EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

25 September 2024

ECB Money Market Contact Group (MMCG)

Wednesday, 18 September 2024, 13:30-17:30 CET, Frankfurt, physical meeting

Summary of the discussion[1]

MMCG members discussed the first experiences following the launch of the ECB's new operational framework for monetary policy implementation and their expectations for use of refinancing operations in the future. The first main refinancing operation (MRO) under the new framework, with a narrower spread of 15 basis points between the MRO rate and the deposit facility rate (DFR), had not resulted in increased demand. MMCG members interpreted this development as signalling conditions of ample aggregate excess liquidity with smoothly functioning money and bond markets, although they also cautioned against overinterpreting one single observation. The take-up of standard refinancing operations was expected to increase gradually as the Eurosystem balance sheet continued to normalise and liquidity needs started to emerge. In this context, it was noted that such liquidity needs would vary considerably across banks and would depend, for example, on their business models. At this stage, banks saw the operations as a useful contingency tool rather than a standard funding source and were not incorporating central bank liquidity into their regular funding plans. The wide range of eligible collateral accepted for the Eurosystem's refinancing operations was seen as a supportive measure to ensure wide participation.

An eventual gradual increase in the use of standard refinancing operations was expected to be driven primarily by demand for regulatory liquidity rather than by payment needs or autonomous factors. Members considered that the Basel III liquidity regulation creates additional demand for excess liquidity well beyond the level of autonomous factors. The minimum level of excess liquidity is therefore significantly higher than it had been in the past. Demand for ECB standard refinancing operations would remain an important indicator for assessing the ampleness of liquidity. In this context, the design of structural refinancing operations, as a potential source of term liquidity, would be closely watched.

MMCG members discussed the market pricing of the ECB's future policy rate path. Overall, members viewed current market pricing as somewhat aggressive and expected one more cut of 25 basis points in the DFR by the end of the year, with the DFR reaching 2.00-2.25% towards the end of 2025. The level of the neutral policy rate remained highly uncertain, and euro short-term forward rates could continue to be affected by spillovers from decisions made by central banks in other advanced economies, in particular the Federal Reserve System.

The divergent path between secured and unsecured euro money market rates was attributed to market microstructure factors as well as to differences in regulatory treatment. Repo rates had gradually approached the DFR, while the euro short-term rate

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

(€STR) had remained at a relatively stable spread to the DFR. Members expressed the view that the divergence between secured and unsecured short-term money market rates related mainly to structural differences between the two market segments. There were different actors active in the two markets, an example of this being the separation (partly due to national banking laws) of secured and unsecured money market desks within many large institutions. This operational separation limited the scope for arbitrage arising from differentials between secured and unsecured money market rates. In addition, the relatively high upfront costs associated with operating in European repo markets represented an important entry barrier, especially for smaller market players, including non-banks, thereby also constraining arbitrage. With regard to term money market rates, MMCG members highlighted the steepness of the unsecured EURIBOR money market curve, especially beyond the one-month maturity. This development was mainly attributed to the higher value of unsecured term funding for the fulfilment of regulatory requirements, notably the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). It was also linked to the fact that when it came to placing liquidity, investor demand remained tilted towards shorter maturities.

Looking ahead, MMCG members did not expect material variations between short-term rates and the DFR over the next 12 months. The group expected that the unsecured overnight benchmark €STR would remain well anchored, staying below the DFR for the foreseeable future. Members expected rates for liquidity-motivated repos against general collateral to remain in a close vicinity of the DFR over the next 12 months. Should sudden liquidity needs emerge, repo market rates might increase towards the level of the MRO rate, which should effectively act as a cap on the level of repo rates.

Members discussed the tokenisation of money market assets and concluded that its effects for liquidity management were not yet clear. The group reviewed use cases involving the tokenisation of money market funds, commercial papers and bonds, repo transactions and the issuance of stablecoins. While progress had been very quick, the industry was still in its infancy. The new technologies offered benefits to investors and issuers alike through increased settlement efficiency, development of intraday liquidity management tools, lower transaction costs and enhanced transparency. On the other hand, issuance of stablecoins or tokenised deposits can have material consequences for banks' LCRs, might crowd out the conventional deposit base and could lead to increased intraday liquidity management needs. An important challenge was the lack of interoperability between the pioneering solutions and the resulting fragmentation of tokenised money markets. In this context, regulation and harmonisation were particularly important. Members also noted the potential value added of wholesale central bank digital currencies, which could provide immediate settlement of the cash leg for transactions in tokenised assets. While the consequences of this might be far-reaching for the financial system, it was concluded that it was too early in the adoption process to fully assess the impact.

Participant's organisation	Name of participant	
Amundi Asset Management	Mr Patrick Siméon	
Banco Santander	Mr Luis Barrigon Rodriguez	
Barclays	Mr Isaac Davies	
Belfius Bank	Mr Werner Driscart	
BNP Paribas	Mr Patrick Chauvet	
BPCE/Natixis	Mr Olivier Hubert	
CaixaBank	Mr Xavier Combis	
Commerzbank	Mr Andreas Biewald	
Coöperatieve Rabobank	Mr Eric Scotto di Rinaldi	
Crédit Agricole/CACIB-CASA	Mr Pierre Le Veziel	
Deutsche Bank	Mr Jürgen Sklarczyk	
DZ Bank	Mr Oliver Deutscher	
Erste Bank	Mr René Brunner	
Eurobank	Mr Dimitris Psichogios	
Eurex Clearing	Mr Frank Odendall	
HSBC Continental Europe	Mr Pierre Bouvy	
ING Bank	Mr Jaap Kes	
Intesa Sanpaolo	Ms Maria Cristina Lege	
Société Générale	Ms Ileana Pietraru	
Unicredit	Mr Michele Montani	
European Central Bank	Mr Thomas Vlassopoulos	Chairperson
European Central Bank	Ms Marta Skrzypińska	Secretary
European Central Bank	Mr Helmut Wacket	
European Central Bank	Ms Julija Jakovicka	
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