

17 April 2023

EMEA FICC Trading

# ECB Bond Market Contact Group

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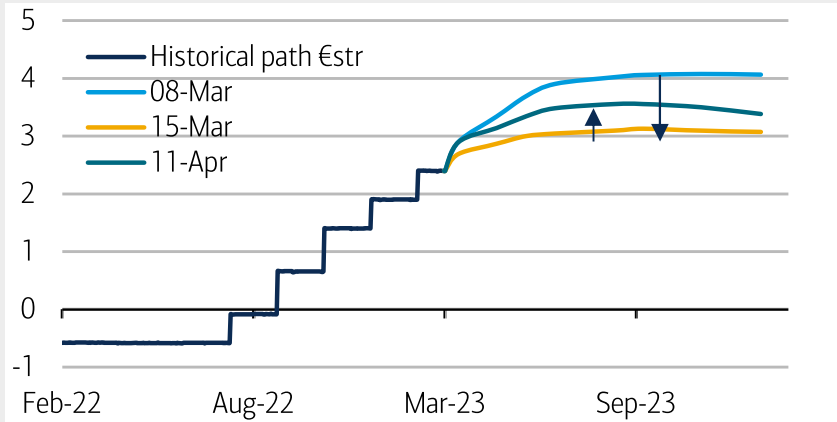
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# Immediate effect of the banking turmoil visible in EUR markets

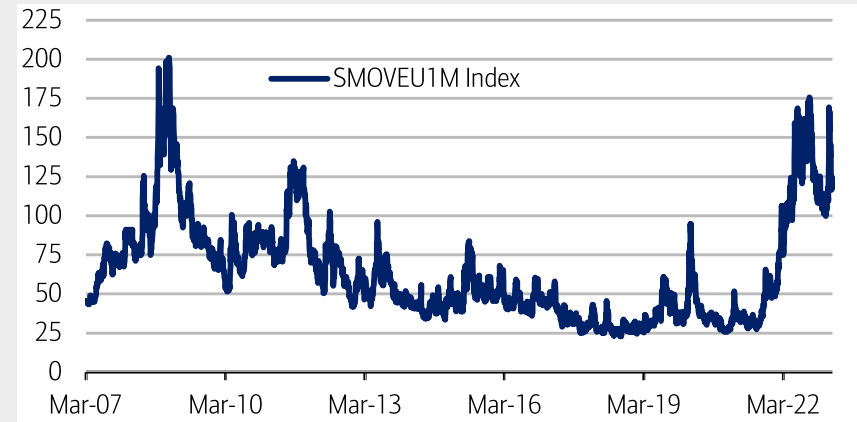


## Sharp repricing of central bank rate hike expectations ...



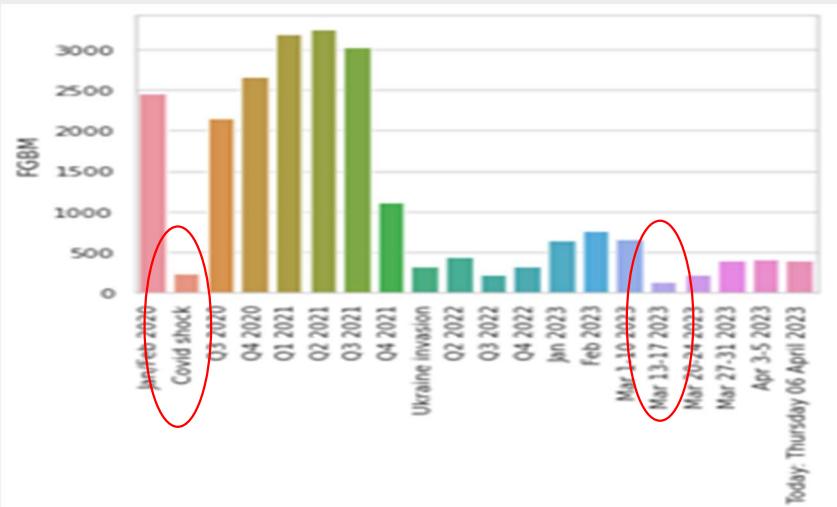
Source: Bloomberg

## ... With a resulting surge in implied rates volatility &



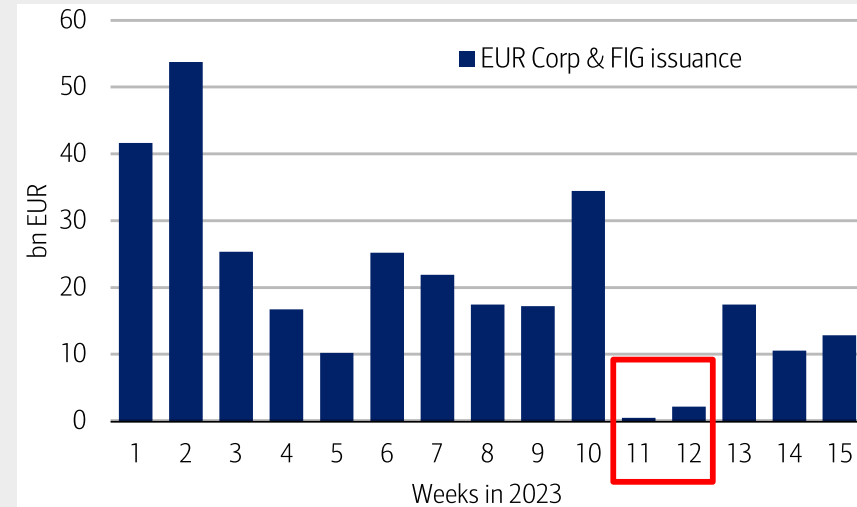
Source: Bloomberg

## Liquidity in futures collapsed beyond peak Covid stress levels



Source: BofA e-trading. Nb of Bobl contracts that can be traded at best bid + best offer

## Corporate bond markets closed weeks of March 13<sup>th</sup> & 20<sup>th</sup>

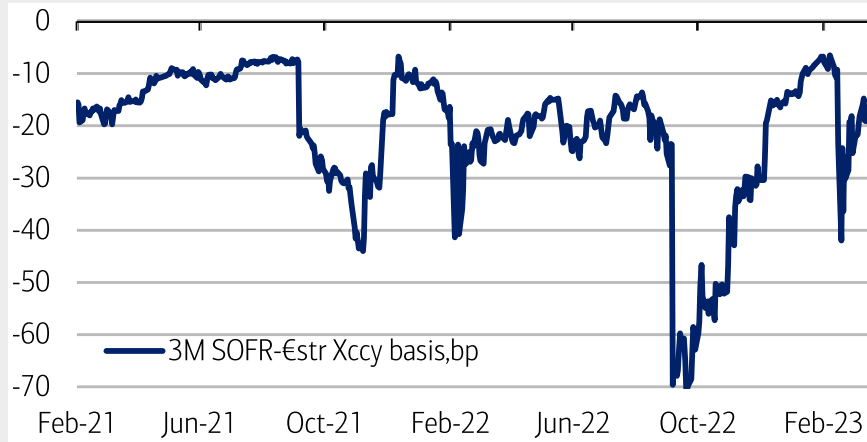


Source: BofA Securities GCIB

# Contagion ultimately limited ...

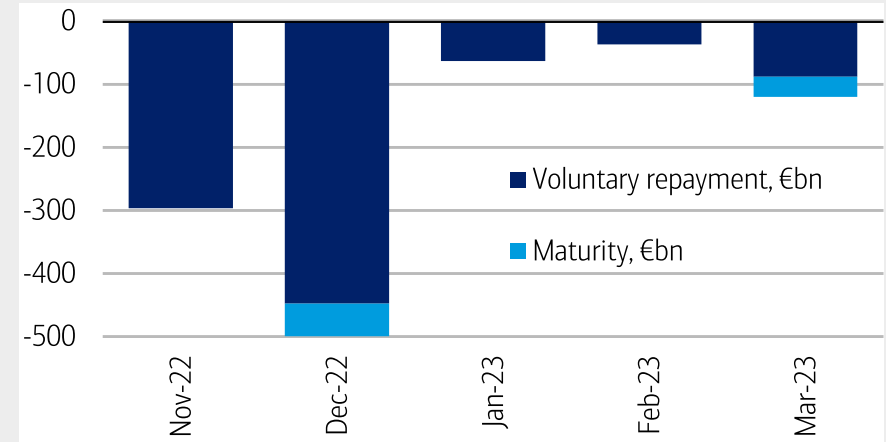


Xccy basis move limited w/ almost 0 take-up in 7d swap lines



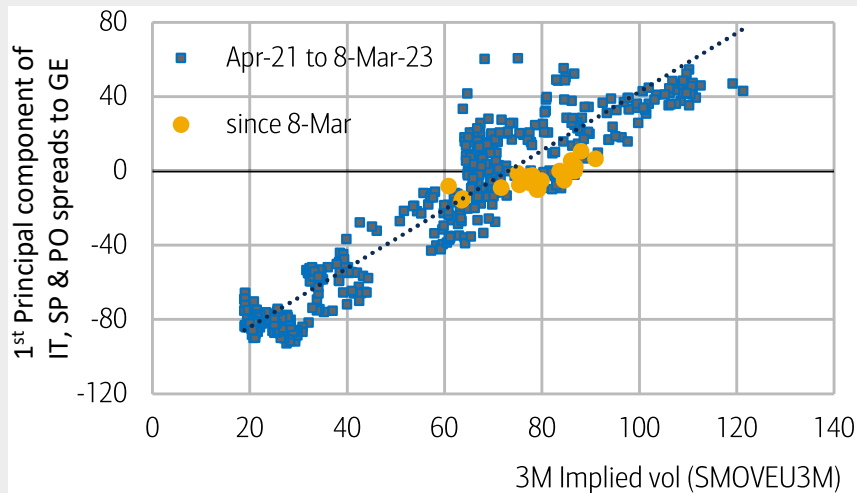
Source: Bloomberg

EA banks still decided to repay €88bn of TLTRO voluntarily



Source: ECB

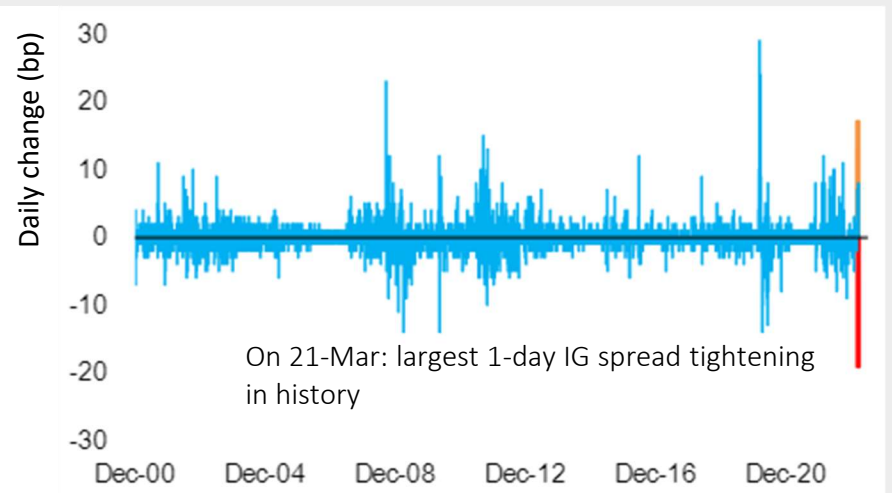
10y periphery spreads outperformed their relationship vs vol



Source: BofA Global Research

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Corporate bonds: still in buy the dip mentality



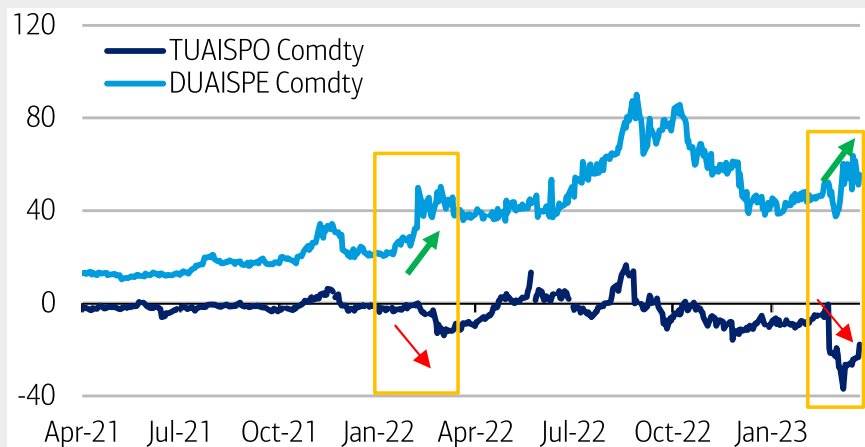
Source: BofA Global Research

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# ... but a few takeaways remain

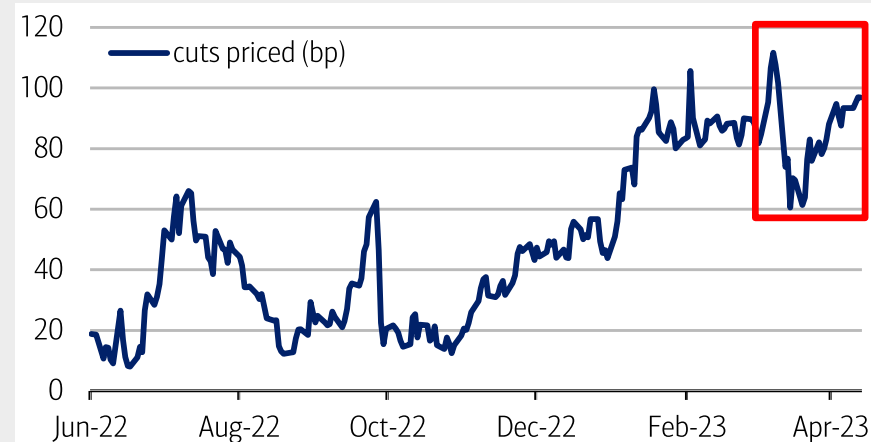


## Another de-coupling between 2y US & GE invoice spreads



Source: Bloomberg

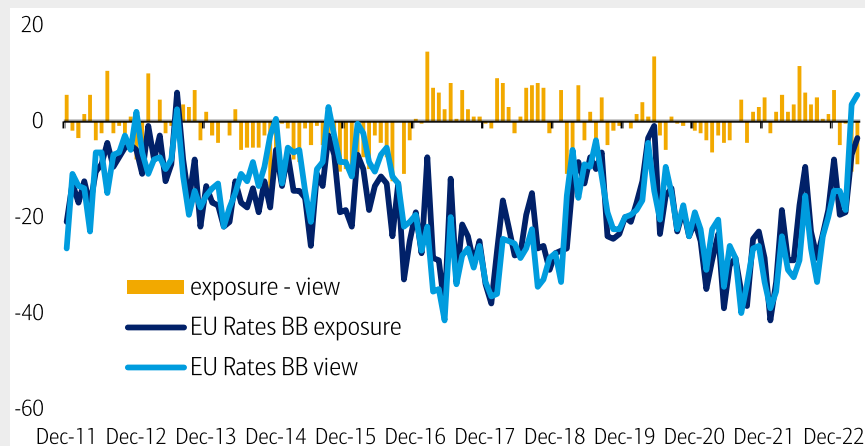
## Large uncertainty now on the amount of cuts to come



Source: BofA Global Research

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## EUR core rate "views": most bullish in history ...

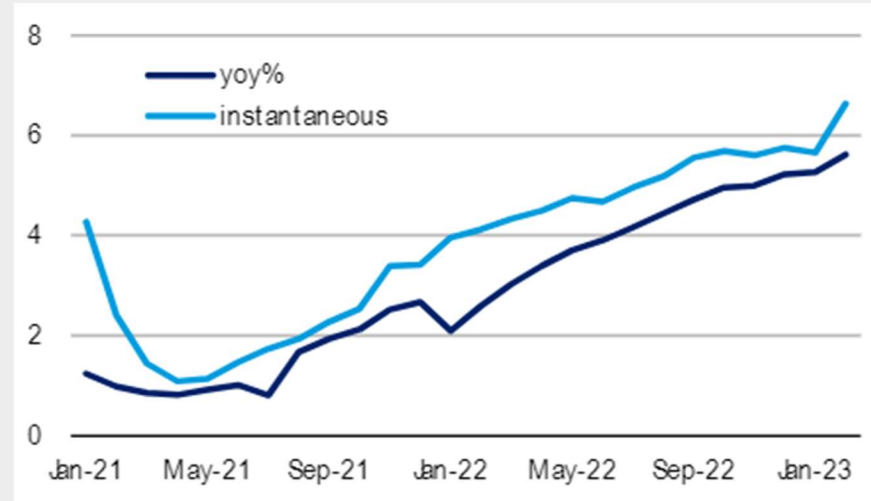


Source: BofA Global Research, April FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral

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## ...despite (instantaneous) core inflation still on the rise



Source: BofA Global Research, Eurostat. Note: original methodology from Eeckhout (2023)

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# Discussion



1. Will European banks' appetite for government bonds be dampened by the recent events?
2. Are there other financial institutions prone to forced selling in EGBs if/when yield rise further / cash is withdrawn? Pensions were in focus last year; what about life insurers ?
3. Will there be any impact on banks' activities in EGBs and/or swaps markets from the European Banking Authority (EBA) final standards and guidelines on interest rate risk arising from non-trading book activities, as they apply from 30-Jun-23 ?
4. Will liquidity remain low until there is clarity on the monetary policy transmission? lags and size
5. With positioning close to neutral, how difficult will it be for EGB supply to be absorbed?
6. How best to monitor the extent of tightening in financing conditions ?
7. How are investors thinking about the ECB's reaction function and choice between rate hikes and accelerated QT following the rate shock for banks?

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