EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

20 March 2023

ECB Money Market Contact Group (MMCG)[1]
Friday, 17 March 2023, 15:00 - 16:00 CET
Webex conference

Summary of discussion

Overall MMCG members reported that euro short-term funding markets were still functioning fairly well with continued trading but with an elevated degree of caution and preference for short-term maturities. MMCG members did not report any “dash for cash” type of behaviour in euro funding markets. There have been neither any abnormal requests to issuers to buy back their debt ahead of maturity, nor a withdrawal of wholesale deposits so far. Furthermore, the commercial deposit/ commercial paper market was still functioning in the euro area, with issuers being able to roll over maturing paper. Several members mentioned that they observed a shortening of maturities by investors driven by the ongoing uncertainty and volatility. MMCG members identified the high market volatility and uncertainty about future pricing of interest rate expectations, both in euro area and in the US, as contributing to the elevated level of cautiousness. Moreover, market activity was already thin going into the episode, in anticipation of the ECB and Fed monetary policy decisions.

Asset managers reported higher inflows into money market funds (MMFs), predominantly in the US. Already before the emergence of the current market stress, MMFs on both sides of the Atlantic had observed increased inflows, in part stemming from deposit outflows due to the more attractive MMF yields compared to deposits, with the latter not tracking one-for-one increases in policy rates. However, the pace of inflows into US MMFs over the past week has accelerated. Whether this reflected de-risking from asset classes further out the risk spectrum or accelerated shifts from bank deposits was unclear at this stage. There were no material changes in MMFs assets in the euro area over the past week, as flows remained two-way. Reflecting the high level of market volatility, MMFs kept large liquidity buffers and preferred investing in shorter tenors.

Members did not see parallels to the Global Financial Crisis (GFC) in 2007/2008. In the view of MMCG members, the focus of the current tensions lies on banks’ asset and liabilities management with relation to banks’ exposures to interest rate hikes, while the focus during the GFC was on banks’ liquidity management.

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

In terms of offshore US dollar funding, markets were functioning, albeit with increased volatility in terms of pricing, which remained within acceptable tolerance so far. One member mentioned, however, that central bank reassurance in terms of providing term US dollar funding would be helpful. The ECB clarified that the ECB was in close contact with the swap line network of central banks, which was monitoring the conditions in the offshore US dollar funding market and stood ready to enhance the support to US dollar funding conditions, if needed.[2]

Several members mentioned the unfortunate timing of the T2/T2S migration over the March 18/19 weekend, which could have contributed to distress in the market in case of technical issues. Members highlighted the need for clear communication by the ECB in this respect. Members saw the risks that technical issues potentially caused by the T2/T2S migration could have been misinterpreted and could have caused a panic reaction in the market. In this respect, a clear communication by the ECB would have been extremely important in order to clarify the technical underlying cause of any disruptions, so that markets did not misinterpret them as a liquidity issue and react in panic.

MMCG members praised the ECB's Governing Council decision to raise interest rates by 50 bps on Thursday 16 March and the subsequent press conference, interpreting it as a sign of confidence. Reference was made to the attentiveness to financial stability in the Monetary Policy Statement and to the mentioning of "creativity" in the press conference, as signals of the ECB's readiness to act, which had a calming impact on markets, especially for bank equities. Also the large TLTRO III repayments announced last Friday were mentioned as a sign that the euro area banking sector has sufficient liquidity currently.

[2] On 19 March 2023, coordinated central bank action to enhance provision of US dollar liquidity was announced: The ECB and other major central banks offer 7-day US dollar operations on a daily basis as of 20 March 2023 and at least until the end of April 2023.

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List of participants

Participant's organisation	**Name of participant**
Cécile Mouton	Amundi Asset Management
Luis Barrigon Rodriguez	Banco Santander
Bineet Shah	Barclays
Werner Driscart	Belfius
Xavier Combis	Caixabank
Andreas Biewald	Commerzbank
Eric Scotto di Rinaldi	Coöperatieve Rabobank
Pierre Le Veziel	Crédit Agricole/CACIB-CASA
Jürgen Sklarczyk	Deutsche Bank
René Brunner	Erste Bank
Frank Odendall	EUREX
Leif Domeyer	ING Bank
Maria Cristina Lege	Intesa Sanpaolo
Olivia Maguire	JP Morgan Asset Management
Ileana Pietraru	Société Générale
Harald Bänsch	Unicredit
Thomas Vlassopoulos (Chair)	European Central Bank
Julija Jakovicka	European Central Bank
Pamina Karl (Secretary)	European Central Bank