Evolving Money market structure

MMCG

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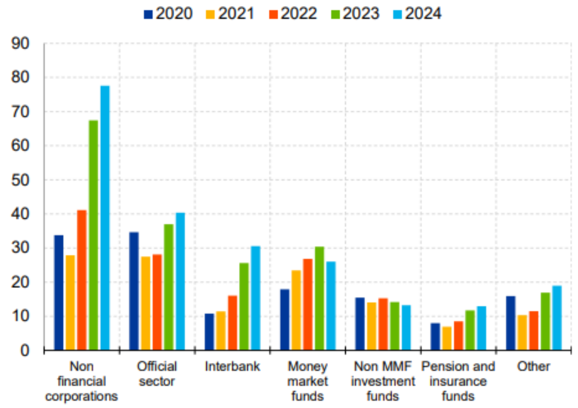
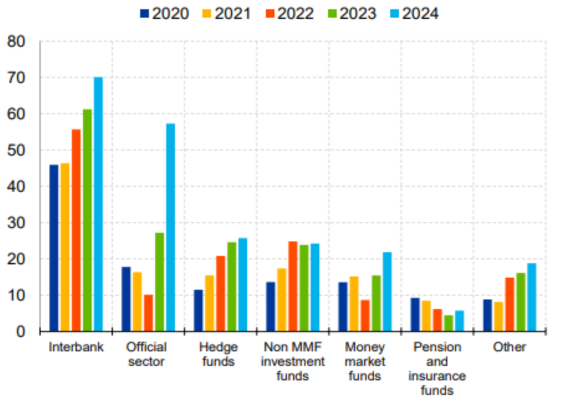
Secured and Unsecured market share by counterparty type

Unsecured borrowing volumes
(Daily averages in EUR billion)



Sources: MMSR, ECB calculations. Note: Charts display daily average borrowing volumes in the respective years. Borrowing refers to borrowing from the perspective of the MMSR reporting bank. Last observation: 5 June 2024.

Bilateral repo borrowing volumes
(Daily averages in EUR billion)



Sources: MMSR, ECB calculations. Note: Charts display daily average bilateral borrowing volumes in the respective years. Borrowing refers to borrowing cash vs collateral from the perspective of the MMSR reporting bank. Last observation: 5 June 2024.

ECB charts represent whole MMSR universe, expert-judgement based view by maturity bucket brings in some nuances

Small Market Share | Medium Market Share | Large Market Share

	Bank ALMTs		Corporates		Supra/Agencies		Ins/Lifers/PFs		CBs (reserves)		DMOs		MMF		other RM		HF	
	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured
O/N-1WK													*					
>1wk-1mth																		
>1mth-3mth																		
>3mth-1y																		

*O/N volume of MMF are small versus their term volumes, even if their share in ESTR volumes is close to 50%

>1Y																		

- Among biggest unsecured actors, Corporates, SSA are more borrowers, MMF and CBs lenders
- Ins/PF, other RM and HF are the most significant clients in secured
- Banks are large everywhere, unsecured (ALMTs, SPVs), and secured (liquidity portfolios, collateral management, CIB client intermediation)

Main drivers behind divergence between Euro unsecured and secured overnight money market benchmark rates

1) Structural differences in observable Money Market benchmarks
   - €STR is unsecured borrowing (deposit) rate between financial institutions only, i.e. no corporates
   - STOXX GC Pooling Deferred Funding Rate / Repofunds anonymous, CCP cleared (reverse) repo, mid-rate

      ➢ No simple 1-1 comparison

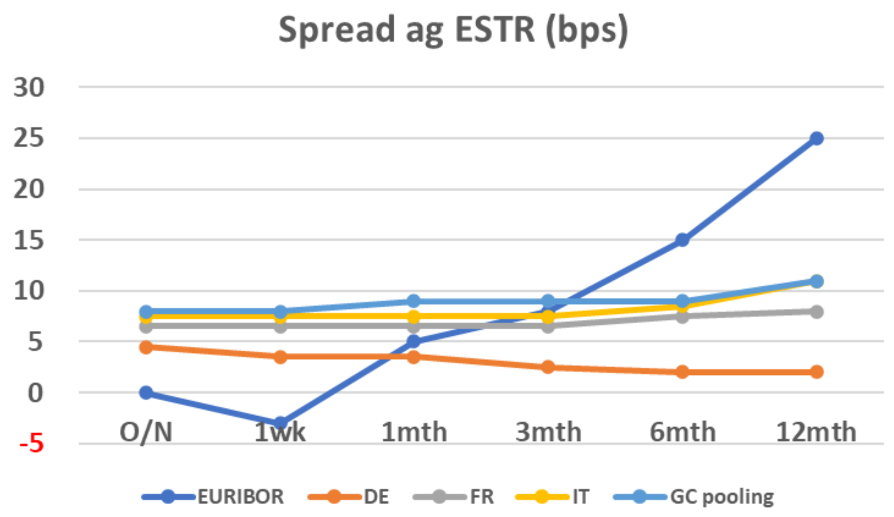
2) Risk appetite
   - Counterparty risk (especially cross border) & regulatory considerations reduce appetite to invest in unsecured deposits
   - Repo collateral reduces counterparty risk & ICMA survey points to active cross border activity

      ➢ Limited cross border activity in €STR deposits vs. repo (bilateral and CCP)

3) Operational costs
   - Settlement and custody fees and CSD fragmentation for repo

Tentative Money Market term structure explanation

- **Market spreads hierarchy look very logical**
- **Unsecured curve is steep because of regulation**
- **Repo curves are much flatter and reflecting collateral quality on longer tenors, while short end is driven by market funding structure**



- Euribor curve is a mix of ESTR for O/N and trimmed averages of recent EURIBOR/ESTR spread at fixing time

- **€STR/ Euribor Curve**
  - = Banking sector Unsecured curve for financial counterparties
  - Steepeness a clear reflection of LCR & NSFR value
  - Bid-offer spread is very large as secondary market not developed
  - 1-mth level high while no regulatory value
    - Large corporates & Agencies levels higher than banks (?)
    - 1-mth now has some internal liquidity stress test value
    - Short-term FX swaps do not allow to build cheap EUR anymore
  - MRO/LTRO at DFR+15bp to flatten the curve? Unsecured long-term to be in competition with Secured ag less liquid eligible collateral

- **Repo curves**
  - O/N to 1week segment: Repo desks of big banks are independent entities from their ALMT and cannot arbitrage with Unsecured
  - Big banks Market activities are long bonds from their Primary Dealer activities and fund them independently
  - Big banks ALMTs are long bonds from their liquidity portfolio
    - Collateral management and optimisation
    - P&L optimisation Unsecured vs Repo avoiding to create Balance Sheet
      - Use Reverse Repo if above DFR (e.g. Italy or GC Pooling)
      - Use Repo to raise cash if Repo below unsecured
  - MMFs are only allowed to enter into repo agreements with the right to terminate of no more than two days (max 1wk?)
  - Bonds now cheaper ag swaps, and FR bills notably above ESTR
  - Bank of Spain study: Repo rates main driver is LT Rates expectations

Questions to MMCG participants

1) Do you agree with the expert judgement on the market share by maturity bucket? (see page 2 bottom chart)

2) Corporates – what explains their focus on unsecured markets?

3) Hedge funds – is there any change in their presence in secured market over time?

4) Do you think that timing of overnight trades between morning repo and later in the day unsecured is an important difference?

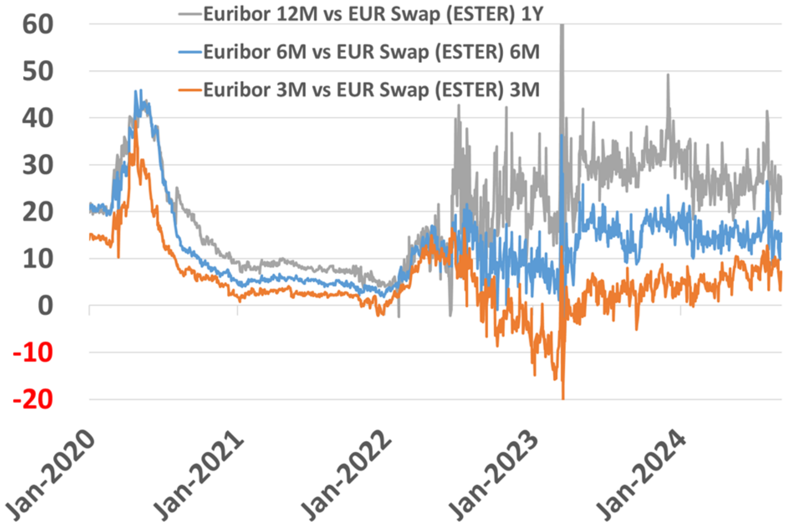
5) Is DFR the most important factor ruling arbitrage between Repo and Cash?

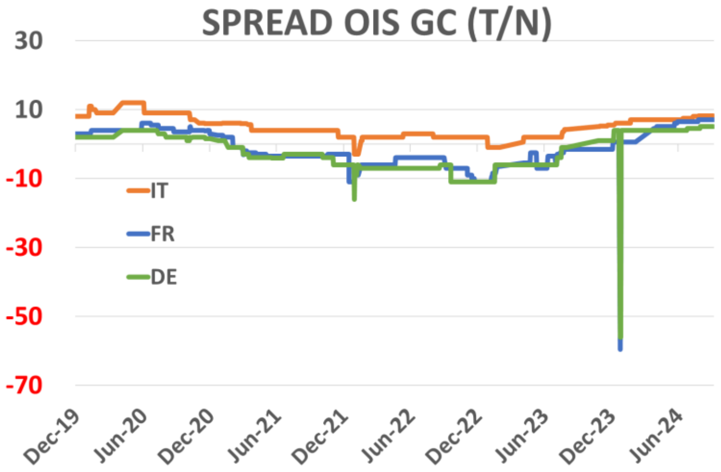
6) Do you have a personal view where all the rates could evolve towards?
   - MRO narrowing – do you have a clear view if the unsecured curve will flatten?

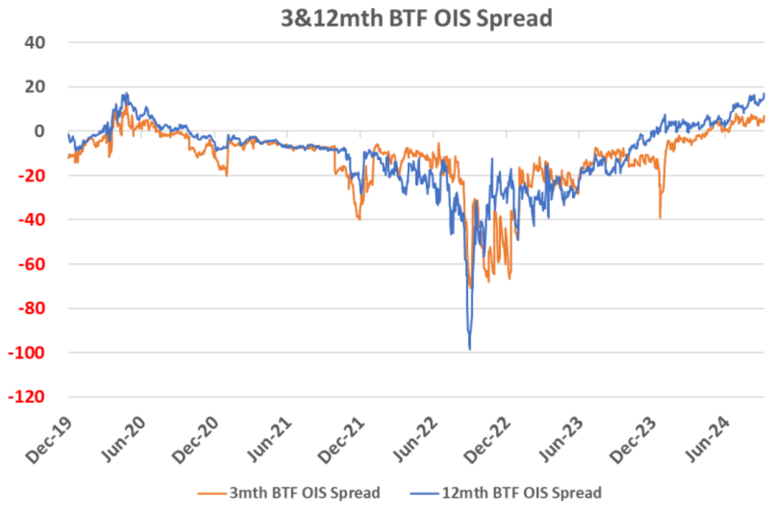
7) ICMA repo survey points to active cross border activity in repo in Europe whilst unsecured markets are more domestic – are there any implications for distribution of excess liquidity within euro area?

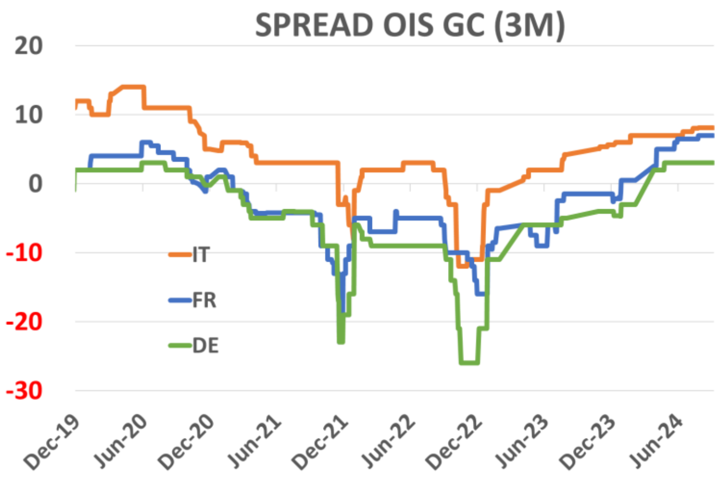
Appendix

Money market spreads historical data









- Banks cannot go short bills

French CP maturity structure by issuer type

- Banks still mainly issue in 1y (average maturity at issuance ~9mth)
- Corporates average maturity is ~ 4mth
- Public issuers average maturity is ~4mth
- Short Residual maturity inventory is very small except for SPVs ~2.5mth

II.3. Répartition par maturité initiale et résiduelle, de l'encours (par catégorie d'émetteurs)

	Maturité initiale	Maturité résiduelle
Emetteurs financiers (hors org. de titrisation)		
1 à 3 j	0,1%	2,4%
4 à 9 j	1,1%	2,8%
10 à 40 j	1,0%	12,6%
41 à 100 j	7,2%	21,2%
101 à 200 j	12,5%	31,3%
201 à 365 j	78,1%	29,7%
Toutes maturités	**100,0%**	**100,0%**
Emetteurs non financiers		
1 à 3 j	0,3%	5,4%
4 à 9 j	0,3%	7,0%
10 à 40 j	11,2%	36,7%
41 à 100 j	44,4%	29,0%
101 à 200 j	26,3%	14,3%
201 à 365 j	17,5%	7,5%
5 ans 1 j à 7 ans		0,1%
Toutes maturités	**100,0%**	**100,0%**

	Maturité initiale	Maturité résiduelle
Emetteurs publics		
1 à 3 j		2,9%
4 à 9 j	0,2%	12,0%
10 à 40 j	17,0%	41,4%
41 à 100 j	39,1%	20,8%
101 à 200 j	24,3%	14,0%
201 à 365 j	19,3%	8,9%
Toutes maturités	**100,0%**	**100,0%**
Organismes de titrisation		
1 à 3 j		12,7%
4 à 9 j	12,7%	8,8%
10 à 40 j	35,4%	43,8%
41 à 100 j	35,3%	25,6%
101 à 200 j	5,4%	3,2%
201 à 365 j	11,2%	5,9%
Toutes maturités	**100,0%**	**100,0%**

Motivation and direction behind wholesale short-term secured vs. unsecured Money Market activity by client type

- Unsecured:
  - One way market (mostly)
- Secured:
  - Two-way market

	Unsecured	Secured
Bank / ALM	Both, regulatory ratio management	Cash & Collateral Management
Supra/ Agencies	Both	Cash & Collateral Management
DMOs	Investment (limited)	Cash & Collateral Management
Insurances / Pension Funds	Investment (limited)	Cash & Collateral Management
Asset Managers	Investment (limited)	Cash Management, Collateral Management, Speculation
Money Market Funds	Investment (limited), regulatory ratio management	Cash Management (Investment (limited))
Hedge Funds	Investment (limited)	Cash Management, Collateral Management, Speculation
Corporate	Both	Cash & Collateral Management
Central Bank	Investment (limited)	Cash & Collateral Management

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