



EUROPEAN CENTRAL BANK

EUROSYSTEM

12 December 2016

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Division

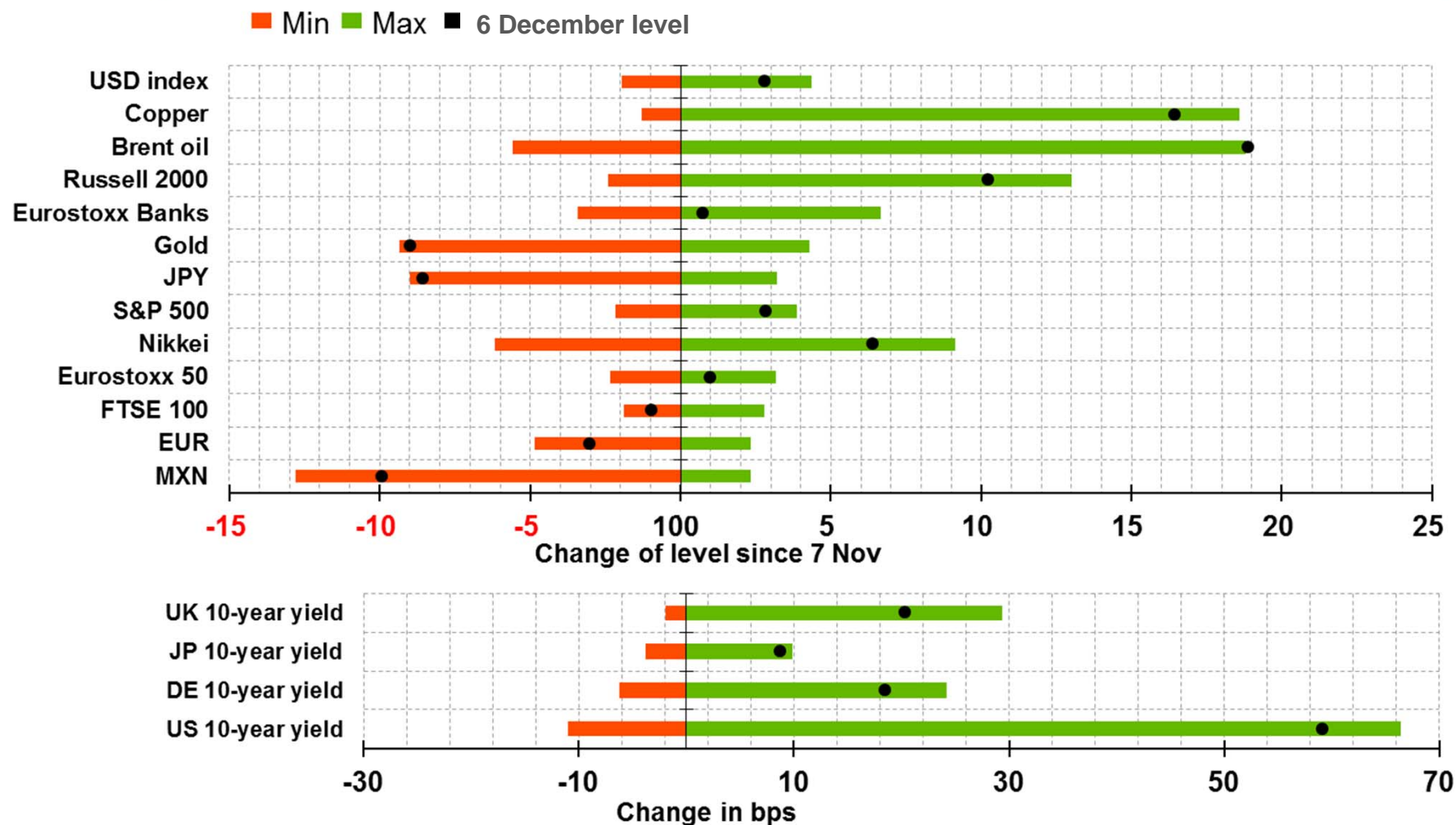
# **Review of the latest money market developments since the last MMCG meeting**

ECB Money Market Contact Group meeting, Frankfurt

# Market developments- selected assets' performance since the US election

Strong performance of the US dollar and global equity markets

## Level change of selected assets (100 on 7 Nov)

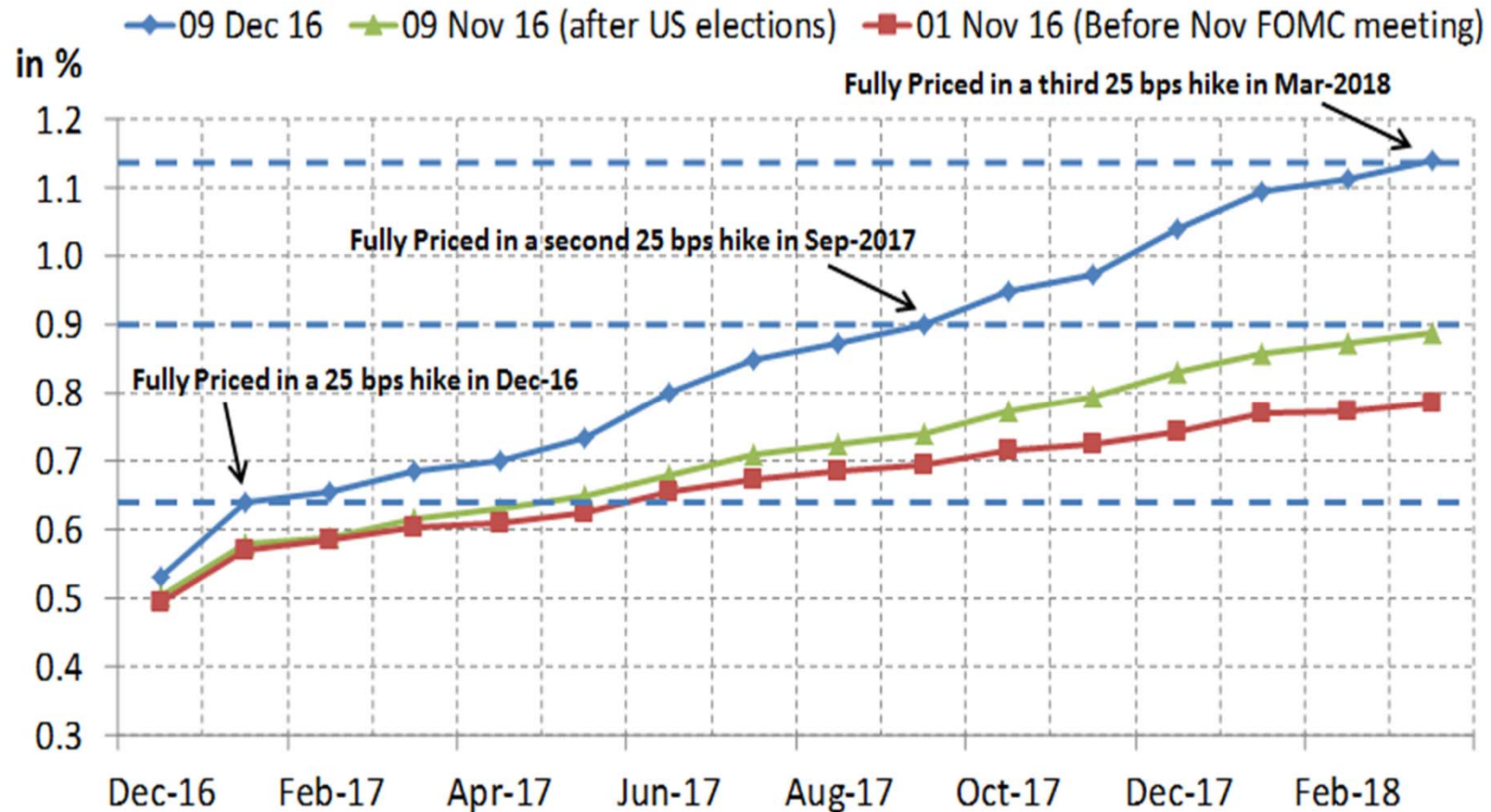


Sources: Bloomberg LP, ECB staff calculation

# United States - Market Expectations for Fed monetary policy

The market implied probability for a December hike is at 100%.  
Additional rate hikes priced in Sep-2017 and Mar-2018.

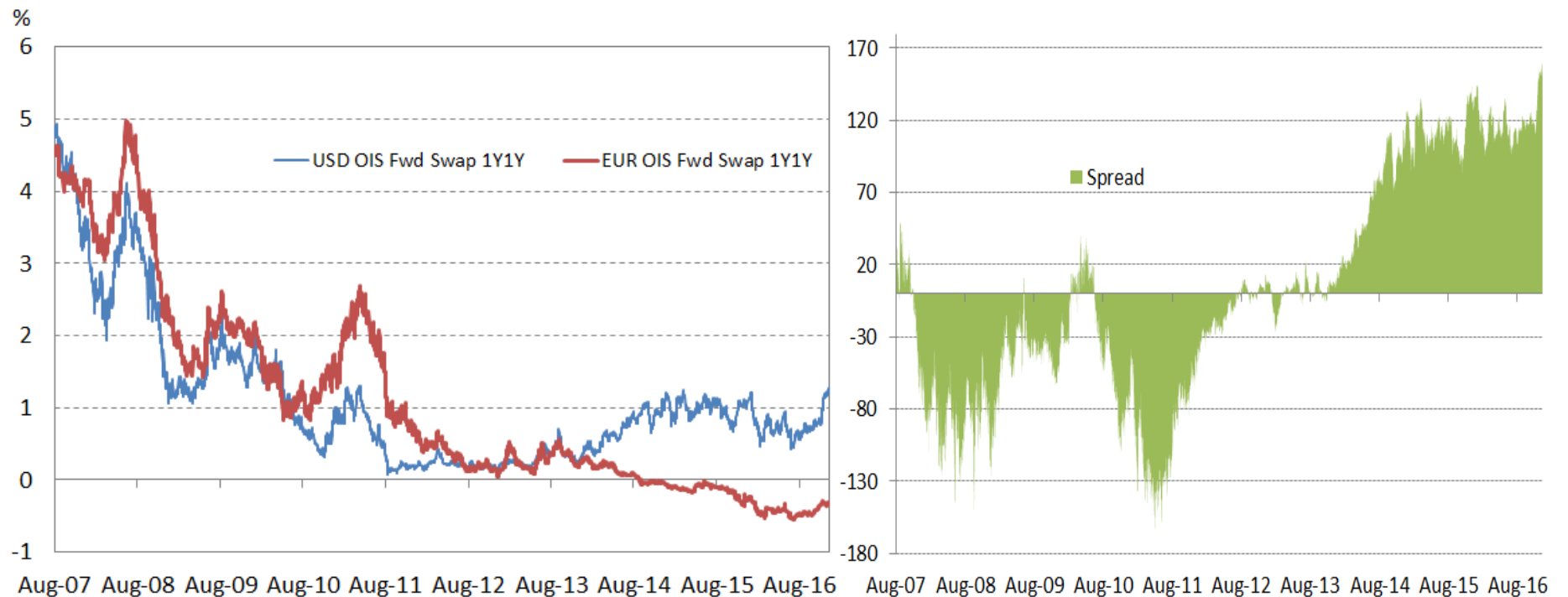
Fed funds futures implied rates



Source: The Federal Reserve Bank of New York, Bloomberg

# Monetary Policy divergences

1Y1Y OIS forward – USD vs EUR – increasing spread evidences the divergence between expectations for Fed and ECB monetary policies

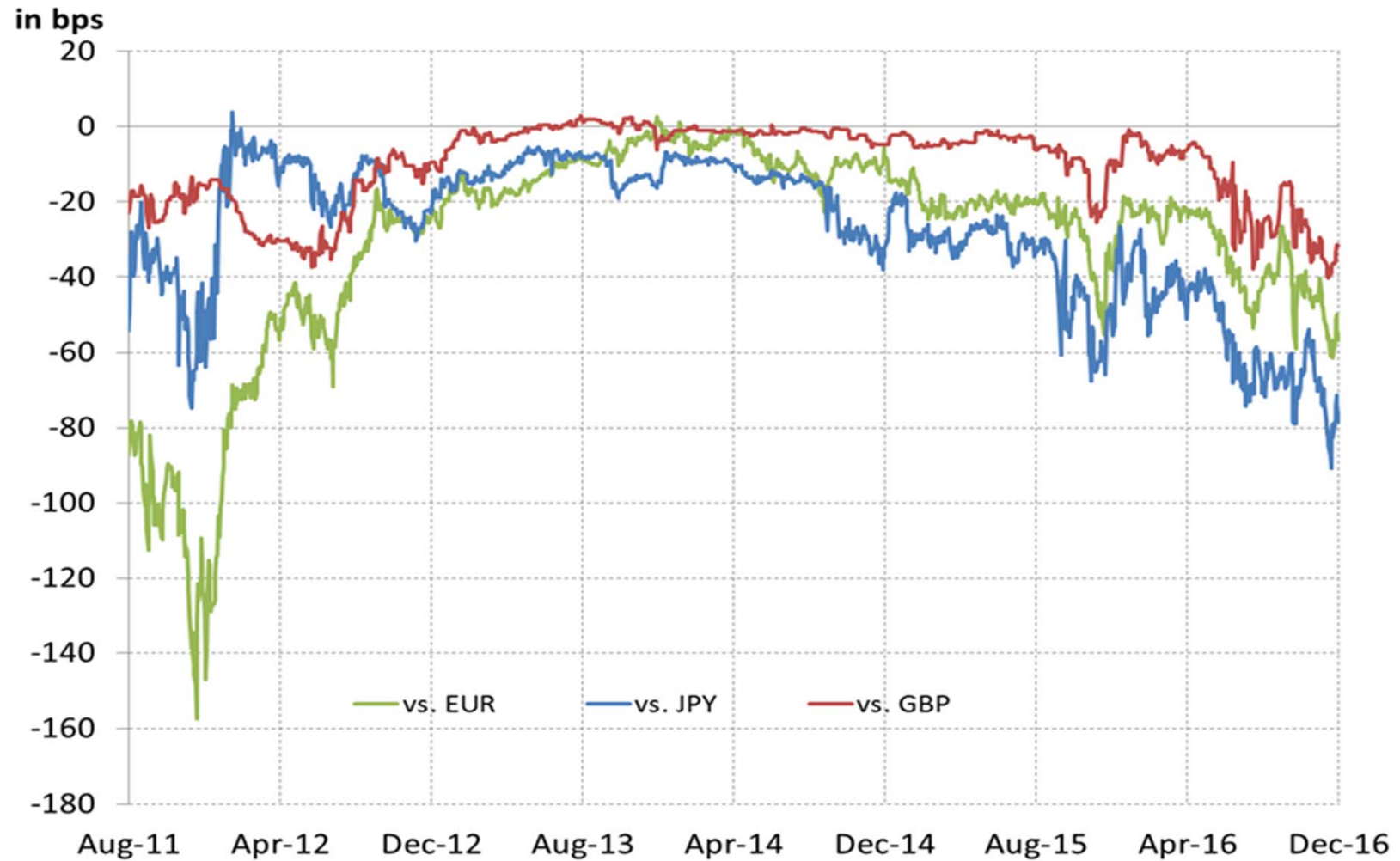


Source: Bloomberg

# International cross currency funding markets

Increasing US dollar premium against all major currencies

USD cross currency basis swap 3-month

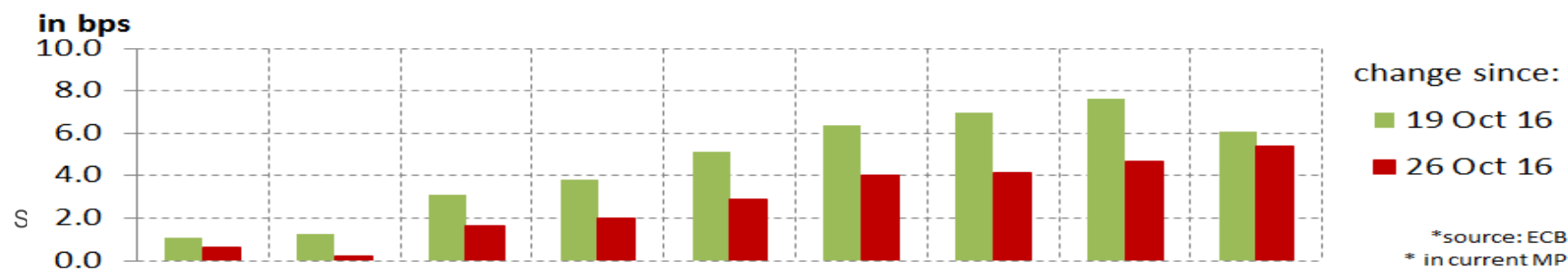
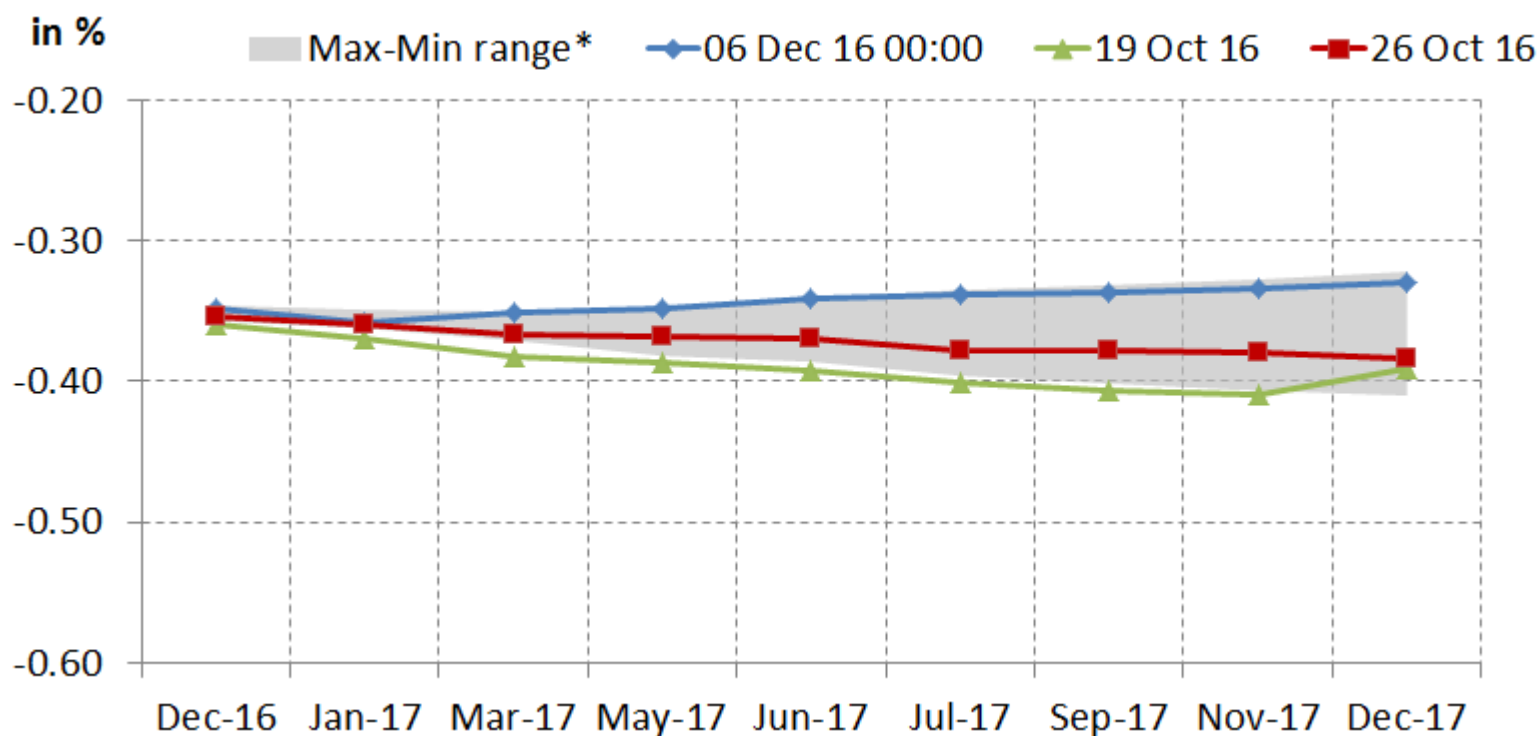


Source: Bloomberg

# Euro area - Market Expectations for the December ECB GovC

Market Expectations: a cut in the Deposit Facility rate was ruled out

EONIA forward implied rates for 1-MP

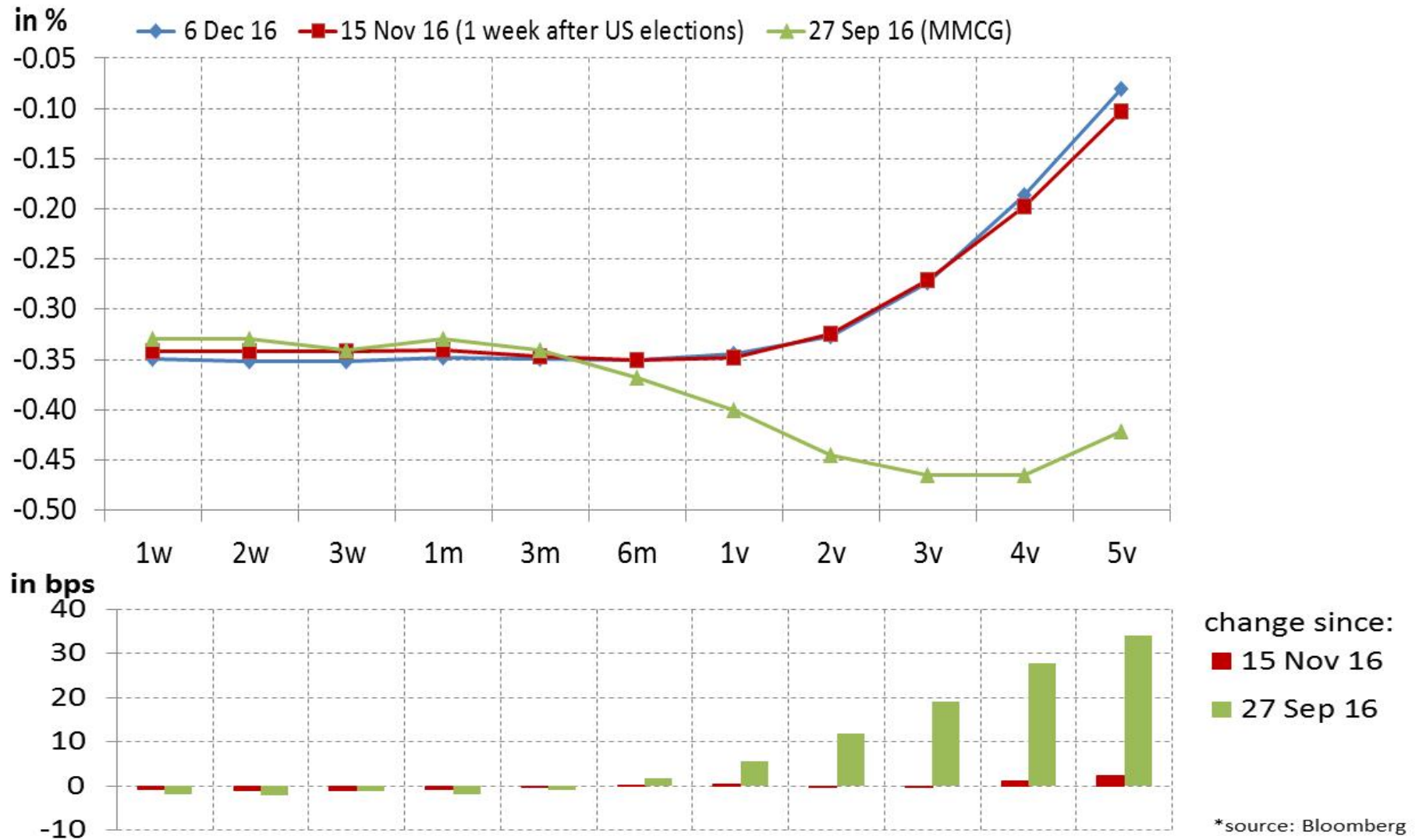




# Euro area - Market Expectations for the ECB monetary policy

Repricing on market expectations particularly pronounced in longer tenors

EONIA OIS curve



change since:  
■ 15 Nov 16  
■ 27 Sep 16

\*source: Bloomberg

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## Market expectations - polls

### Market participants expected an extension of APP

- **Reuters poll as of 2 December (66 analysts):**
  - All expected the interest rates to be unchanged.
  - A majority expected an extension of APP beyond March 2017 by 6 months, at the current pace.
- **Bloomberg survey of 5 December (53 economists):**
  - 89% of respondents expected additional measures, whereby...
    - Key policy rates were forecasted to remain unchanged (only 2% expected a DFR cut compared to 8% before the 20 October GovC meeting);
    - Most respondents expected an extension of the APP beyond March 2017 with 70% arguing for an extension at the current pace and a non-negligible share of respondents arguing for a lower pace.
  - The ECB was expected to adjust the parameters of its QE:
    - 72% expected increase issuer / issue limits
    - 40% expected a remove of the deposit rate floor
    - 8% expected the capital key to be abandoned.



### Outcome of the latest GovC decisions

- Policy rates were unchanged;
- From April 2017, net purchases are extended **at a monthly pace of EUR 60 bn** (versus current EUR 80 bn) until the end of December of 2017 or beyond, if necessary, and in any case until the GovC sees a sustained adjustment in the pace of inflation;
- The minimum maturity for eligible securities under PSPP will be **decreased from two years to one year**;
- **Purchases** of securities with a yield to maturity **below the ECB's deposit facility rate will be permitted to the extent necessary.**



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# Recent changes in PSPP securities lending facilities

MMCG meeting 12 December 2016

# Recent measures to enhance the effectiveness of PSPP securities lending (SL) facilities

## Collateral

- Eurosystem central banks have the possibility to also accept **cash as collateral** in their PSPP SL facilities without having to reinvest it in a cash-neutral manner
- Maximum **overall limit of €50 billion for the Eurosystem**
- ECB, National Bank of Belgium, Deutsche Bundesbank, Central Bank of Ireland, Banco de España, Banque de France, and De Nederlandsche Bank will make SL available also against cash collateral by 15 December 2016

## Pricing

- Against cash collateral: the ECB and participating NCBs will apply the **lower of i) the rate of the deposit facility minus 30 basis points (i.e. currently -70 basis points) or ii) the prevailing market repo rate** on the specific security borrowed
- Against securities collateral: as of 9 December 2016, the ECB's securities lending arrangement applies a minimum fee of **10 bps**, compared to 30 bps previously.

## Settlement and cut-off time for the ECB facility

- As of 15 November 2016, the transactions can be settled through Euroclear either on the same day or on the following business day or two business days later (T+0, T+1, or T+2). The cut-off time for transactions settling on the same day is 13:00 CET/CEST.



Thank you!