



US Dollar Funding

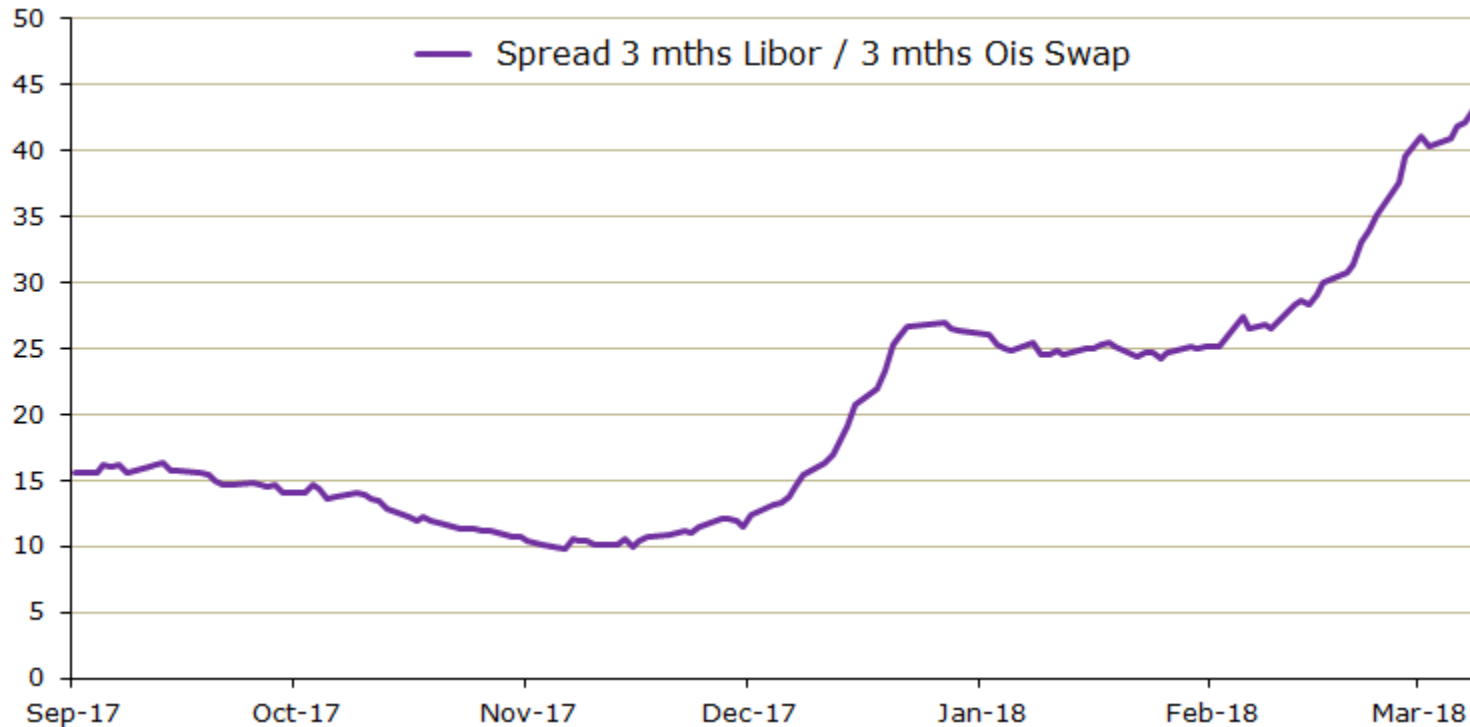
European Central Bank
Money Market Contact Group
March 13th 2018



1

US Dollar Funding Pressure

In the last months and notably in February several factors affected USD funding conditions and particularly the cost of borrowing that can be illustrated by the Libor/OIS spread.

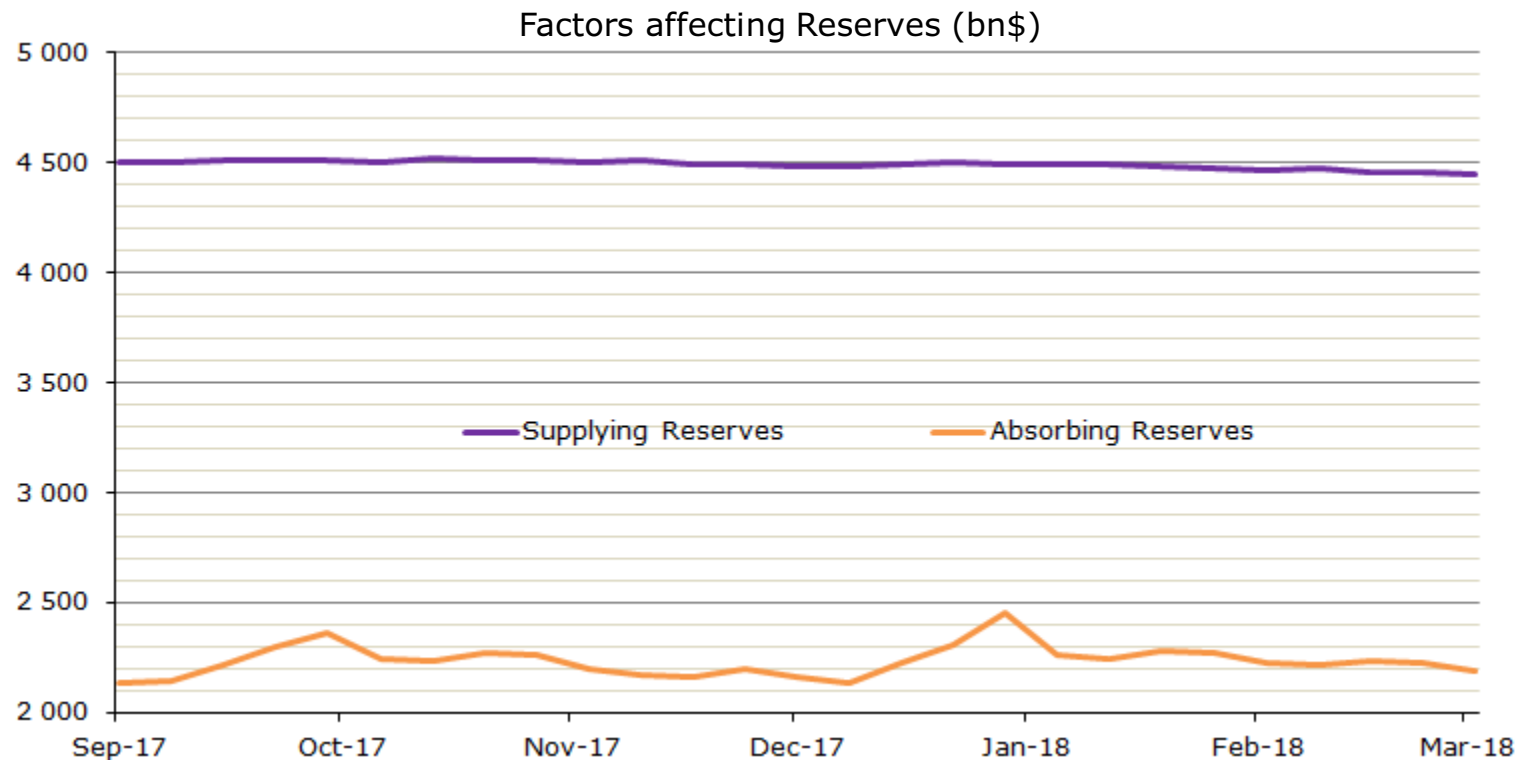


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Federal Reserve Balance Sheet

Since early September 2017 the excess liquidity in the Federal Reserve system decreased by 133 bn \$.

While the FED started to shrink its balance sheet, other factors brought volatility in the liquidity available to the banking system.



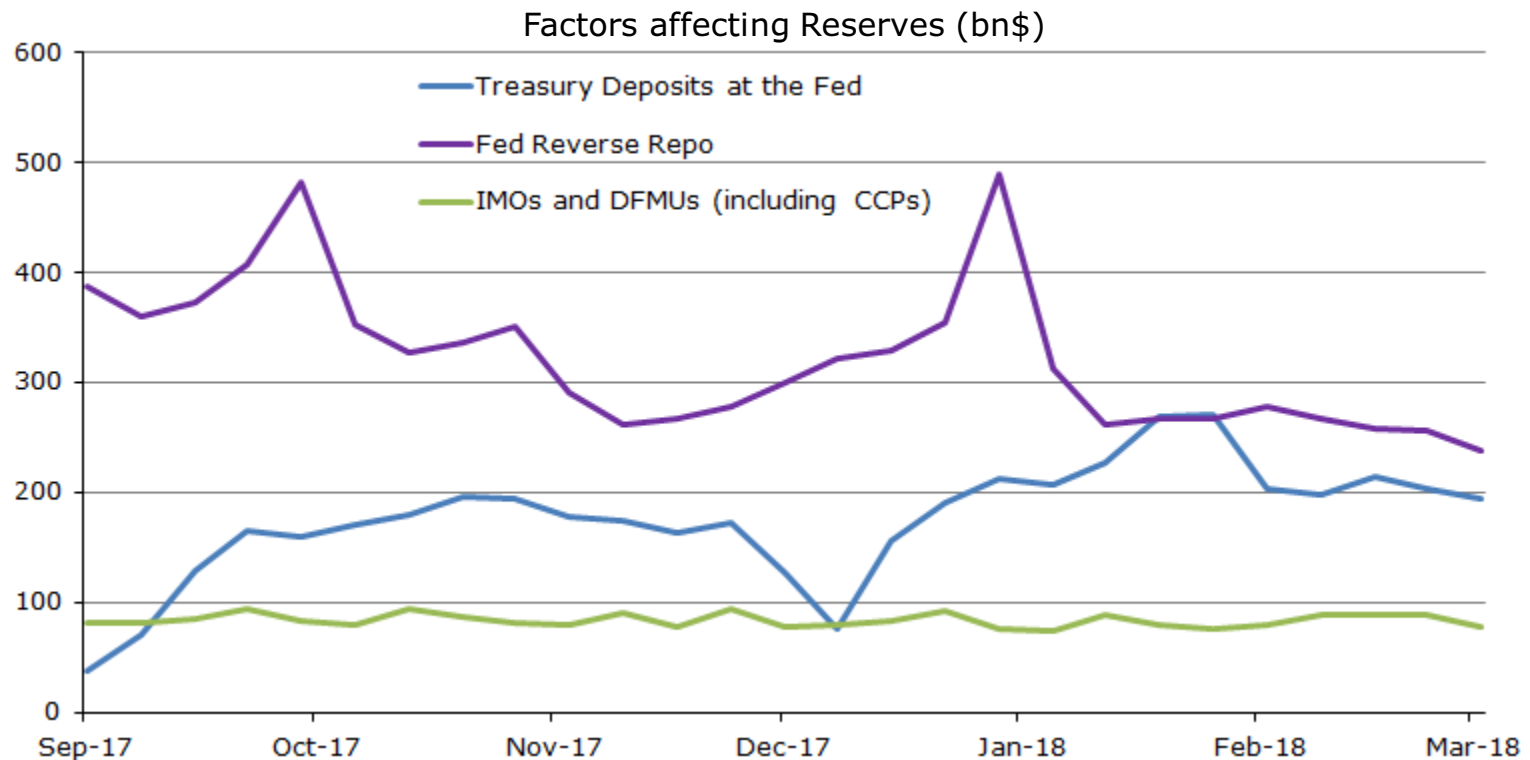
Source Federal Reserve

2

Federal Reserve Balance Sheet

If the RRP can depend on banks will to open their balance sheet (quarter ends or month ends), the Treasury cash account can have unexpected impacts on short term secured and unsecured funding.

Deposit from CCPs at the FED did not affect liquidity in the recent months.

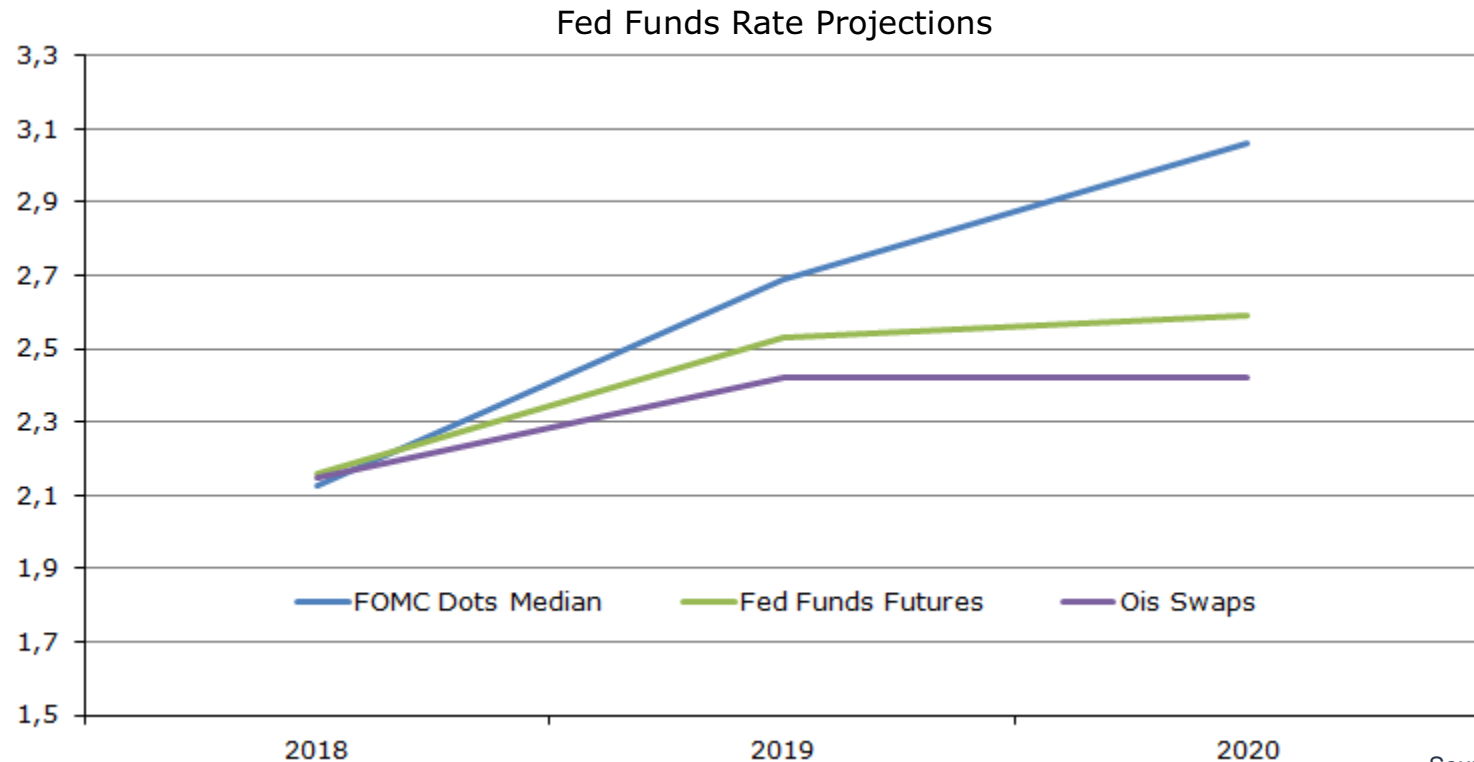


Source Federal Reserve

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Interest Rates Tightening

With a curve behind Fed's communication and some participants reluctant to use FRN's in the current benchmarks evolution environment, investors request higher fixed rates, pressing the Libor-OIS Spread.



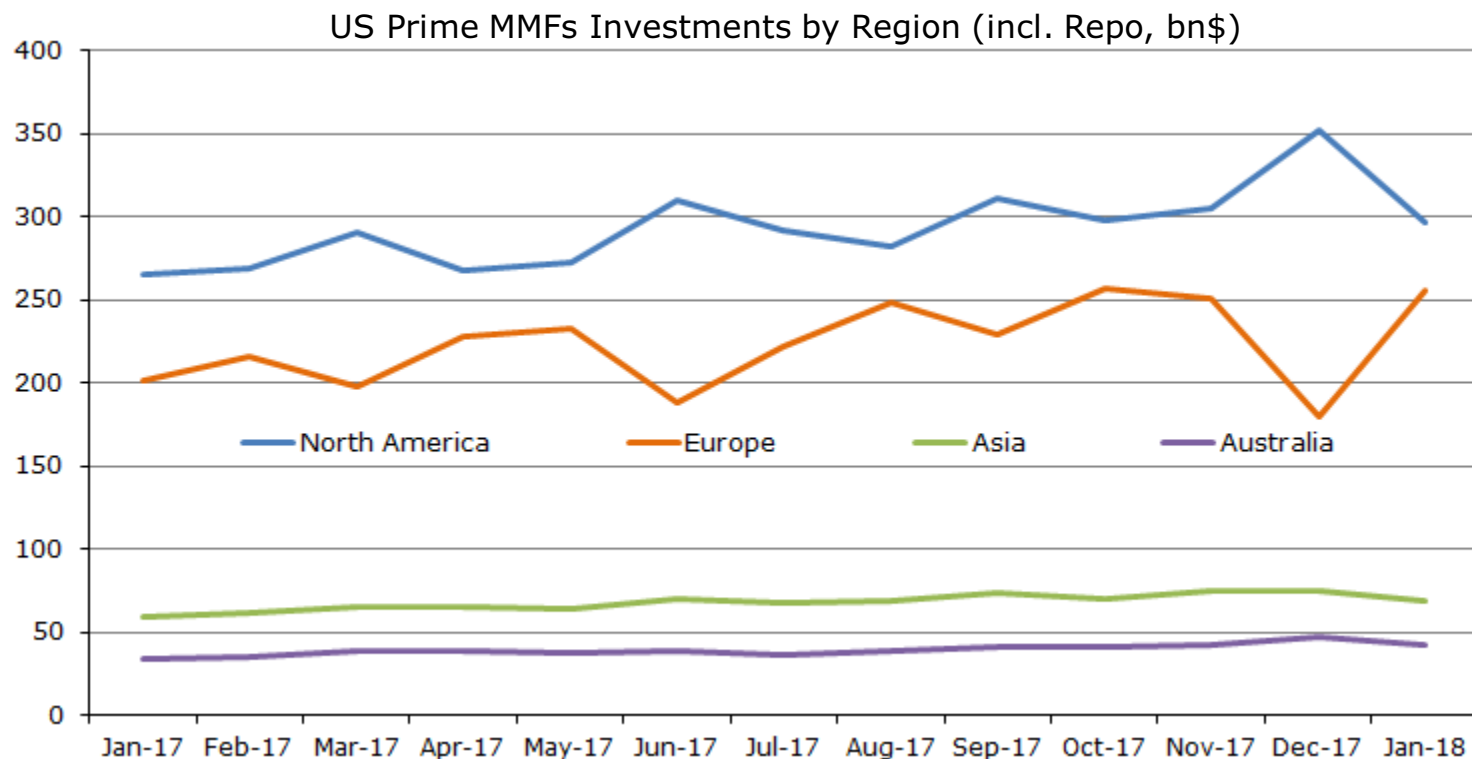
Source Bloomberg

4

Credit Conditions

Since the implementation of the US MMFs reform (October 2016) the total assets of Prime MMFs slightly increased.

If current Libor/OIS spreads remain high, Prime MMFs should benefit from the companies' cash repatriation (ICD Client Survey, Feb 2018).

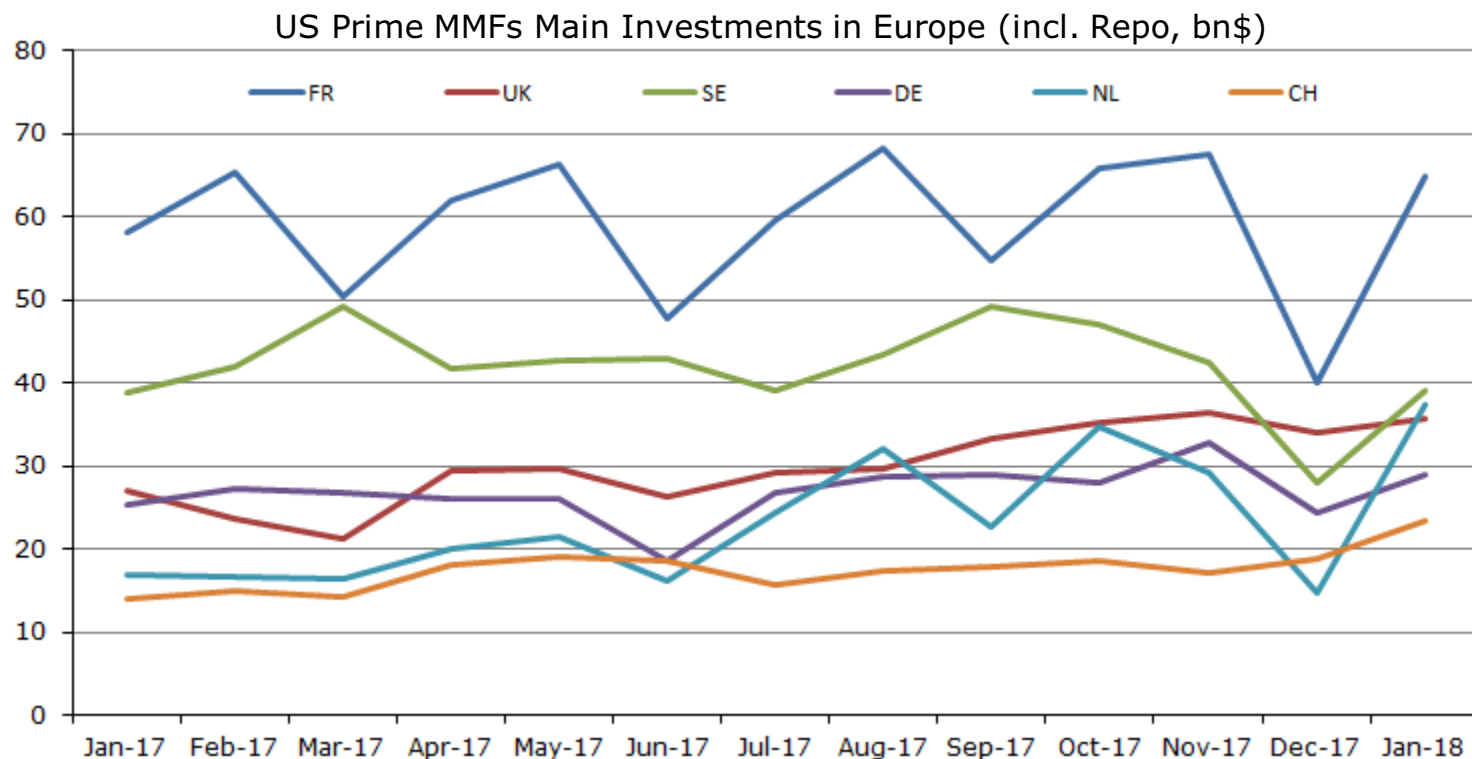


Source SEC - OFR

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Credit Conditions

Volatility in outstanding amounts seems largely driven by balance sheet management.

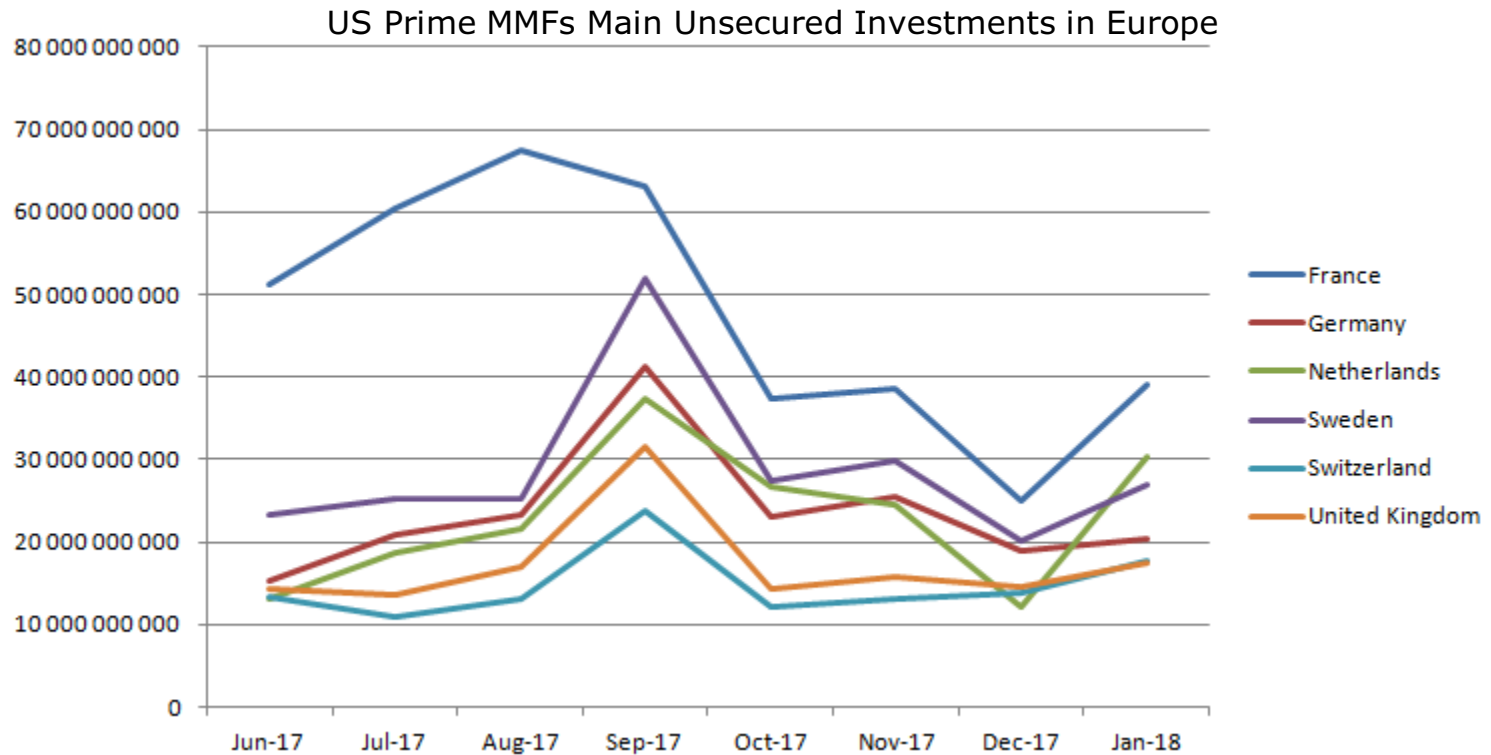


Source SEC - OFR

4

Credit Conditions

Issuers suffered a large drop in their unsecured borrowings from Prime MMFs in October 2017. This looks more caused by US domestic issues than by caution towards the Euro zone.

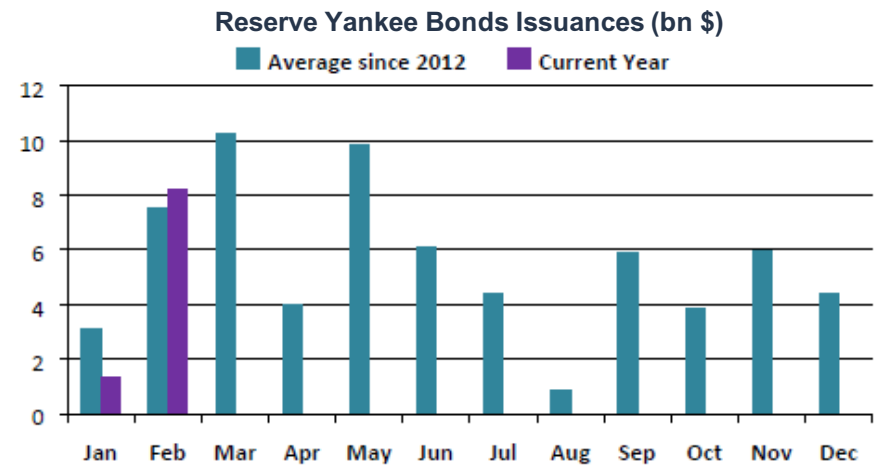
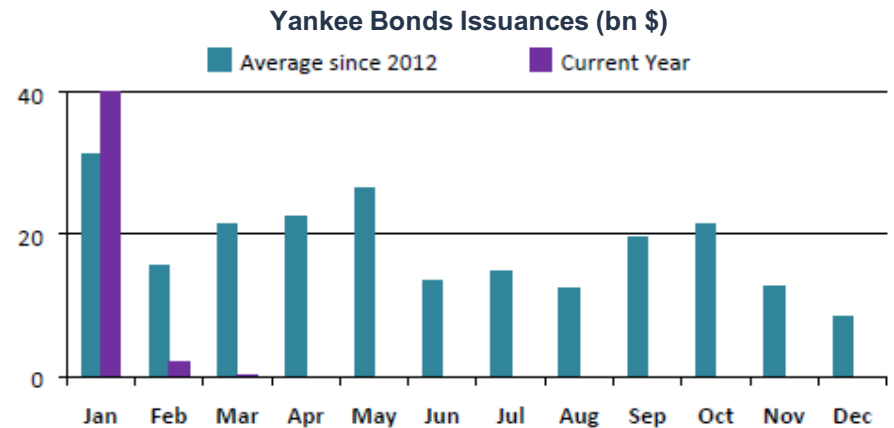
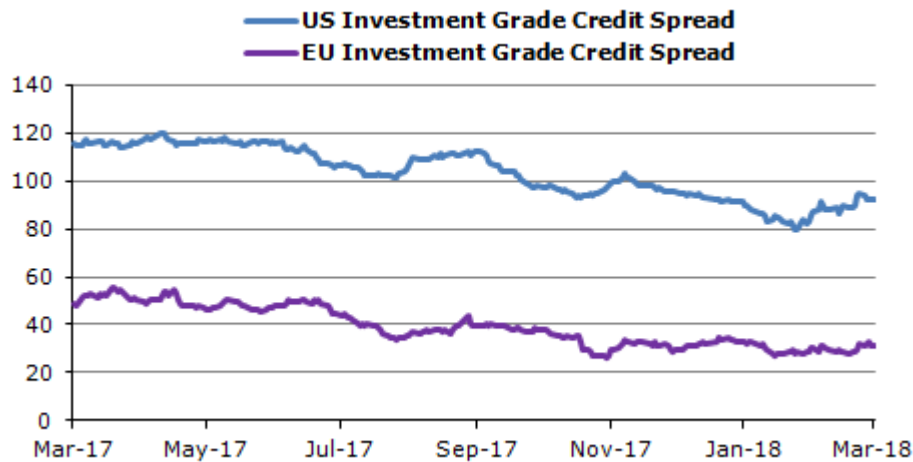


Source Crane Data

4

Credit Conditions

The recent reversal in US credit conditions encourages US companies to issue in the European market, which might trigger a widening of the medium/long term EUR/USD basis.

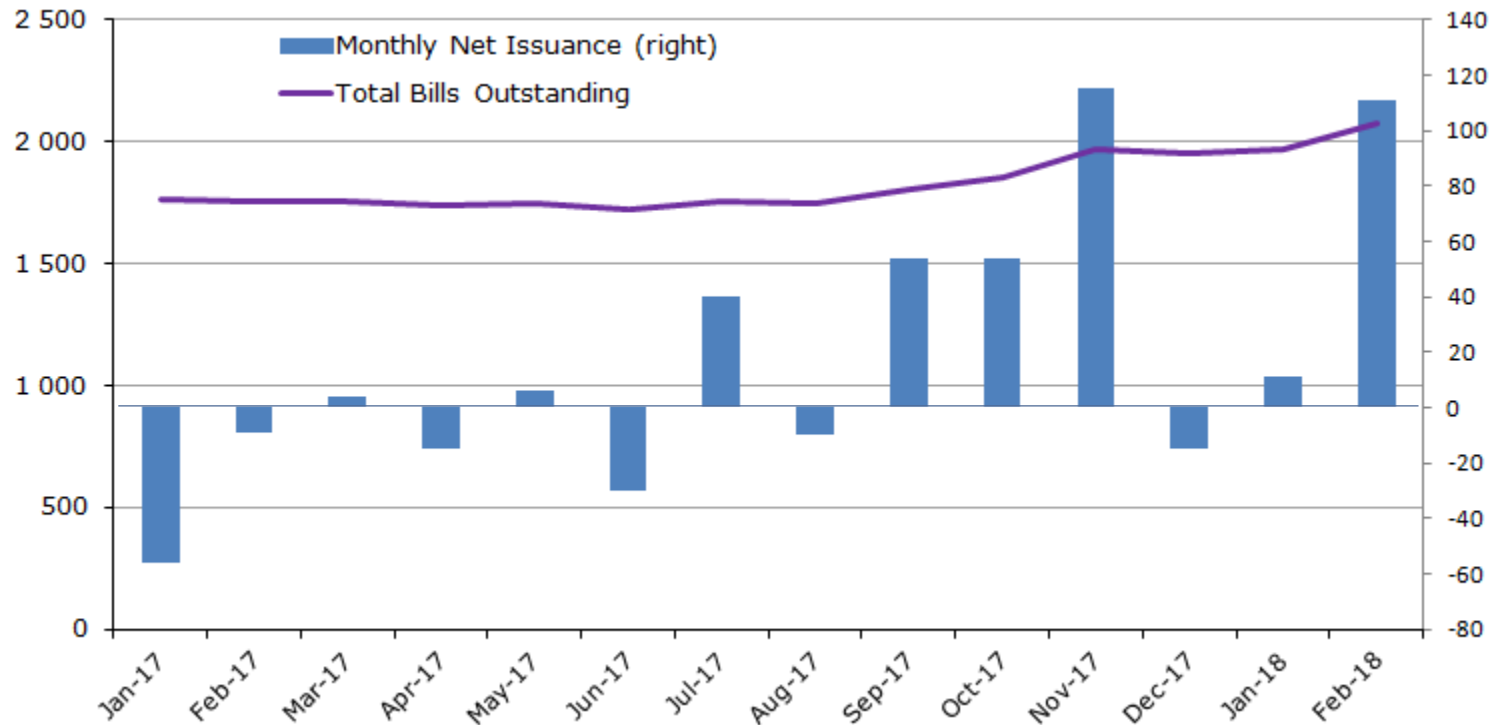


Source Natixis Research

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Treasury Bills Issuance

The net Bills supply could be above 500 bn\$ in 2018, compared to 138 bn\$ last year.

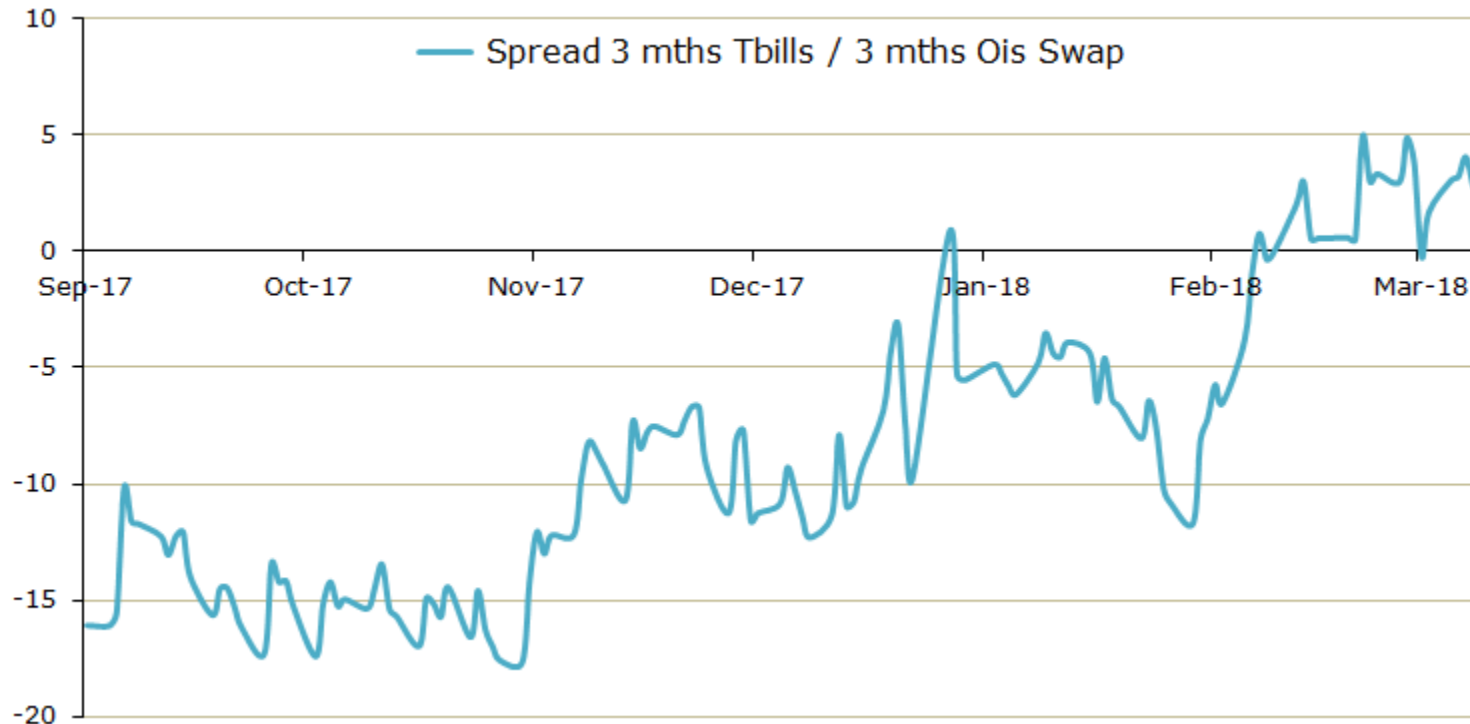


Source Bloomberg

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Treasury Bills Issuance

The decision of US Treasury to fund the sharp increase in the fiscal deficit largely through T-Bill issuance, has contributed to reducing the supply of US dollars and propelled the 3 months T-Bills/OIS spread above zero.

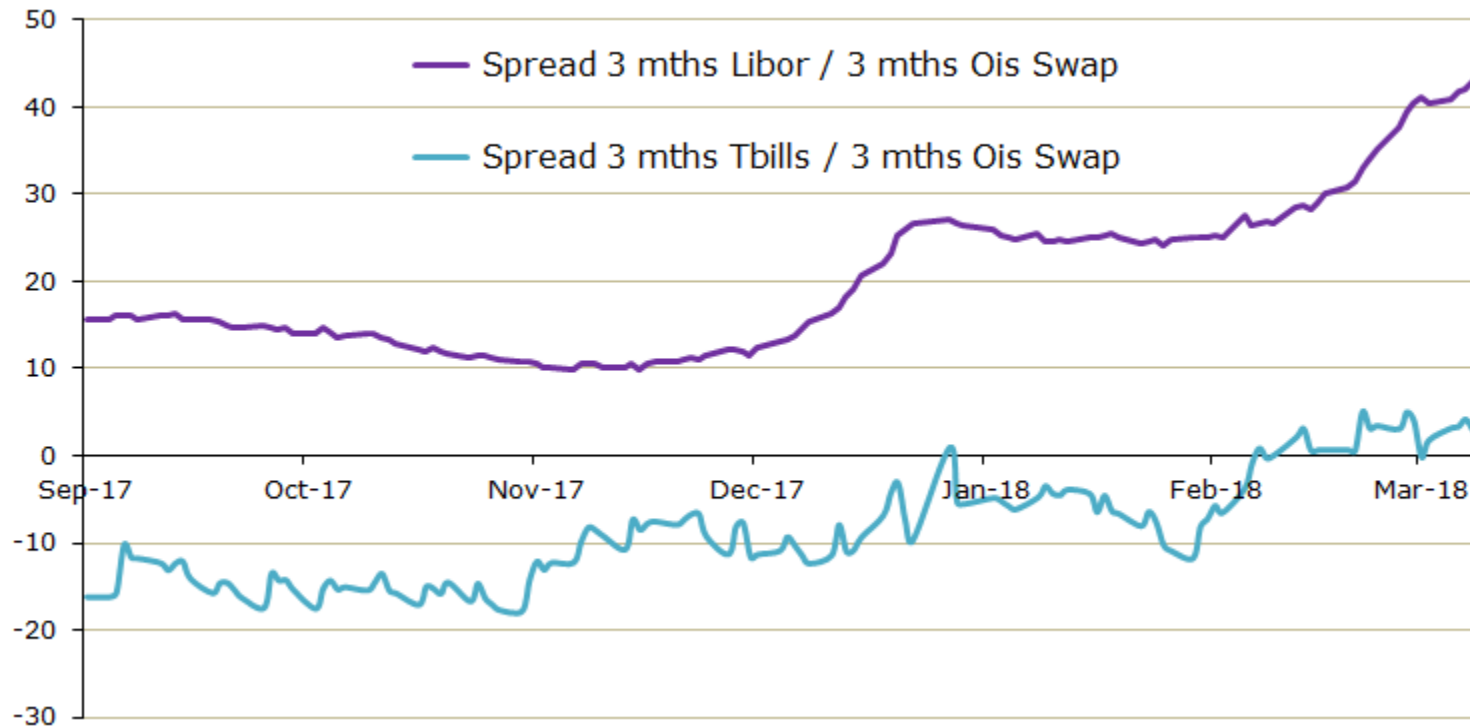


Source Bloomberg

5

Treasury Bills Issuance

The large supply of T-Bills in October 2017 and February 2018 contributes to a large part of the Libor/OIS widening.



Source Bloomberg

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Conclusion

The US Treasury choice to fund the increase in the US deficit should maintain an upward pressure on the Libor/OIS spread and on repo funding.

However cash repatriation, which will mainly take place in 2018, should mainly benefit to Prime MMFs and Short Duration Bond Funds and help to contain funding spreads.

Thank you.