

Money Market Contact Group 18 March 2015

The impact of the Eurosystem public sector purchase programme on the money market and banks' liquidity management

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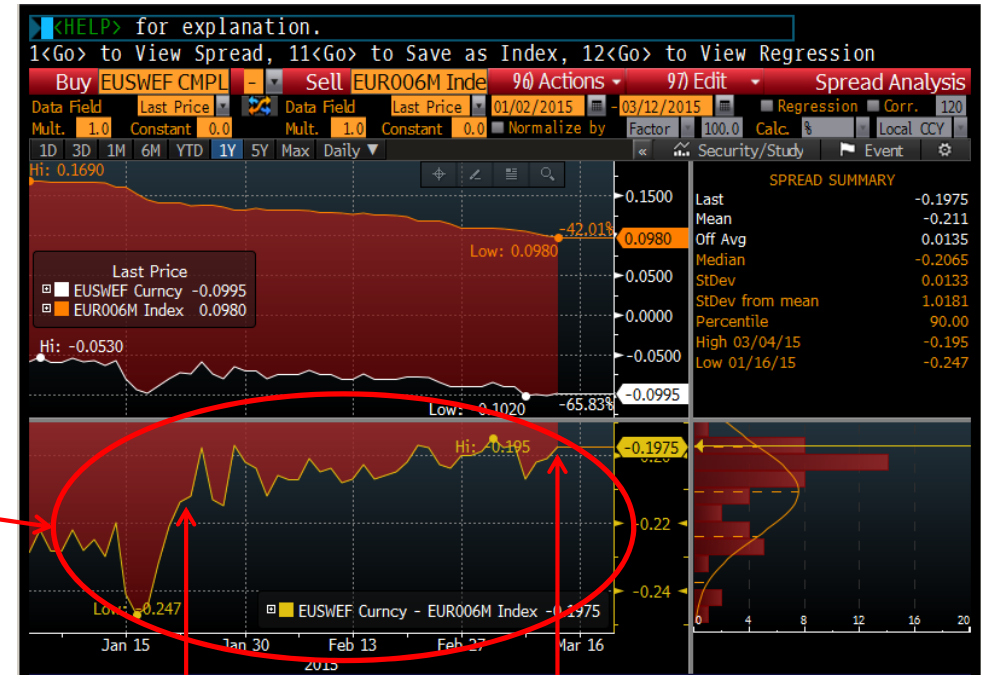
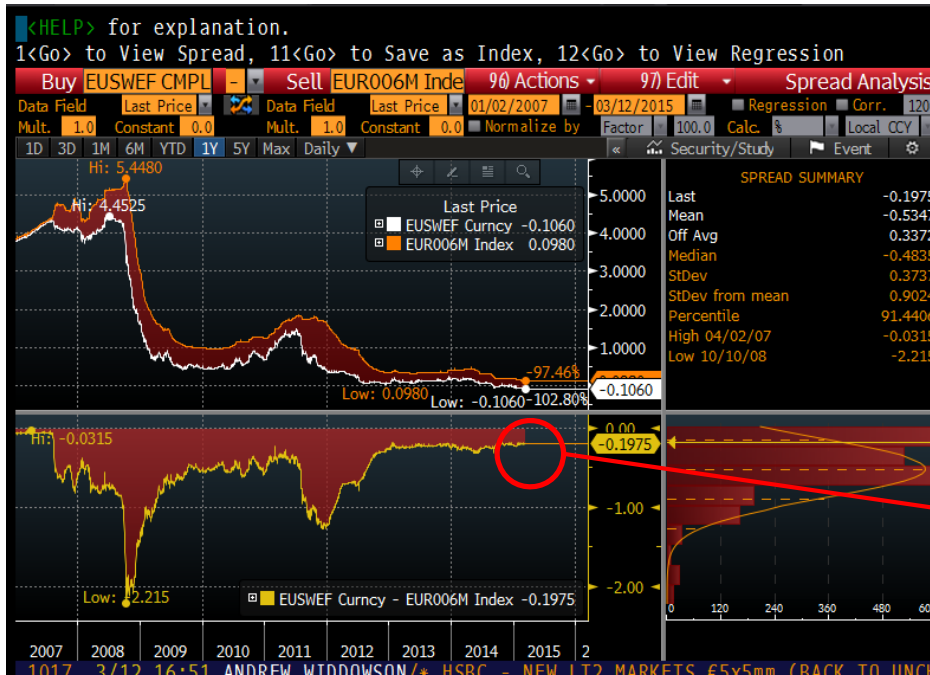


Agenda

1. Developments of yield curves
2. Current impact and outlook on money market

1.-Development of yield curves:

Liquidity spreads remain constant at low levels after announcement*...

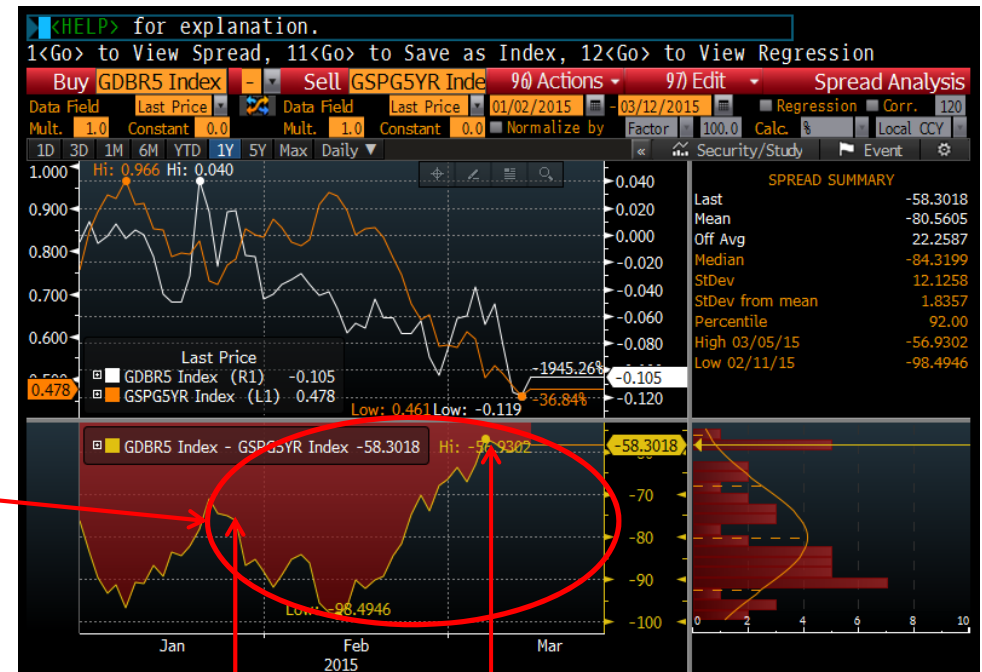
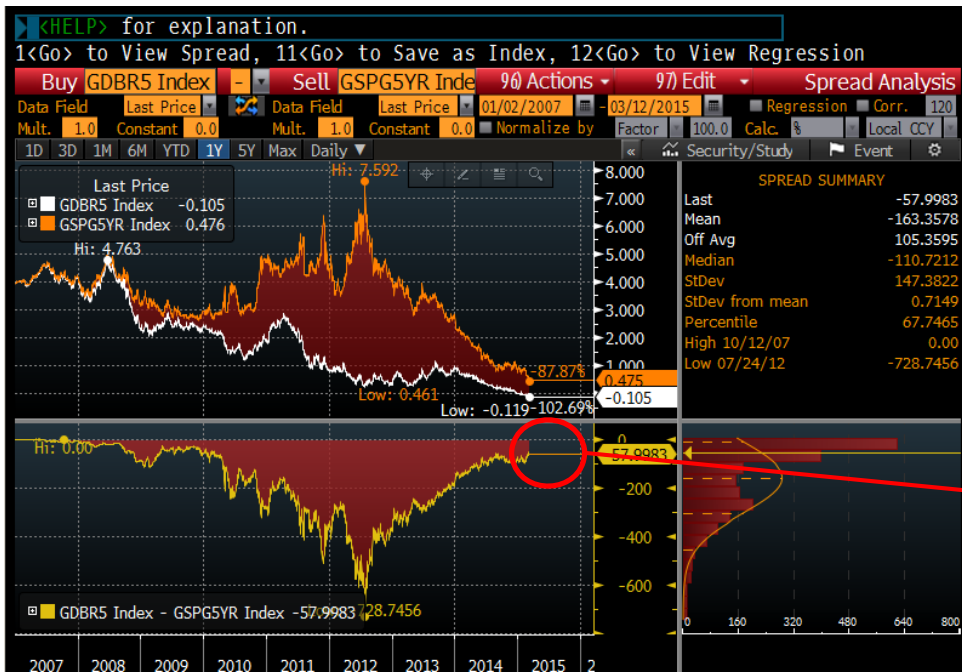


* Spread 6 months EURIBOR against 6 months EONIA swap. Source: Bloomberg

Start of ECB QE bond purchase activities

Announcement of expanded asset purchase programme

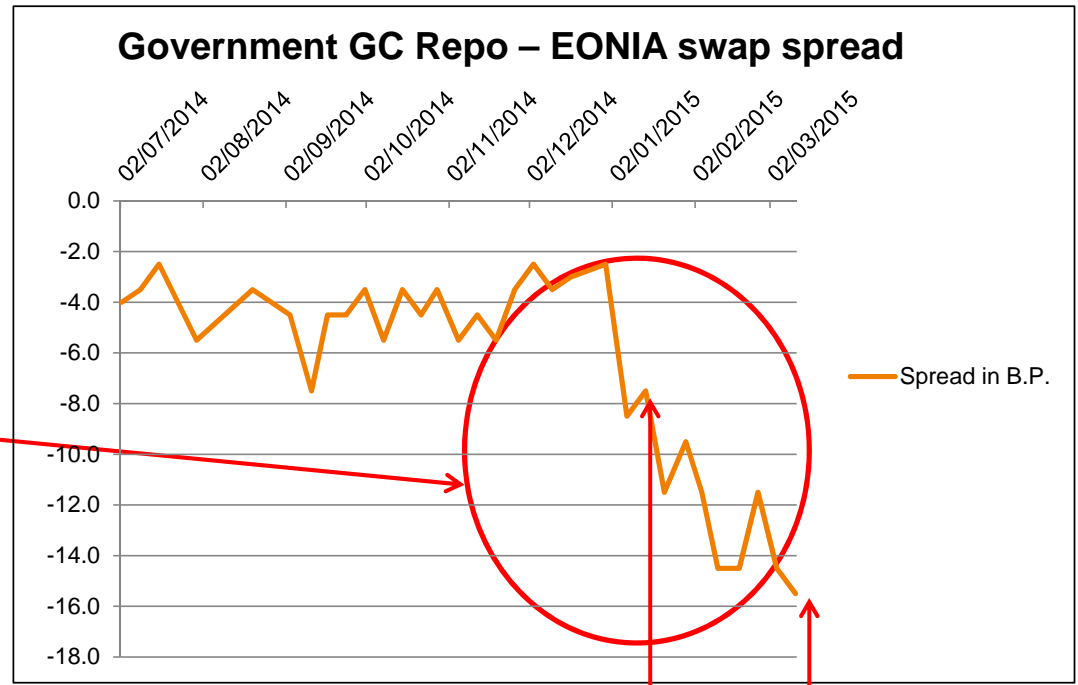
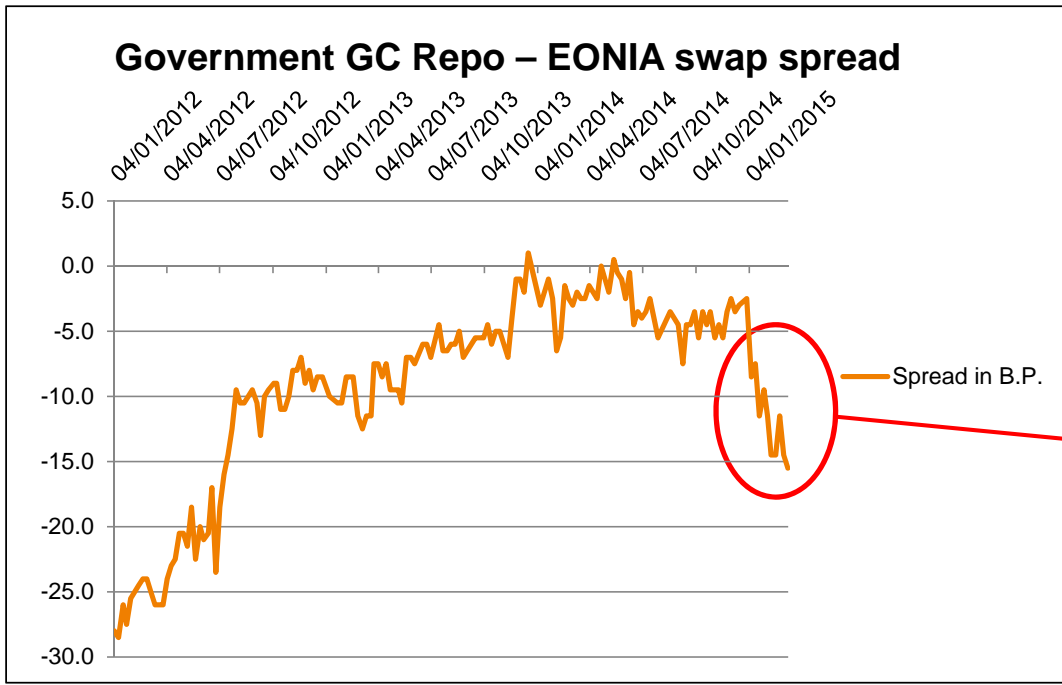
...while spreads of government bond yields tighten across the Euro area** ...



** Yield spread of German and Spanish Government Bonds with 5 year maturity.
Source Bloomberg

Start of ECB QE purchase activities
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...and spreads between EONIA swap and Government GC Repo rates widen***



*** Yield spread between German GC Repo and EONIA swap for a period of 6 months.

Source DZ BANK AG

Start of ECB QE purchase activities
Announcement of expanded asset purchase programme

2. Current impact and outlook on money market : Market volumes and financial market activities are gradually slowing down

Current recognisable impact on money market

- Increasing pressure on unsecured funding term
- Mounting pressure on fulfilling regulatory figures as LCR -, MaRisk - survival periods
- Increasing current account holdings of clients.
- Flat curve leads to lack of incentives to place longer term deposits.
- Harder to keep diversified liability funding structure based on changing investor behaviour
- Slowing liquidity & market depth in repo & cash markets
- Reduction of traded maturities in both repo and unsecured money markets
- Sovereign bond demand leads to higher EONIA swap – government bonds spread in repo markets
- Negative yields pressure technical systems and client handling

Future Risk on money market

- ☞ Additional pressure on reducing banks' balance sheets
- ☞ Investors tend to shift in „third markets“ & riskier assets looking for positive yields away from current model e.g. longer tenor, other asset classes
- ☞ Revenue pressure will increase for market participants exclusively focused on money markets (e.g.: pension funds, asset manager...)
- ☞ Increased liquidity risk for non financial institutions
- ☞ Liquidity squeeze for Gov. Bond markets
- ☞ Banks funding structure will be impacted due to changing investor scopes
- ☞ Forced pressure on Euro Yield Curves and Euro CCY widens risk on e.g. EUR/ USD swap spread bouncing back
- ☞ (.... Central Banks take over role of financial intermediaries and their mandate of maturity mismatches, transmission processes)