



EUROPEAN CENTRAL BANK

EUROSYSTEM

Market intermediation: developments and challenges

BMCG

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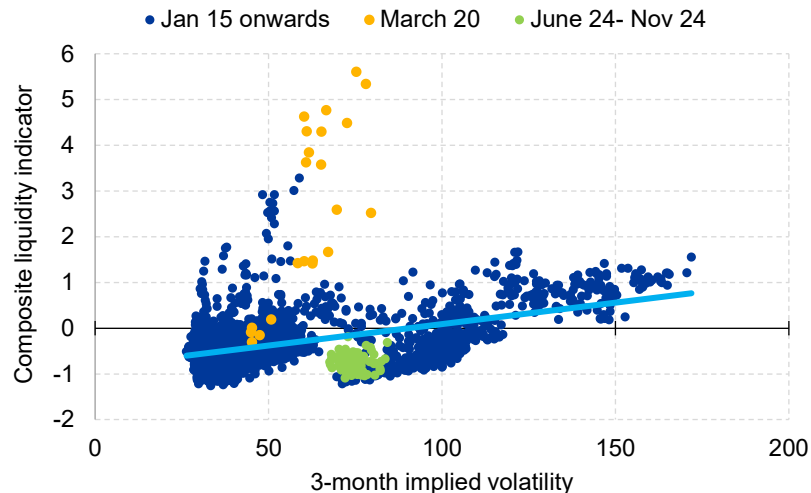


21/11/2024

ECB/DGM

Liquidity/volatility and dealers' intermediation capacity

Relationship between liquidity and volatility in 10Y EA government bond market

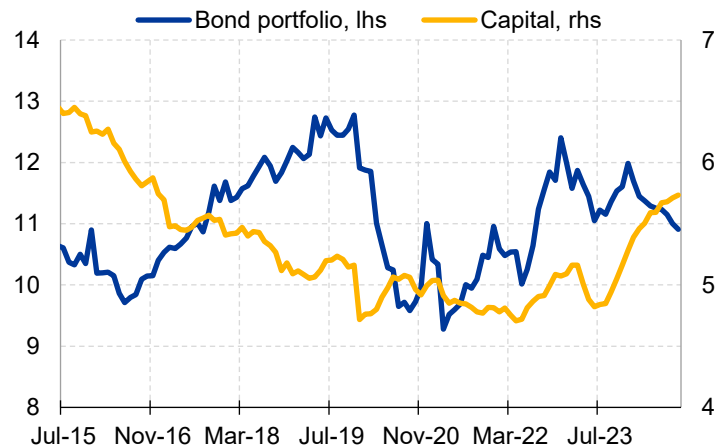


Source: ECB calculations

Notes: Liquidity conditions proxied by a composite indicator of liquidity in the GDP weighted-average of Big 4 EA 10-year government bond markets and implied volatility based on euro-denominated 3-month Swaptions. Higher values of the composite liquidity indicator correspond to worse liquidity conditions. Blue dots indicate observations starting in January 2015. Yellow dots indicate observations from March 2020. Green dots indicate observations from June 2024 to November 2024. The light blue regression line is estimated based on all observations.

Last observation: 15 November 2024

Top4 EA government debt outstanding scaled by primary dealers' balance sheet items (ratio)



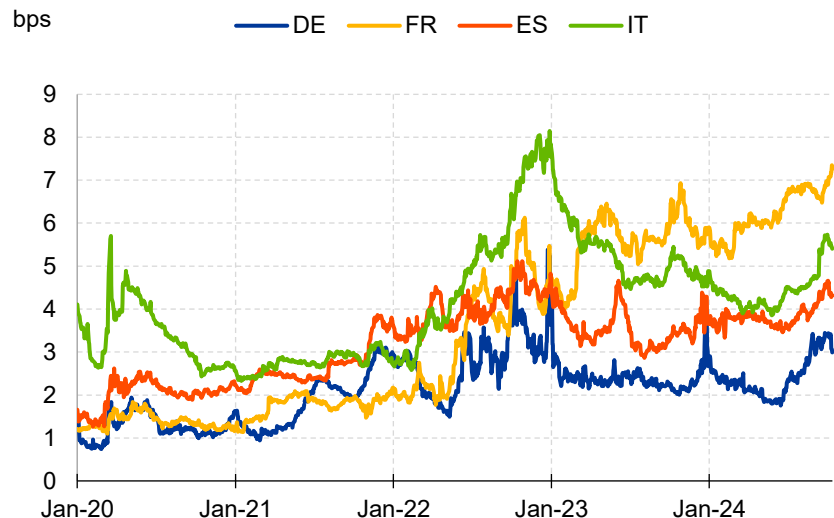
Source: ESMA, CSEC, BSI, ECB calculations.

Note: Aggregated balance sheet items for primary dealers institutionally reporting as MFIs in the IBSI data collection. Government debt outstanding is net of Eurosystem's holdings.

Last observation: October 2024

Increasing limits to arbitrage/segmentation ?

Average deviation from theoretical yield curve (bps)

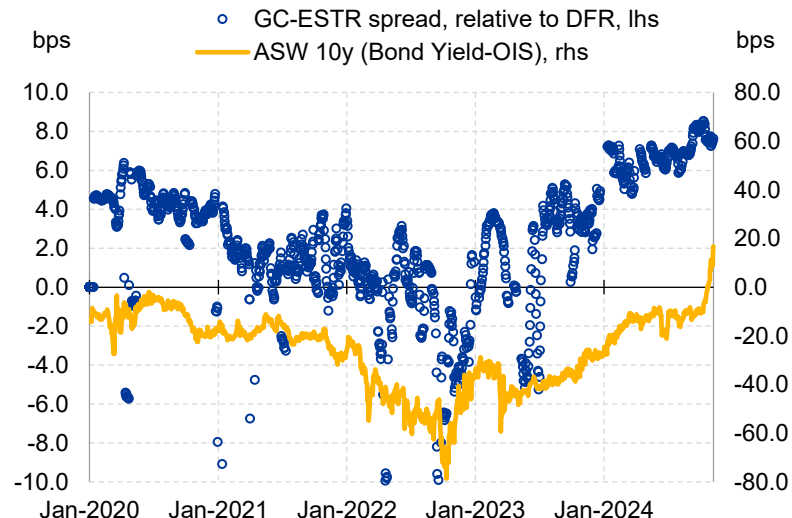


Source: Bloomberg.

Notes: Average yield error across notes and bonds with remaining maturity 1-year or greater, based on Nelson-Siegel fitted curve.

Last observation: 19 November 2024.

GC/€STR and swap spread (bps)



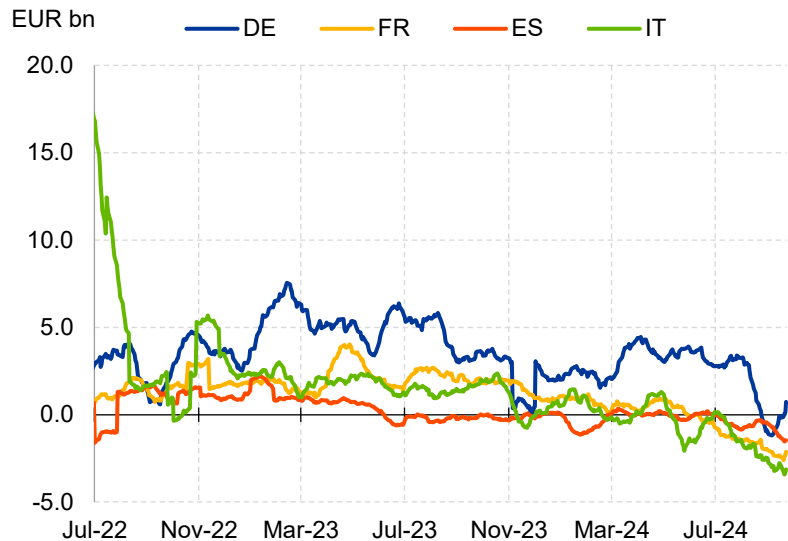
Source: Bloomberg, ECB.

Notes: ASW refers to 10y Bund yield – 10y OIS rate. GC-ESTR spread relative to DFR is computed as $(GC-DFR)-(ESTR-DFR)$. GC reference rate: SGCPON Index.

Last observation: 19 November 2024.

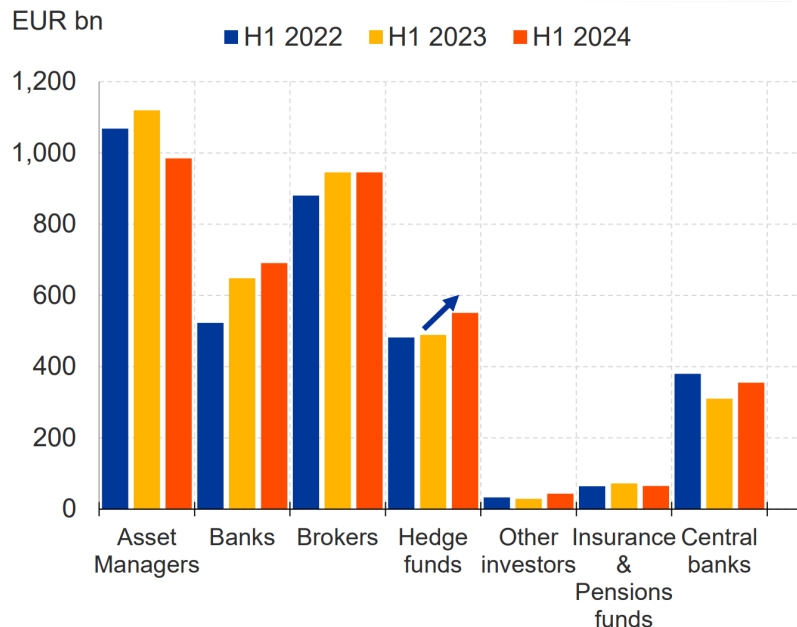
Hedge funds' increasing role in EGB trading

Net securities borrowing by Hedge funds, by collateral issuer country



Source: SFTDS, ECB calculations.
 Notes: 20-day moving average net government securities borrowing by S124 entities reporting repo transactions in SFT.
 Last observation: 8 October 2024.

Gross trading volumes by sector on German Bund



Source: Finanzagentur, Bundesfinanzministerium, ECB calculations. Note: Gross trading volume is calculated by adding the reported sales and purchase volumes of the member banks. The net trading volume is the balance of sales minus purchase volume.

Issues for discussions

- **What are BMCG members' preferred metrics of *current* and *forward-looking* ('headroom') dealers' intermediation capacity?**
- **How do global dealers and banks allocate balance sheet capacity across regions ?**
- **Do recent market developments constitute early signals of tensions on intermediaries?**