

Recent Market Developments

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14th September 2022

ECB monetary policy decisions

July 21st:

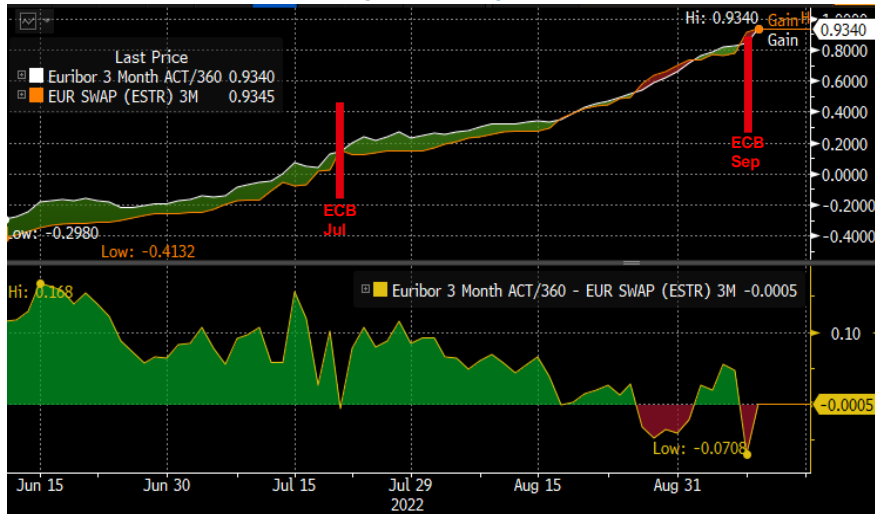
- raised the three key rates by 50bp
- approved Transmission Protection Instrument (TPI)
- no changes on APP/PEPP/TLTRO
- „further normalisation of interest rates will be appropriate“
- „future policy rate path will continue to be data-dependent“

September 8th:

- raised the three key rates by 75bp
- suspended two-tier system by setting multiplier to zero (excess reserves)
- temporarily removes 0% interest rate ceiling for remuneration of government deposits
- no changes on APP/PEPP/TLTRO
- „expects to raise interest rates further“
- „future policy rate path will continue to be data-dependent“

€STR and EURIBOR developments

Spot & Spread



Source: Bloomberg

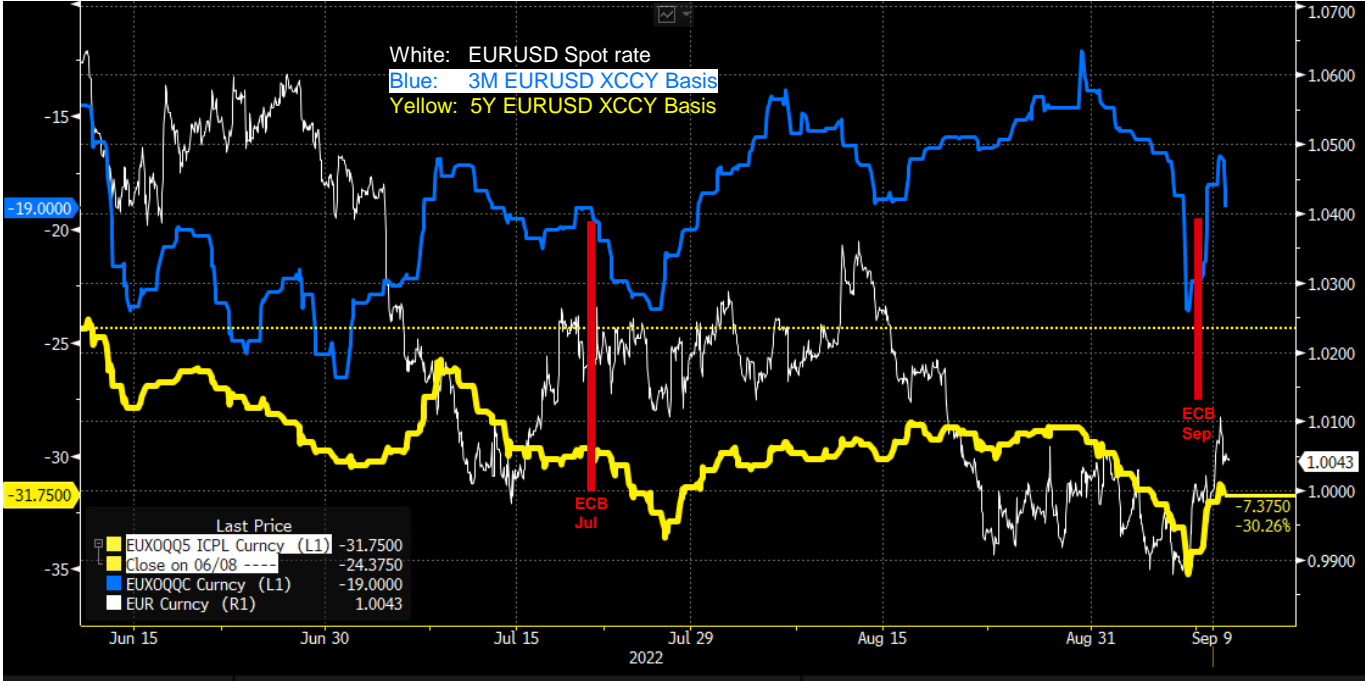
While yield of 3M EURIBOR increased in line with rate hikes and Expectations the spread between spot 3M EURIBOR and 3M €STR Swap tightened significantly during last months from 17bp mid of June to zero currently.

Forward & Spread (IMM8 Jun24)



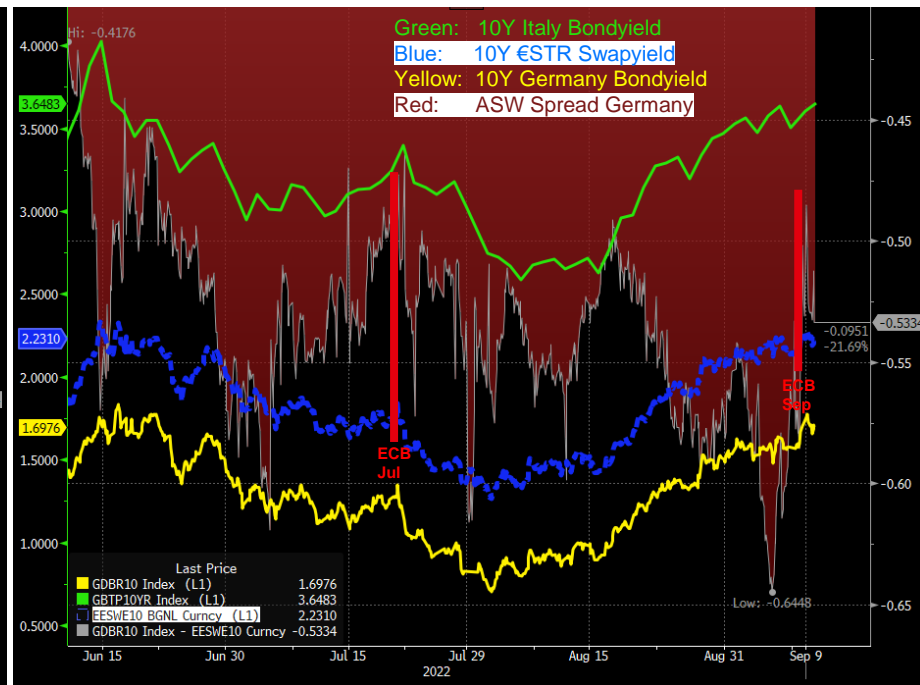
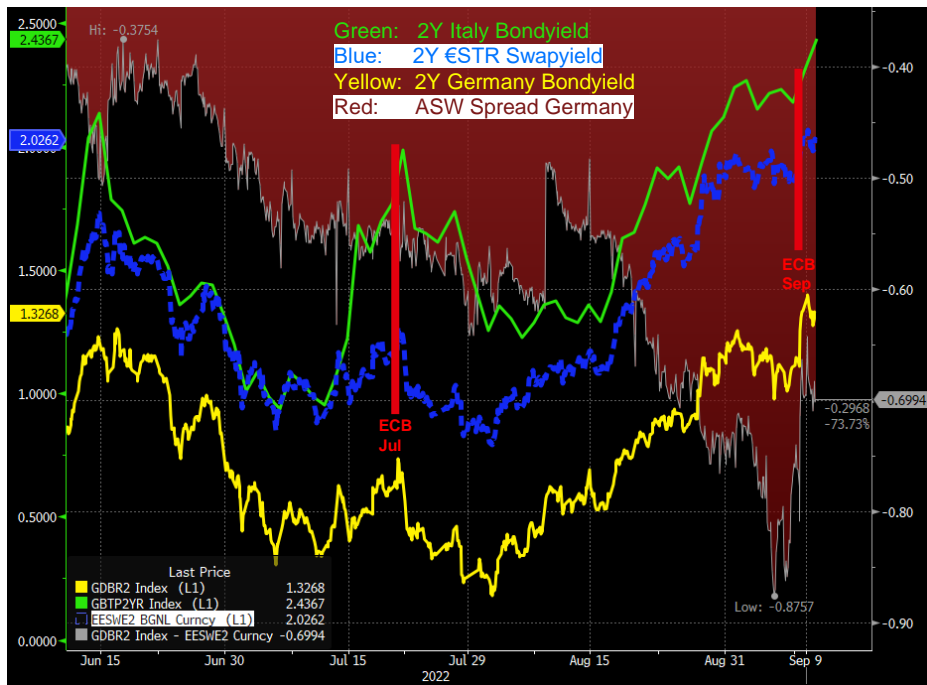
At the same time the expected 3M EURIBOR (forward) rates dropped from mid June till end of July and started to rise again thereafter to reach now similar levels as market expected in June (blue line in chart). The spreads on the forwards 3M EURIBOR vs. 3M €STR were relative stable around the 20bp longer term average. In the chart the IMM8 Jun24 contracts are displayed but other forwards show a similar picture.

EURUSD spot and xccy basis



Source: Bloomberg

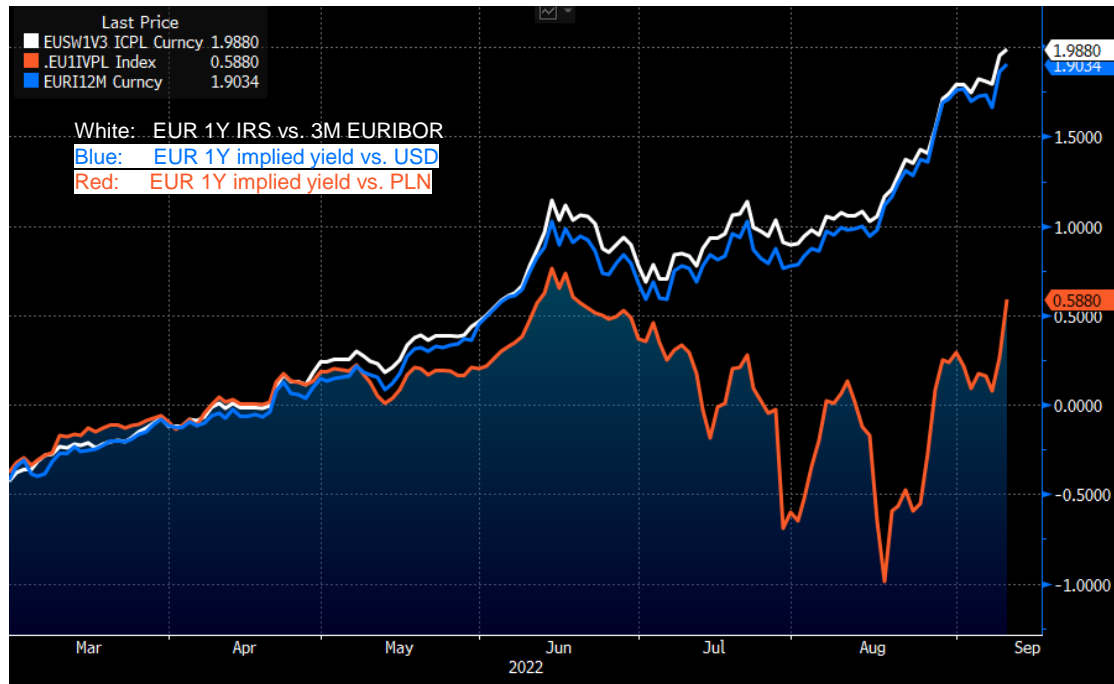
Asset swap spreads



Source: Bloomberg

- Collateral squeeze in German government bonds, especially till the beginning of September
- Credit spread widening in Italian government bonds, especially during July till the ECB meeting
- Announcement of TPI seems to show an effect as Italian spreads tighten again thereafter

EUR implied yields vs. USD and PLN



Source: Bloomberg

EURO implied yield calculated via EURPLN FX and XCCY swaps dropped significantly from 0.70% to -1% during mid of June to mid of August.

Combination of multiple reasons:

- PLN excess liquidity not well distributed in overall banking sector
- but large EURO excess liquidity in local banking sector partially due to war in Ukraine, partially due to provisions for foreign currency loans
- limited possibility to place EURO unsecured
- not allowed to buy short term papers below ECB DFR
- EUR HQLA collateral squeeze and balance sheet tax does make repo market unattractive
- positioning of foreigners in EURPLN spot and their need of PLN funding