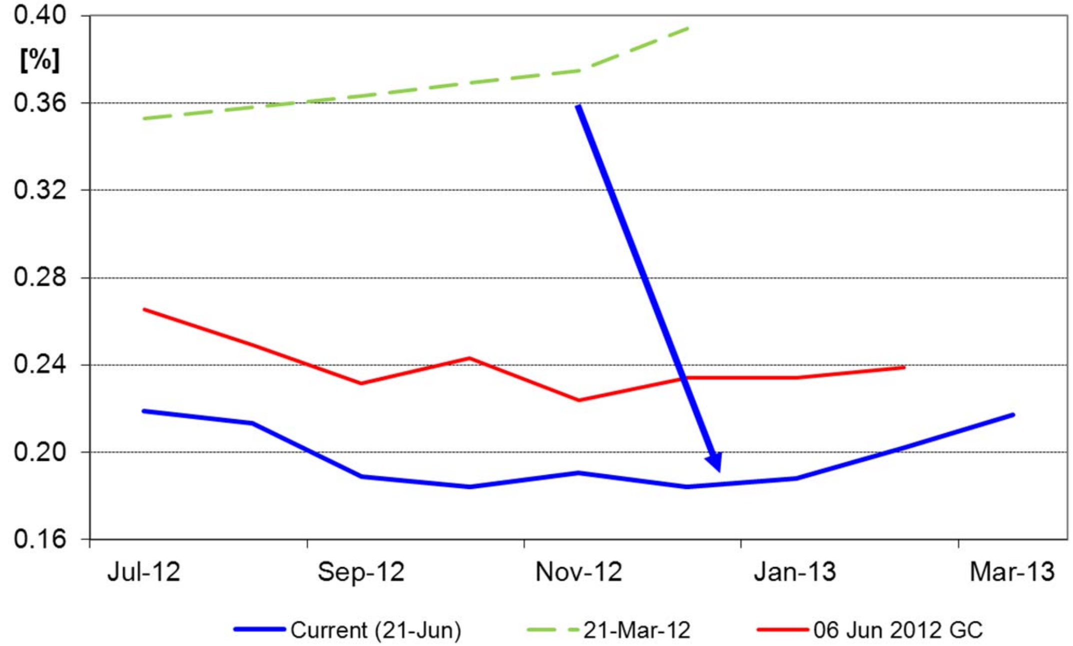
Market expectations of the ECB actions

- Verbal intervention, symbolic SMP intervention
- Cut in the refinancing rate
- Removal of LTRO interest rate indexation
- Large-scale SMP intervention
- More long-term tender operation (more likely by year-end)
- Cut in the deposit rate
- Explicit yield or spread caps



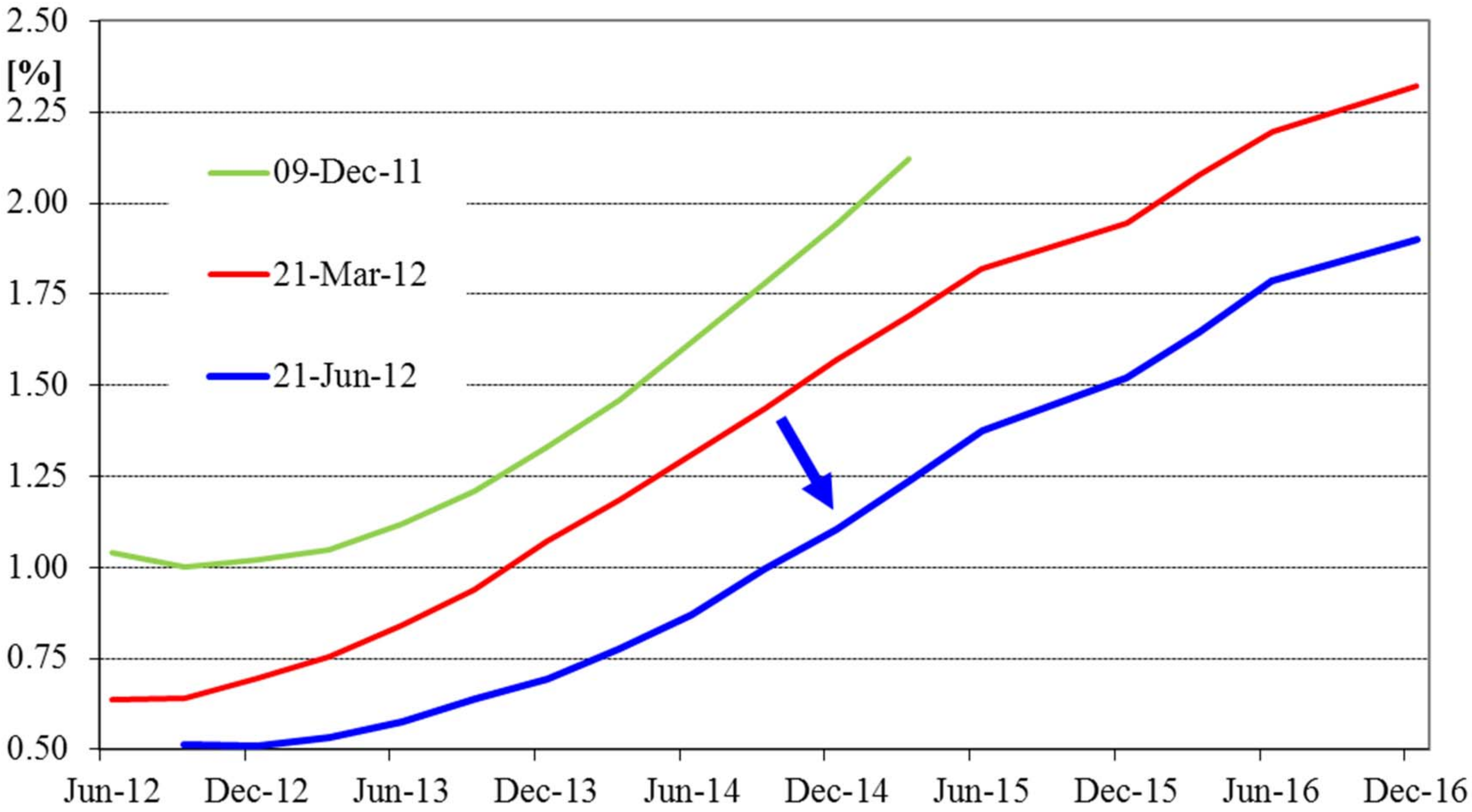
EONIA swap forward curve

Source: Commerzbank Research (May 2012)



Market expectations of the ECB actions II

3-month Euribor futures curve



ECB developments and announcements

[6 June 2012]

The ECB decided to extend the fixed rate tender procedure with full allotment for as long as necessary, and at least until the end of the 12th maintenance period of 2012 on 15 January 2013.

[22 June 2012]

The ECB reduced the rating threshold and amended the eligibility requirements for certain ABSs. It has thus broadened the scope of the measures to increase collateral availability which were introduced on 8 December 2011 and which remain applicable.

Potential issues for discussion

- *MMCG feedback on the current banks’ funding situation, both in the euro and in other currencies*

- *Market expectations of the ECB monetary policy actions and non-standard measures*