



EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

ECB-PUBLIC

15 January 2019

ECB Money Market Contact Group

Monday 3 December 2018, 13:00 – 17:00 CET, Frankfurt

SUMMARY OF DISCUSSION

1. Brexit: Key considerations for financial institutions' credit ratings

Giles Edwards, Senior Director and European banking sector lead at S&P Global Ratings, presented their base scenario for the Brexit negotiations, consisting of a risk assessment and the possible consequences of the outcome of the Brexit negotiations for banks and the economy. In S&P's Global Ratings view, the risk of a no-deal Brexit did not form part of the base scenario, although this risk still carried a meaningful probability. S&P Global Ratings saw the UK banks as well prepared to withstand an uncertain wholesale funding environment in the period around a March 2019 exit. S&P Global Ratings therefore saw the main risk as coming from an ensuing macro shock, which would be expected to unfold gradually. Discussions among MMCG members revealed that there had been ongoing market preparations for a hard Brexit scenario, with uncertainty surrounding central clearing via LCH regarded as representing the main risk. Preparations included, among others, contingency planning for a potential move to a different clearing venue, as well as a reduction in the maturity of cleared contracts. MMCG members urged regulators to offer more clarity on the status of the UK central clearers.

2. Market expectations regarding central bank policy and measures: main indicators, recent developments.

Werner Driscart (Belfius) and Antonio Paiva (CGD) gave a presentation on developments in market expectations regarding central bank policies and measures. During the discussion, it was noted that current euro area core inflation figures indicated no urgency to raise rates – a first interest rate hike in 2019 was priced in at a probability of just 70%. In the view of MMCG members, the market's recent focus on the possible replacement of targeted longer-term refinancing operations (TLTROs) was sparked by the fact that, as of mid-2019, TLTRO funds will lose 50% of their regulatory value for the Net Stable Funding Ratio (NSFR), which was expected to lead to higher demand for longer-term funding and potential tensions in the funding market. These tensions were expected to be aggravated by the uneven distribution of excess liquidity between core and non-core banks, with the resulting significant increase in funding costs being detrimental to

the economy. As a result, a number of market analysts were reportedly expecting a follow-up operation, albeit at less favourable terms with regard to price and maturity, and smaller in size.

3. A review of structural developments in the FX swap market and the USD funding of European banks

Bineet Shah (Barclays) and Jürgen Sklarczyk (Deutsche Bank) gave a presentation on developments in the FX swap market since the previous MMCG meeting. According to this presentation, the recent decline of the USD funding premium in the FX swap market had been due to the earlier pre-funding during the year to meet the year-end needs, although MMCG members were hesitant to conclude whether this would mean calmer market conditions at the actual year-end. Preparations had already started by the middle of November which, in the MMCG's view, explained the surge in the USD funding premium which occurred around that time. MMCG members expected to see lower trading volumes at the actual year-end, although they pointed to a risk of high volatility due to last-minute adjustments in an environment of very low liquidity, as the same regulatory and balance sheet constraints remained in place for the year-end balance sheets. MMCG members expressed concern that supply in the FX swap market was dominated by a few large players, implying that the functioning of that market was driven by the idiosyncratic behaviour of those players, making it more difficult for banks to manage their FX exposures.

4. The impact of regulatory developments and other euro money market drivers on balance sheet reporting dates

Werner Driscart (Belfius) presented the results of the MMCG survey of the impact of year-end drivers on market developments. The survey showed that, among regulatory drivers, risk-weighted assets (RWA), the leverage ratio (LR) and the liquidity coverage ratio (LCR), along with Single Resolution Board (SRB) Fund contributions, played the largest role. These drivers also had the greatest impact on the unsecured money market, where RWA made it more economical to deposit excess funds with the central bank instead of lending these funds to lower-rated banks. In the secured money market segment, trades triggered by the LR and netting opportunities at the year-end played a more important role, followed by the encumbrance ratio and the LCR. In the FX swap market, although it was the least impacted market segment in terms of year-end balance sheet drivers, the high concentration of a few USD liquidity providers meant that the constraints imposed by the correspondent banks, as well as GSIB surcharges, were the most important drivers, along with LCR and SRB contributions. The LCR was seen as a more limiting factor over the reporting dates than the NSFR, as the LCR can be adjusted on a short-term horizon whereas the NSFR requires longer-term steering.

5. The TARGET instant payment settlement (TIPS) service and the impact on banks' liquidity management

Michael Schneider (DZ) and Harald Endres (Bayerische Landesbank) presented the market's perspective and the implications of the newly introduced TARGET instant payment settlement (TIPS) service. Sylvain Debeaumont (ECB) responded to the MMCG's questions and debriefed the group with regard to the introduction of the TIPS service.

MMCG participants pointed out a number of uncertainties related to instant payments in general and TIPS in particular should be addressed before volumes gain more prominence. Those were related to the treatment of pre-funded amounts for regulatory, i.e. LCR, purposes, as well as valuing customer transactions on weekend days, and the potential need to increase balances when payment systems were not operational. Market participants understood the explanations given as to why, over weekends, instant payments settled in central bank money had different value dates than similar systems settling in commercial bank money, although they were concerned that this could eventually lead to vast arbitrage trades.

6. Update on developments with regard to euro money market benchmark reform and the Risk Free Rate working group

Jaap Kees (ING) provided an update on the progress made by the Euro Risk Free Rate (RFR) working group and pre-announced two forthcoming publications by the RFR sub-groups: (i) [Report by the working group on euro risk-free rates on the transition from EONIA to ESTER](#) and (ii) [Second public consultation on determining an ESTER-based term structure methodology as a fallback in EURIBOR-linked contracts](#).

7. Other business: planning the next meeting

The next MMCG meeting will take place in Frankfurt am Main on Tuesday, 12 March 2019.

List of participants

Money Market Contact Group Meeting

Participant's organisation	Name of participant	
European Central Bank	Ms Cornelia Holthausen	Chairperson
European Central Bank	Mr Holger Neuhaus	
European Central Bank	Ms Julija Jakovicka	Secretary
Bank of Ireland	Mr David Tilson	
Barclays Bank PLC	Mr Bineet Shah	
Bayerische Landesbank	Mr Harald Endres	
BBVA	Mr Miguel Monzon	
Belfius Bank	Mr Werner Driscart	
BNP Paribas	Mr Patrick Chauvet (via telco)	
BPCE/Natixis	Mr Olivier Hubert	
Caixabank	Mr Xavier Combis Comas	
Caixa Geral de Depósitos, S.A.	Mr António Paiva	
Deutsche Bank AG	Mr Juergen Sklarczyk	
DZ Bank	Mr Michael Schneider	
Erste Group Bank AG	Mr Neil Mcleod	
HSBC France	Mr Harry Gauvin	
ING Group Treasury	Mr Jaap Kes	
Intesa Sanpaolo	Mr Marco Antonio Bertotti	
LBBW	Mr Jan Misch	
Nordea Bank Finland	Ms Jaana Sulin	
Société Générale	Ms Ileana Pietraru	
UniCredit Bank AG	Mr Harald Baensch	

National Central Banks

Banque de France	Mr Pierre Guerin
Banque Nationale de Belgique	Mr Kristof Vandermeersch
Deutsche Bundesbank	Mr Karsten Stroborn
Banco de España	Mr Pablo Lago
Banca d'Italia	Ms Patrizia Ceccacci
Národná banka Slovenska	Mr Peter Andresič

Name of participant**Via Teleconference**

Eesti Bank	Mr Toivo Kuus
Banque centrale du Luxembourg	Mr Achim Hillen
Central Bank of Cyprus	Mr Danis Koukoularides
Central Bank of Malta	Ms Josette Grech
Oesterreichische Nationalbank	Ms Bettina Moser
Banco de Portugal	Mr Luís Sousa
Banka Slovenije	Ms Tina Ritonja
Suomen Pankki	Ms Päivi Heinäao-Ehgartner

Name of participant