EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

24 March 2020

ECB Money Market Contact Group (MMCG)

Tuesday, 20 March 2020, 09:00 - 09:45 CET

Telephone conference

<u>Summary of the discussion</u>

The Money Market Contact Group (MMCG) noted that the US dollar funding tensions in the forex swap market remain elevated, especially in the longer tenors. The new US dollar operations conducted on 18 March provided some relief to short-term US dollar funding rates. However, the relief in the short-term tenors was not transmitted to the longer-term tenors. Some members consider that more time and larger participation in the following weeks would be needed to restore confidence and make the improvements visible in longer-term tenors as well. Others were more sceptical about any quick improvement in this longer-term segment as there remains significant uncertainty over the magnitude of potential US dollar outflows. The approaching quarter-end and the likely prolongations of the contingency working arrangements may exacerbate hoarding of US dollar liquidity as a precautionary measure. It was noted that liquidity in term markets beyond one week is limited both in US dollars and in euro.

The MMCG considered that the ECB decisions on longer-term refinancing operations (LTRO), the third series of the targeted longer-term refinancing operations (TLTRO III) and the pandemic emergency purchase programme (PEPP) have been effective so far. The announcement of the PEPP had a very positive impact on the European government bond market due to its large size and greater flexibility. It served to repair initial signs of fragmentation that – if they had persisted – could have impaired the transmission of monetary policy over time. The measures have eased funding conditions for governments as well as for the private sector and have been transmitted to the repurchase agreement market. The changes to the corporate sector purchase programme were also praised, even if some members would have welcomed the inclusion of commercial paper issued by financial corporations. In addition, the large TLTRO and LTRO take-up was perceived positively, providing evidence of the high demand for euro liquidity. More details on the announced measures (PEPP, collateral measures) were eagerly awaited.

Looking forward, the MMCG argued that closer coordination between European banking supervision and monetary policy actions was needed to show the firm determination of the Governing Council's decisions of 19 March. Such coordination would bring more credibility to the announced measures and increase their effectiveness. For instance, MMCG members are of the view that European banking supervision still perceives participation in the US dollar operations as negative. While the MMCG perceives euro funding conditions to be less stringent than US dollar funding, euro liquidity is mainly concentrated in assets of shorter tenors, leading to deteriorating regulatory metrics (liquidity coverage ratio, net stable funding ratio). To cope with funding problems in the longer tenors, regulatory liquidity ratios below 100% could be considered for acceptance on a temporary basis with transparent communication on the size and the duration of the proposed deviation.

On eligible collateral, MMCG members noted that it would be helpful to unlock additional parts of banks' balance sheets for ECB operations. The announcement of adjustments to the additional credit claims (ACC) framework was seen as a first step in the right direction, but more decisive steps were needed. For banks, it is very important that these loans are made to comply with the ECB's eligibility criteria within a common and harmonised framework and with a manageable operational burden. The current ACC framework is not harmonised and currently allows for discretion on the part of national competent authorities regarding asset eligibility. MMCG members argued for a more consistent, harmonised and simple framework across all euro area countries that would facilitate the mobilisation of these assets. They also highlighted the possibility of reintroducing the Eurosystem internal rating systems to assess the credit quality of the loans and the extension of the collateral pool across countries. Finally, widening the ECB's eligibility criteria by temporarily lowering the quality requirements and including additional types of banks' assets would ease banks' funding strains in the future.

List of participants

Money Market Contact Group meeting

Participant's organisation	Name of participant
Bank of Ireland	Mr David Tilson
Barclays	Mr Bineet Shah
Bayerische Landesbank	Mr Harald Endres
BBVA	Mr Miguel Angél Monzon
Belfius Bank & Insurance	Mr Werner Driscart
BNP Paribas	Mr Patrick Chauvet
BPCE/Natixis	Mr Olivier Hubert
Caixabank	Mr Xavier Combis
Caixa Geral de Depósitos	Mr António Paiva
Commerzbank AG	Mr Andreas Biewald
Coöperatieve Rabobank U.A.	Mr Frank Beset
Deutsche Bank AG	Mr Jürgen Sklarczyk
DZ Bank	Mr Michael Schneider
Erste Bank	Mr René Brunner
HSBC – France	Mr Harry-David Gauvin
ING Bank	Mr Jaap Kes
Intesa Sanpaolo	Ms Maria Cristina Lege
LBBW	Mr Jan Misch
Nordea	Ms Jaana Sulin
Société Générale	Ms Ileana Pietraru
UniCredit	Mr Harald Bänsch
European Central Bank	Ms Cornelia Holthausen (Chair)
European Central Bank	Ms Maria Encío (Secretary)