EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

27 September 2023

ECB Money Market Contact Group

Wednesday, 20 September 2023, 14:00-16:30 CET, remote meeting

Summary of discussion[1]

Despite a substantial reduction in excess reserves since July 2022 and changes in the remuneration of some Eurosystem liabilities, MMCG members agreed that money markets were functioning smoothly. MMCG members observed that collateral scarcity in the repo market was progressively diminishing. Reduced short positions in the bond market, coupled with improved bond net supply dynamics supported by the end of APP reinvestments, alleviated previous concerns regarding the availability of sufficient high-quality liquid collateral. The adjustment of the composition of collateral pools by a central counterparty was another technical factor contributing to the improvement in repo market conditions. The Deutsche Bundesbank's announcement that it would reduce the remuneration of their domestic government deposits to 0% did not lead to renewed collateral scarcity concerns until now. However, the discretion exercised by Deutsche Bundesbank led to speculation about potential further adjustments either to the remuneration of government deposits by other NCBs or to the remuneration of deposits by foreign central banks. In unsecured money markets, the EURIBOR-OIS spread returned to positive territory for maturities of three months and beyond, with forward rates not indicating a substantial widening of this spread in the future. The MMCG also noted robust volumes in commercial paper issuance, predominantly of a short-term nature, with yields tracking OIS pricing. Several MMCG members reported a resurgence in bank bond issuance after the summer, with bank bond spreads widening since August. Additionally, MMCG members expressed concerns about heightened competition for retail deposits that could result from new sovereign debt instruments offering substantial amounts of one-year notes at attractive return to retail investors.

[1] Disclaimer: The views expressed in this summary are those of the MMCG members and do not necessarily reflect those of the ECB.

MMCG members were critical of the ECB's decision in July 2023 to reduce the remuneration of minimum reserve requirements (MRR) to zero, highlighting risks for monetary policy transmission if MRR were to be increased in the future. Members stressed that the change was creating disincentives for banks to attract deposits that were subject to reserve requirements, which could be reflected in their pricing. While some members expressed the view that the current disincentives were not large enough to trigger a change in their banks' funding strategies, others stressed that increasing the reserve requirement ratio would give rise to avoidance strategies, especially at reporting dates. These strategies could take two forms. The first would entail lowering unsecured borrowing rates at month-ends to discourage overnight deposits, especially from money market funds, which would decide to place these funds in the repo market instead. This, in turn, could result in notable €STR volatility and pronounced declines in repo rates at reporting dates. The second strategy would involve moving deposits to entities located outside the euro area, which are not subject to reserve requirements. The displacement of deposits from the euro area could additionally result in EUR/USD FX swap basis widening at month-ends due to the absence of demand for euro.

MMCG members highlighted that the architecture of new technologies for wholesale central bank money settlement has important implications for liquidity management and Treasury activities, which should be considered when designing the Eurosystem's investigations in this field. The Eurosystem is exploring methods for central bank money settlement of wholesale financial transactions recorded on distributed ledger technology (DLT) platforms. It intends to begin exploratory work in 2024, which would include trials (involving real transactions settled in actual central bank money) and experiments (involving test transactions). This initiative aims to gain insights into how various solutions can facilitate interaction between TARGET services and DLT platforms. To support these exploratory efforts, a dedicated market contact group has been established within the Eurosystem. MMCG members welcomed this initiative and expressed interest in engaging with the members of the contact group. They emphasised the need for coordination between those with a vision for infrastructure and practitioners in liquidity management. Particular attention was given to addressing the risk of liquidity fragmentation, ensuring interoperability with a cross-currency component, evaluating the merits and drawbacks of 24/7 operability before reaching a decision, and achieving the settlement of debt certificates at T+0.

Participant's institution	Name of participant	
Banco Santander	Luis Barrigón Rodriguez	
Barclays	Bineet Shah	
Belfius Bank	Werner Driscart	
BNP Paribas	Patrick Chauvet	
BPCE/Natixis	Olivier Hubert	
CaixaBank	Xavier Combis	
Commerzbank	Andreas Biewald	
Coöperatieve Rabobank	Eric Scotto di Rinaldi	
Crédit Agricole/CACIB-CASA	Pierre Le Veziel	
Deutsche Bank	Christian Gau	
DZ Bank	Oliver Deutscher	
Erste Bank	René Brunner	
EUREX	Frank Gast	
HSBC Continental Europe	Harry-David Gauvin	
ING Bank	Jaap Kes	
Intesa Sanpaolo	Maria Cristina Lege	
JP Morgan Asset Management	Olivia Maguire	
LCH SA	Corentine Poilvet-Clédière	
UniCredit	Harald Bänsch	
European Central Bank	Thomas Vlassopoulos	Chairperson
European Central Bank	Pamina Karl	Secretary
European Central Bank	Helmut Wacket	
European Central Bank	Maria Encio	
European Central Bank	Sofia Delgado	