EUROPEAN CENTRAL BANK
EUROSYSTEM

Shifting tides in euro area money markets: from the global financial crisis to the COVID-19 pandemic

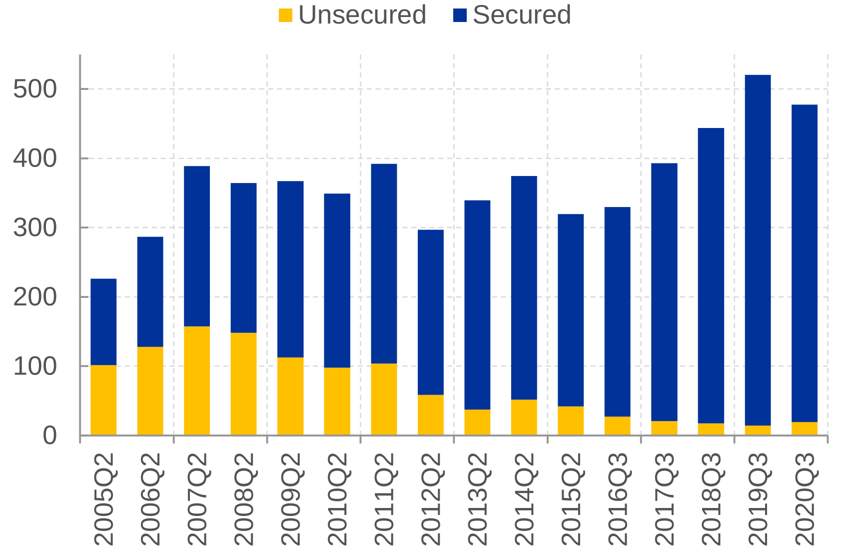
Isabel Schnabel
Member of the Executive Board

ECB Conference on Money Markets
23 November 2020

Shift from unsecured to secured transactions, with an increasing share of trades cleared through CCPs

Shift towards secured (repo) transactions

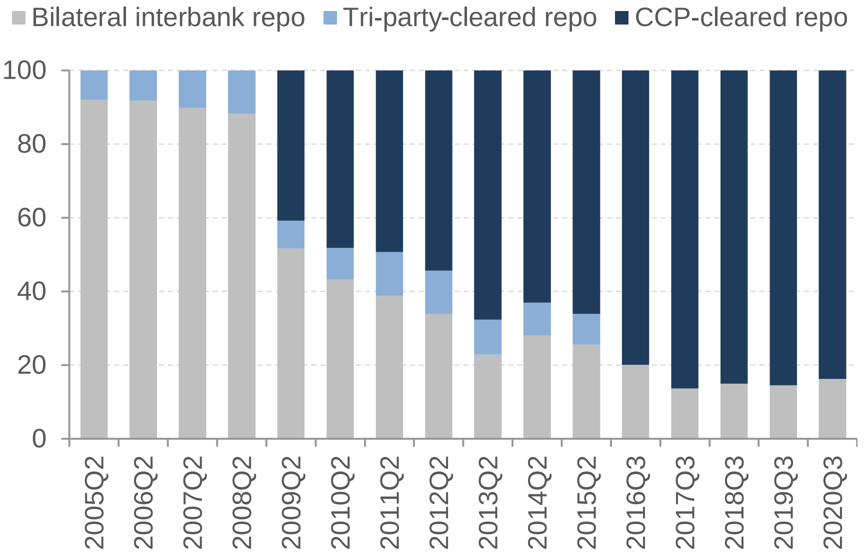
Money market (MM) volumes in EUR bn



Sources: Money Market Survey (MMS) until 2015, Money Market Statistical Reporting (MMSR) data thereafter (based on data from 37 banks that participated in both data collections).
Notes: Average daily transaction volumes traded over a quarter in the unsecured and secured (interbank) euro area money markets (in EUR billion; counterparties considered are deposit-taking institutions and CCPs only).

Increasing role of central counterparties (CCPs)

Counterparty share in % of total volume

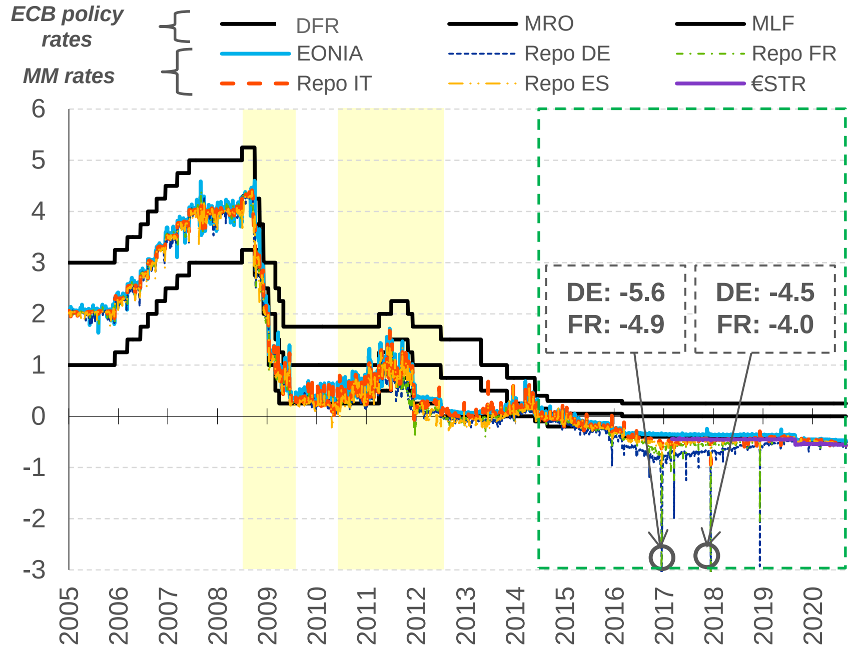


Sources: Money Market Survey (MMS) until 2015, Money Market Statistical Reporting (MMSR) data thereafter (based on data from 37 banks that participated in both data collections), secured transactions.

Structural changes in the evolution of short-term money market rates

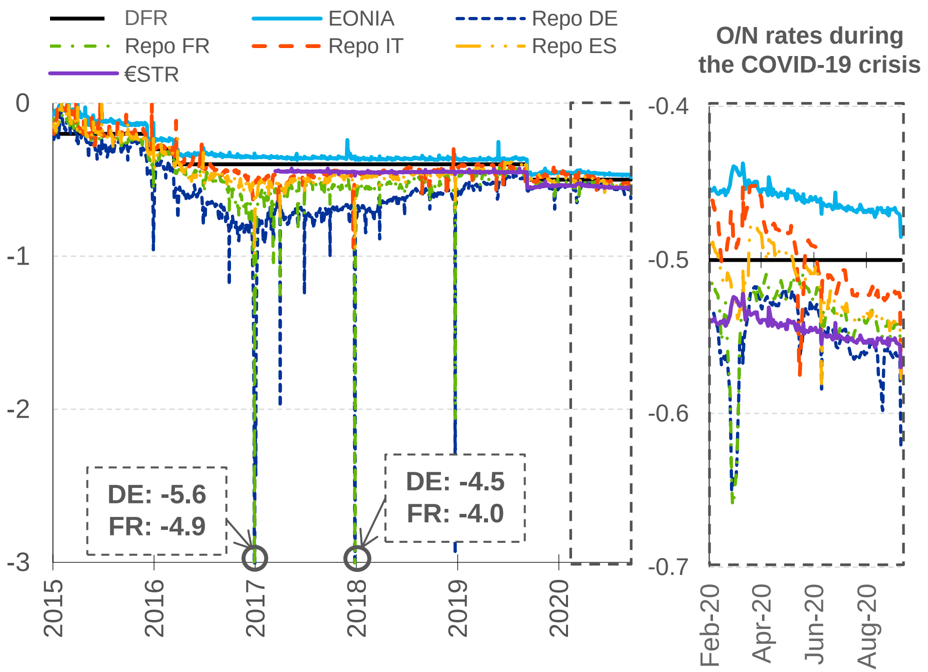
Historical perspective: 2005-2020

Policy corridor, unsecured and repo rates in %



Recent developments: 2015-2020

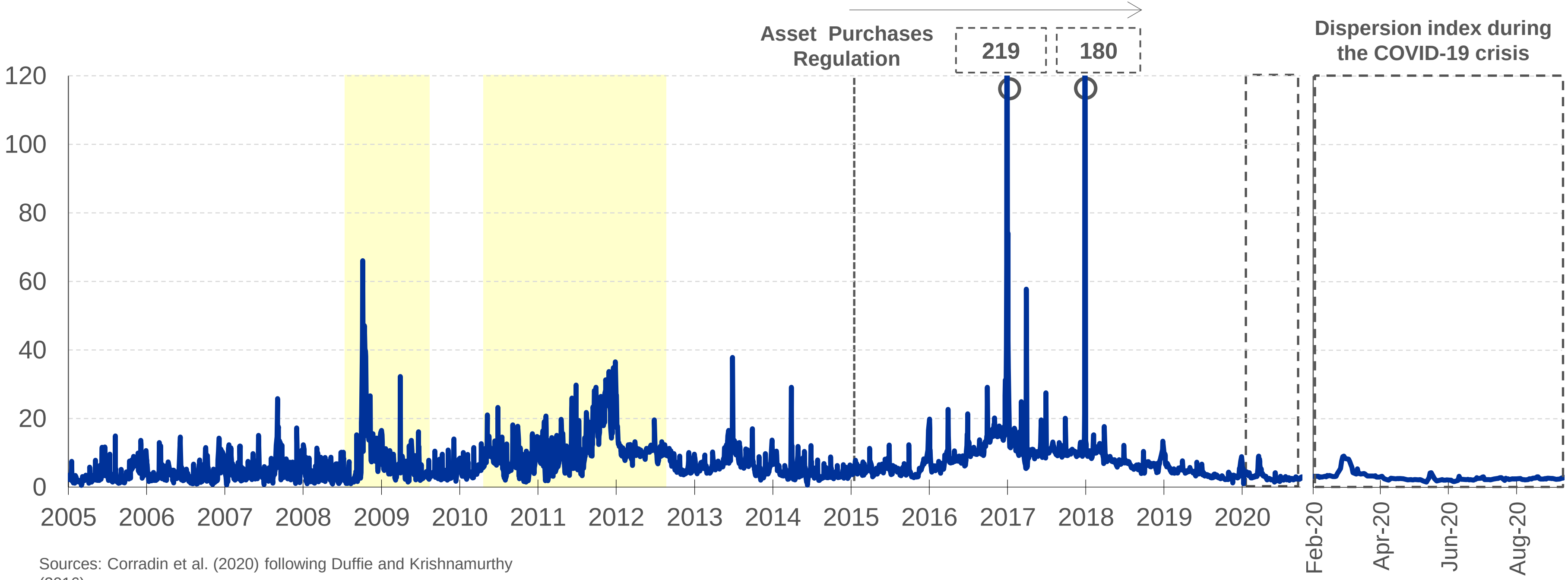
Policy corridor, unsecured and repo rates in %



Sources: SDW, BrokerTec and MTS.
Note: Overnight money market rates (in %; data include both general collateral and suitable specific collateral repo trades (volume weighted) and ECB policy rates (DFR, MRO, MLF). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.

Cross-sectional dispersion of overnight money market rates as indicator of monetary policy pass-through

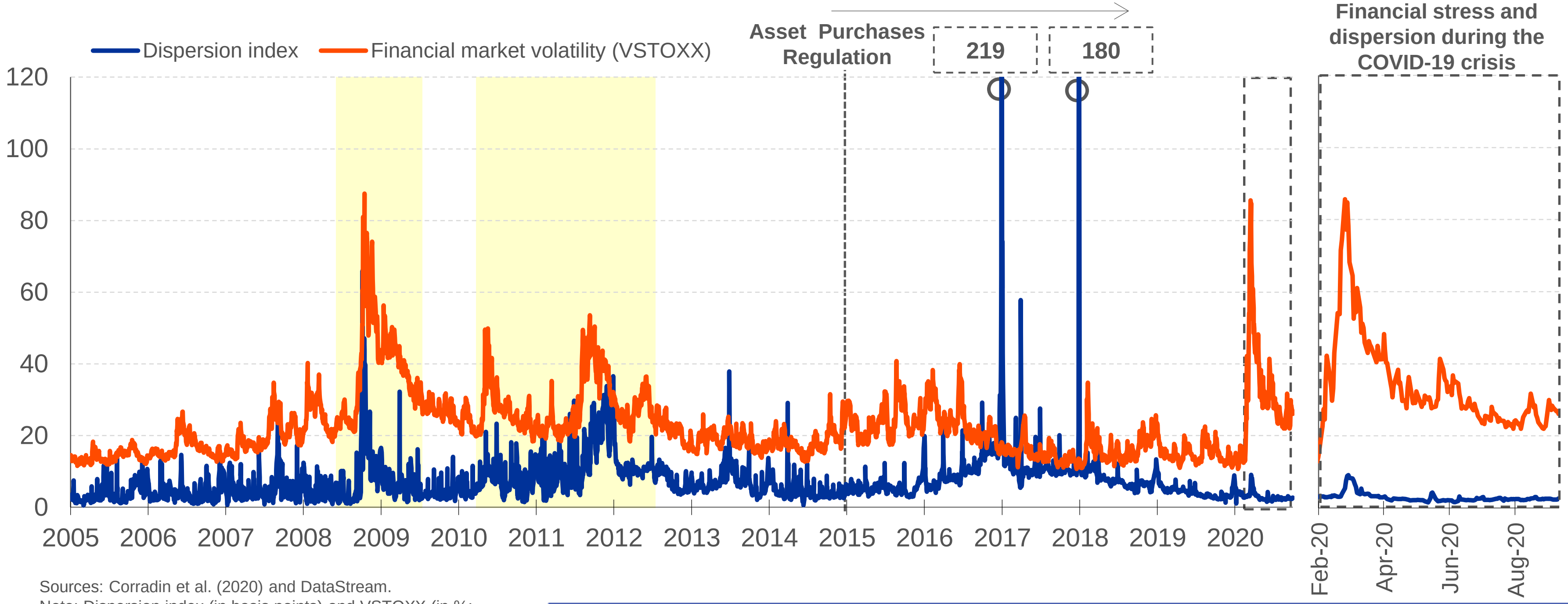
Cross-sectional dispersion of O/N money market rates, 2005-2020
Dispersion index in bps



Sources: Corradin et al. (2020) following Duffie and Krishnamurthy (2016).
Notes: Index (in basis points) constructed using EONIA, DE, FR, IT, ES GC and special repo rates, volume-weighted. Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.

Cross-sectional dispersion of money market rates and financial stress

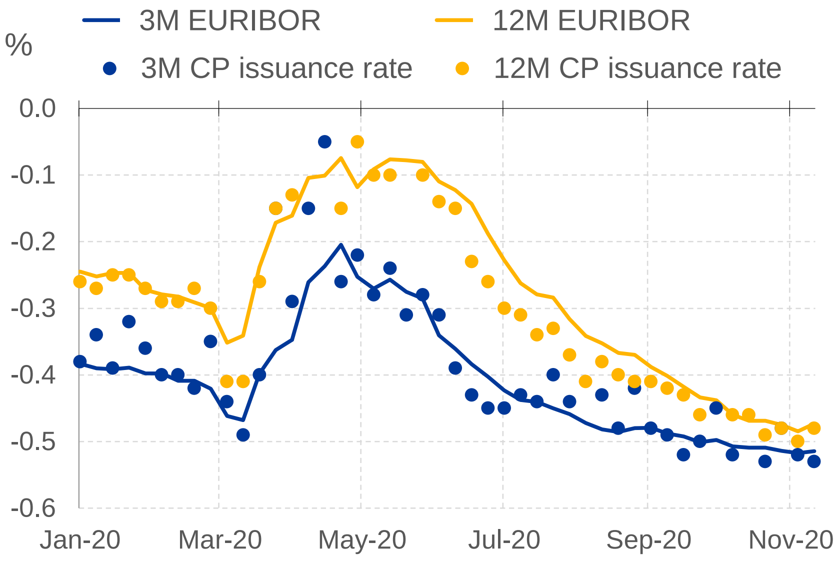
Indicator of financial stress (VSTOXX) and dispersion index of O/N rates, 2005-2020
Dispersion index in bps, VSTOXX index in %



Sources: Corradin et al. (2020) and DataStream.
Note: Dispersion index (in basis points) and VSTOXX (in %; index of stock market volatility based on EURO STOXX 50 options). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.

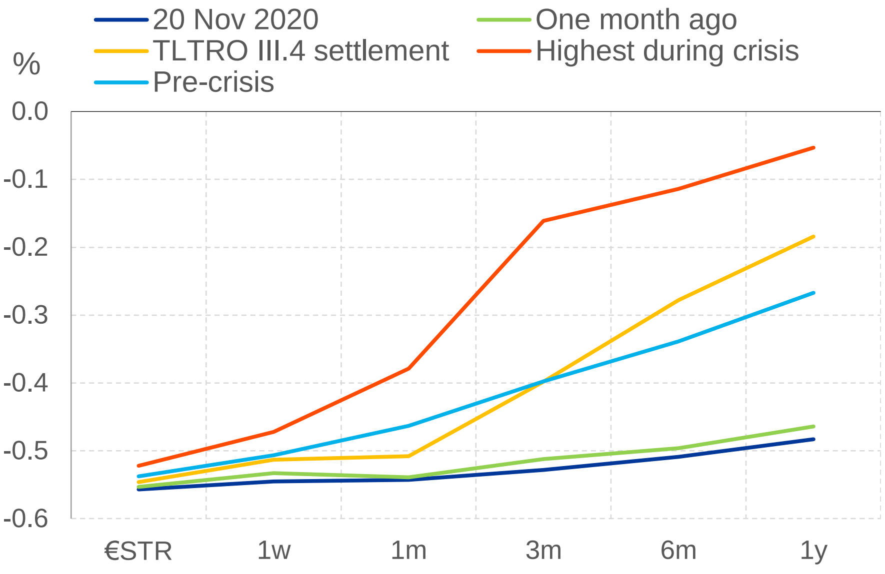
Measurable tensions in other segments of the market and the effect of the ECB's policy response

Evolution of EURIBOR and CP rates in 2020
EURIBOR and Commercial Paper rates at issuance in %



Sources: SDW, Banque de France.
Notes: Commercial Paper rate relates to issuance by A1-rated banks.

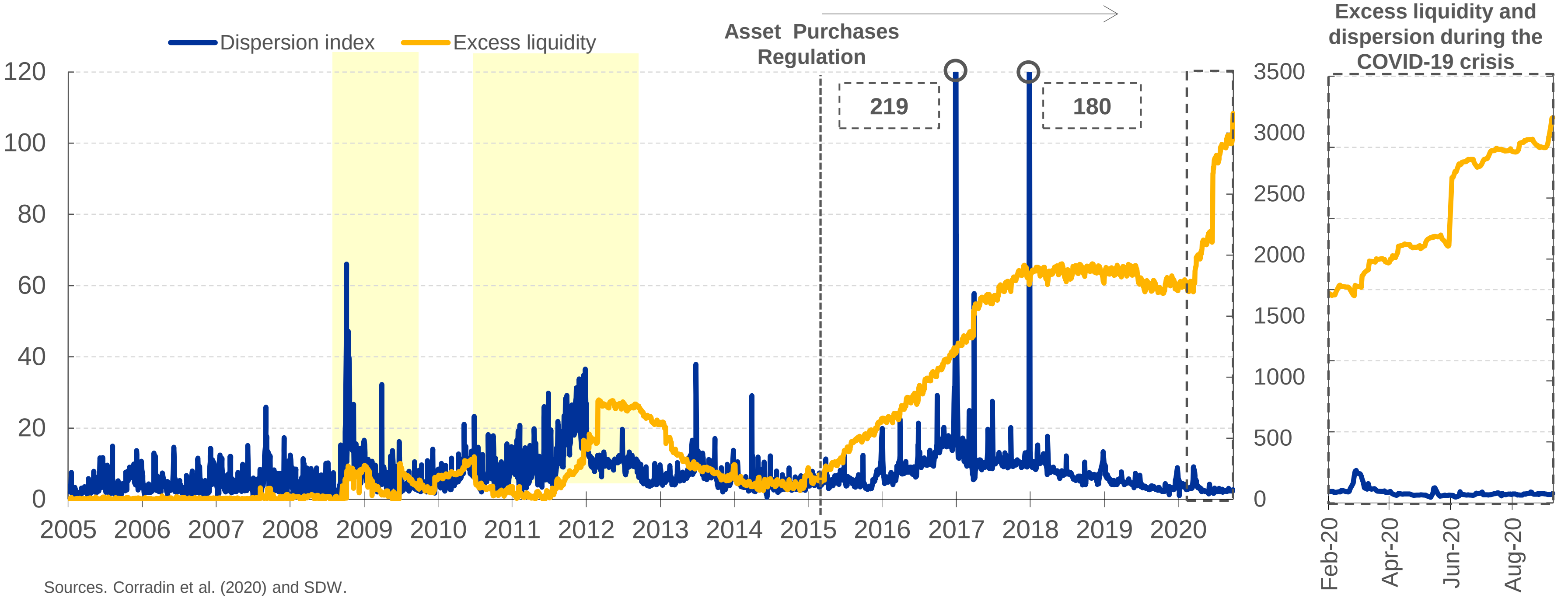
Evolution of unsecured market yield curve in 2020
Rates on term unsecured transactions in %



Sources: Money Market Statistical Reporting (MMSR), ECB calculations.
Notes: Dark blue = 20/11/2020, One month ago = 23/10/2020, TLTRO III.4 settlement = 24/06/2020.
Highest during crisis = Maximum value between 1/03/20 and 30/04/20.
Pre-crisis = Average between 15/01/20 and 14/02/2020.

Cross-sectional dispersion of money market rates and excess liquidity

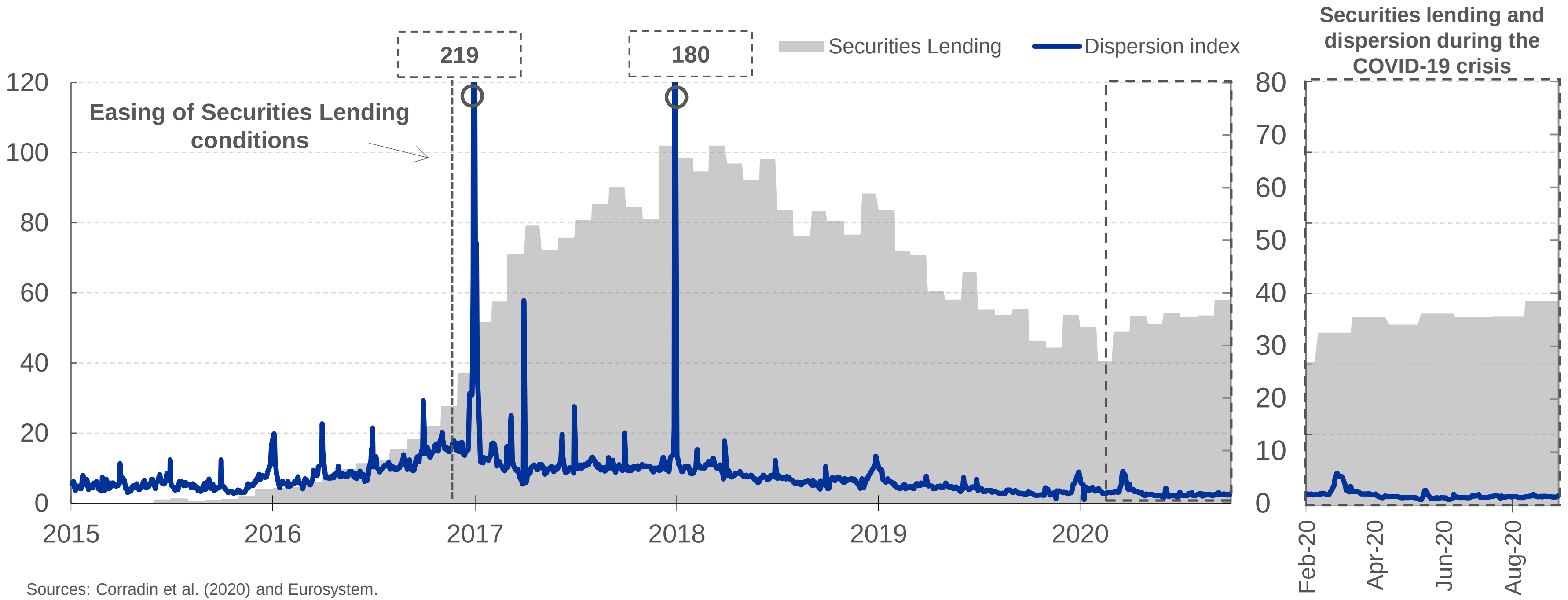
Central bank excess liquidity and dispersion index of O/N rates
Dispersion index in bps (left axis); excess liquidity in EUR bn (right axis)



Sources. Corradin et al. (2020) and SDW.
Note: Dispersion index (in basis points; left-hand scale) and excess liquidity (in EUR billion, right-hand scale). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.

Cross-sectional dispersion of money market rates and securities lending

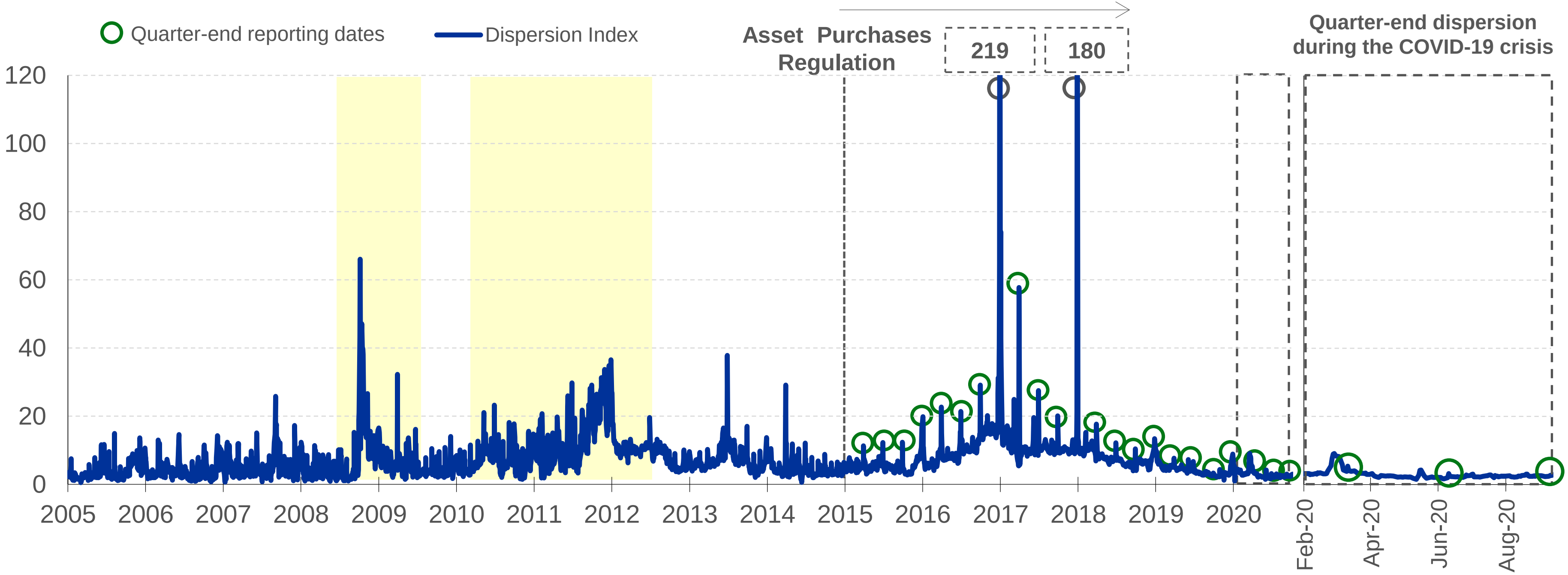
Securities lending and dispersion index of O/N rates
Dispersion index in bps (left axis); securities lending in EUR bn (right axis)



Sources: Corradin et al. (2020) and Eurosystem.
Note: Dispersion index (in basis points, left-hand side scale) and Eurosystem securities lending, monthly averages (right-hand scale, in EUR billion).

Cross-sectional dispersion of money market rates and regulation

Impact of regulation on quarter-end money market conditions
Dispersion index in bps



Source: Corradin et al. (2020).
Note: Dispersion index (in basis points) and quarter-ends (regulatory reporting dates). Shaded (yellow) areas: Global Financial Crisis and euro area sovereign debt crisis.

Thank you very much for your attention!