

March 2nd 2023

ECB Money Market Contact Group

The Money Market Fund view:

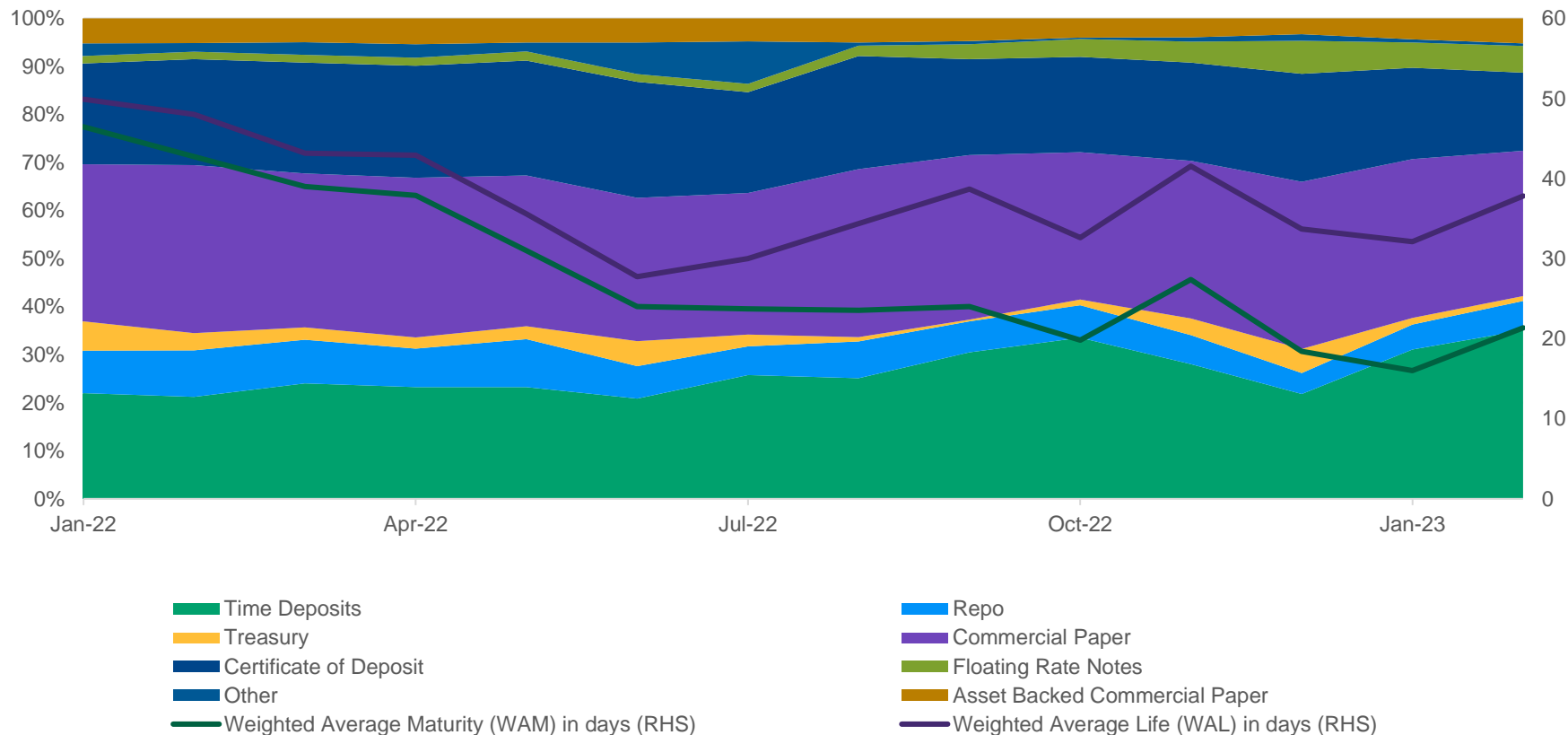
- Item B.1 – Market reaction to recent ECB Governing Council meetings and pass-through of interest rate hikes
- Item B.2 - Market expectations on the forthcoming monetary policy measures and the terminal policy rate

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Global Liquidity Portfolio Manager

Focus on MMFs holdings in EUR LVNAV funds

MMFs have reduced duration during 2022 and increased cash & floating securities

Figure 1: EUR LVNAV Fund investment types and duration

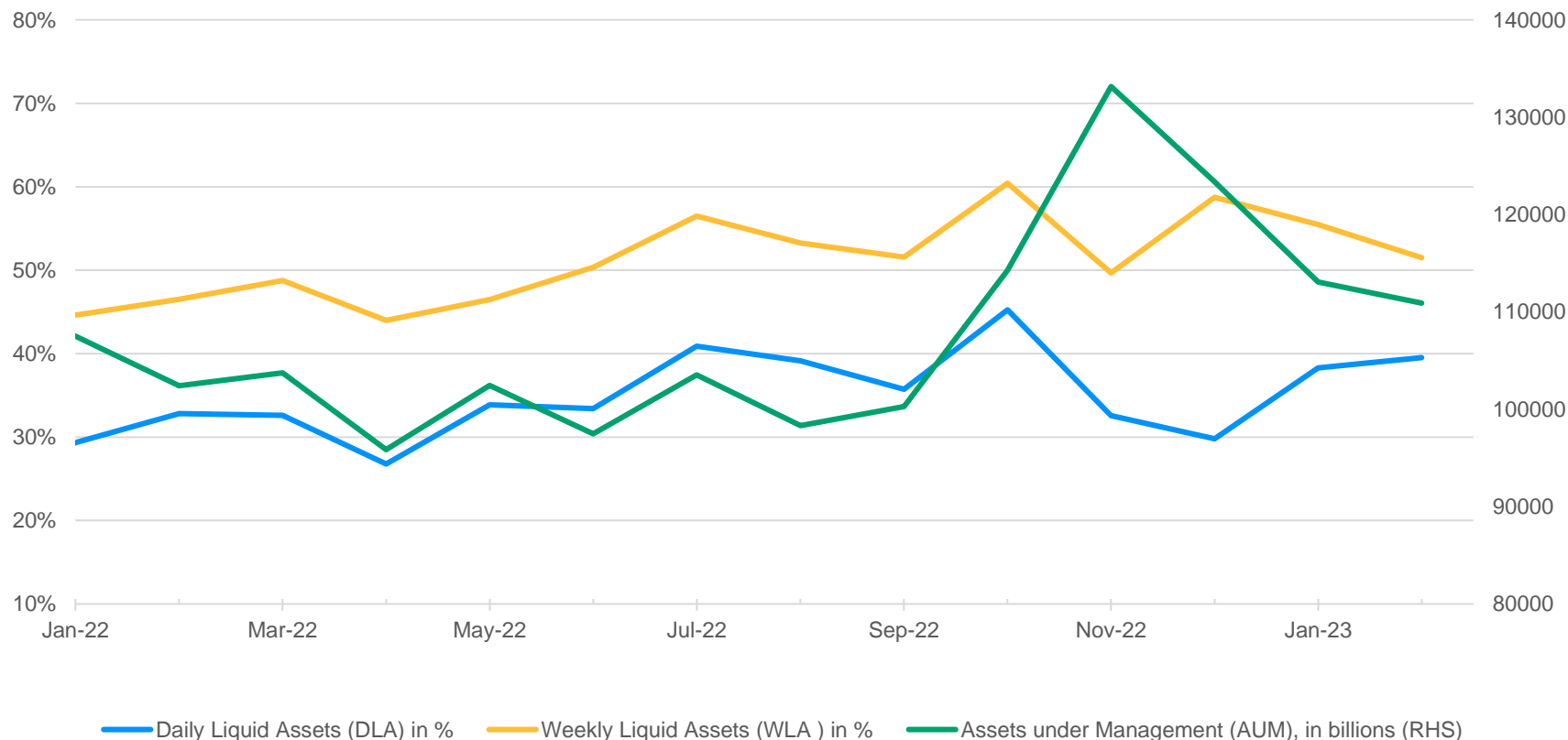


Source: iMoneyNet Fund Analyser as at February 27th 2023 using month end data. Average of ten Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMF). First ECB rate hike in July 2022.

Focus on MMFs holdings in EUR LVNAV funds

AUM and liquidity buffers have increased in 2022, with large inflows in Q4 ahead of year-end

Figure 2: MMFs have seen inflows and liquidity levels have increased



Source: iMoneyNet Fund Analyser as at February 27th 2023 using month end data. Average of 10 Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMF).

MMF yields are offering competitive returns to investors

Figure 3: MMF yields and repo tracking higher

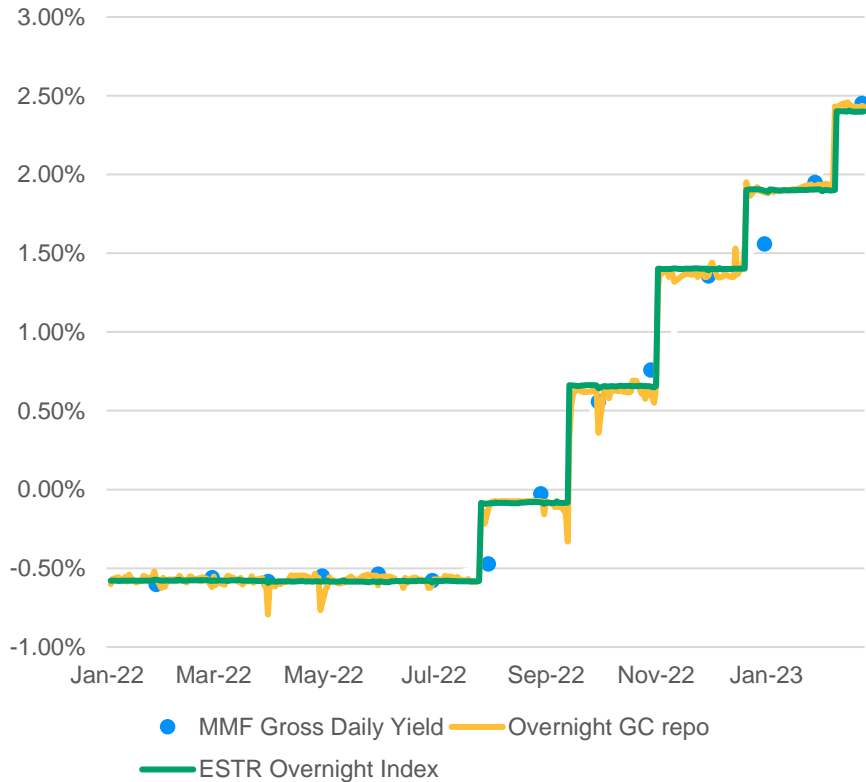
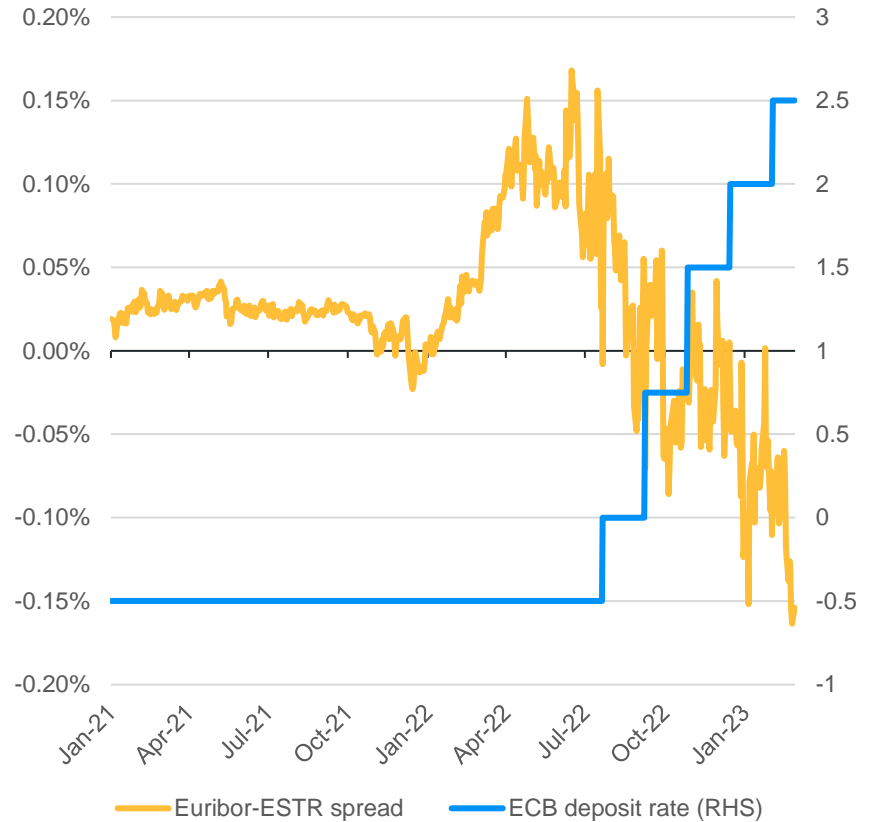


Figure 4: Euribor is lagging ESTR

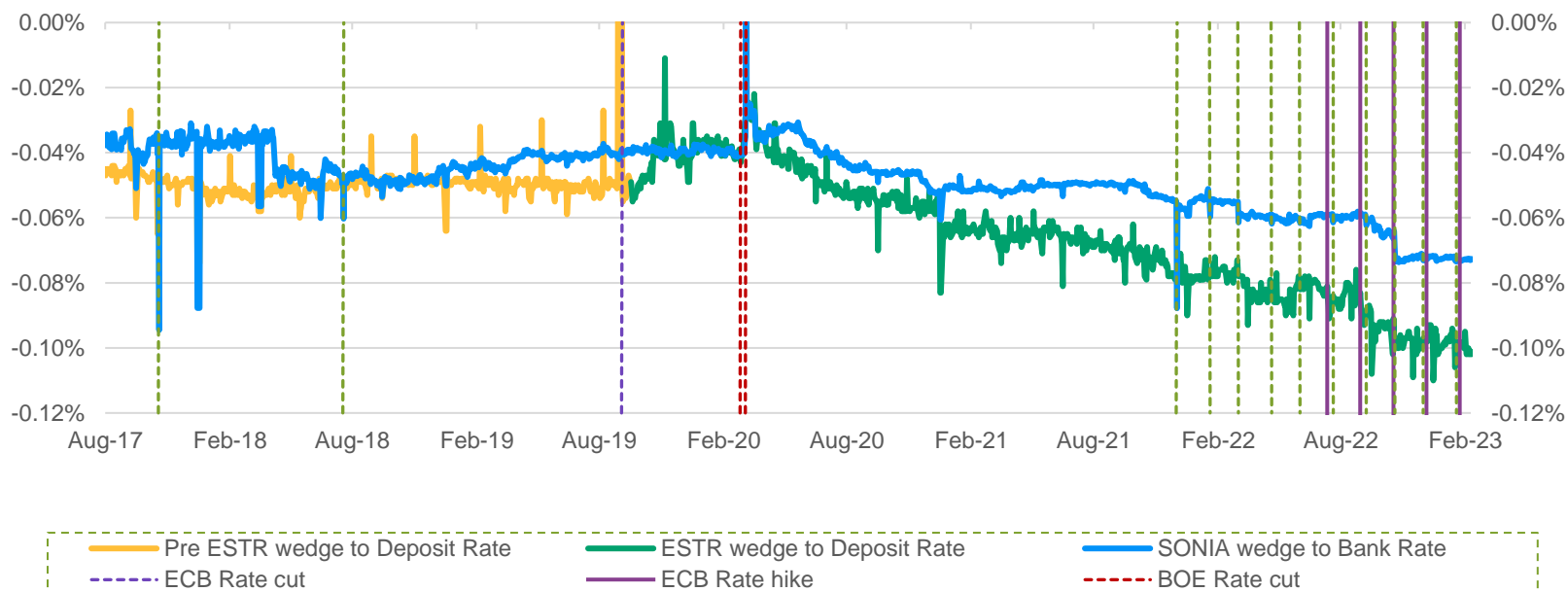


Source: Figure3 - iMoneyNet Fund Analyser - Average of 10 Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMF) using month end data. Bloomberg as at February 27th 2023 showing STOXX GC Pooling EUR ON Index and ESTRON Index.

Figure 4 - Bloomberg as at February 27th 2023 showing 3mth Euribor, 3mth ESTR swap and ECB Deposit Rate.

The wedge of ESTR to the Deposit Rate has declined

Figure 5: Wedge between policy rates and overnight deposits in EUR and GBP

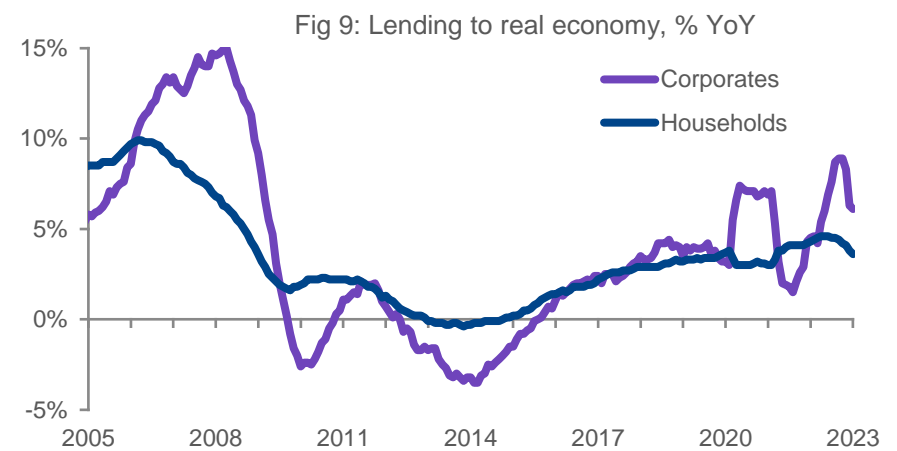
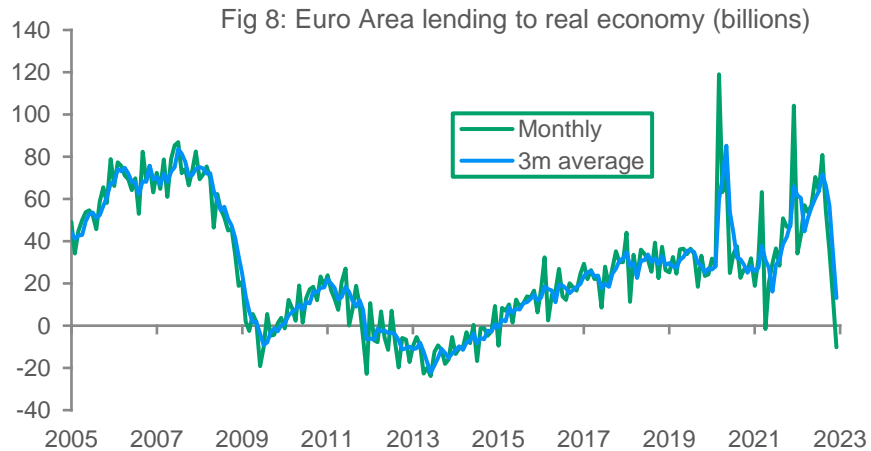
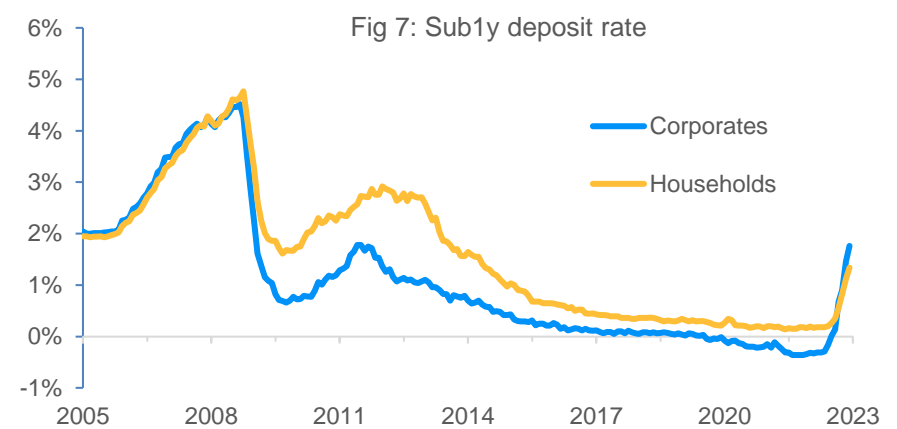
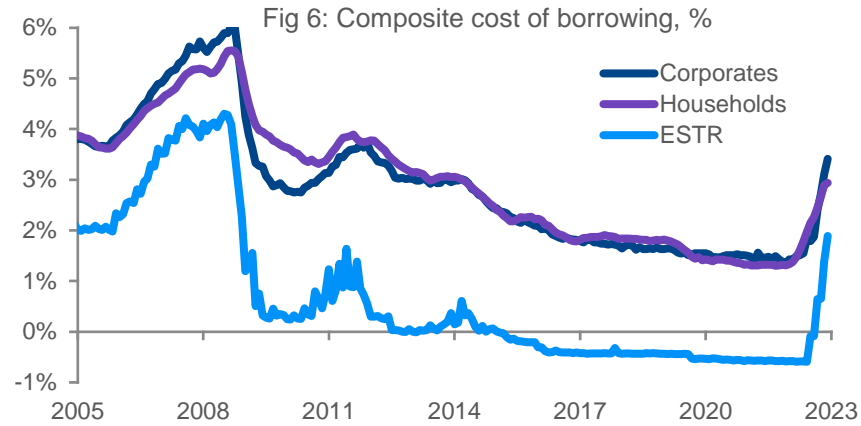


- The wedge between overnight unsecured deposit rates and policy rates has been declining
- Wedge largely reflects regulatory costs for banks to take these deposits onto balance sheet
- TLTRO repayments shouldn't impact ESTR as this is a reduction of excess liquidity, ESTR could still increase if excess liquidity flows back into deposits
- Pass-through of rate move may depend on % counterparties with access to ECB deposit facility (approx. 3%^{**})
- Asymmetric reaction to policy move e.g. hike vs cut and depending on retail vs corporate
- Does partial pass-through impact central bank credibility?

Source: Bloomberg as at Feb 27th 2023, Barclays Research (Giuseppe Maraffino 2022, €STR and depo rate hikes: the unknown reaction)

^{**} Reference ECB (Benoit Coeure, 2019, [A tale of two money markets: fragmentation or concentration](#))

ECB rate hikes are starting to impact, with more to come

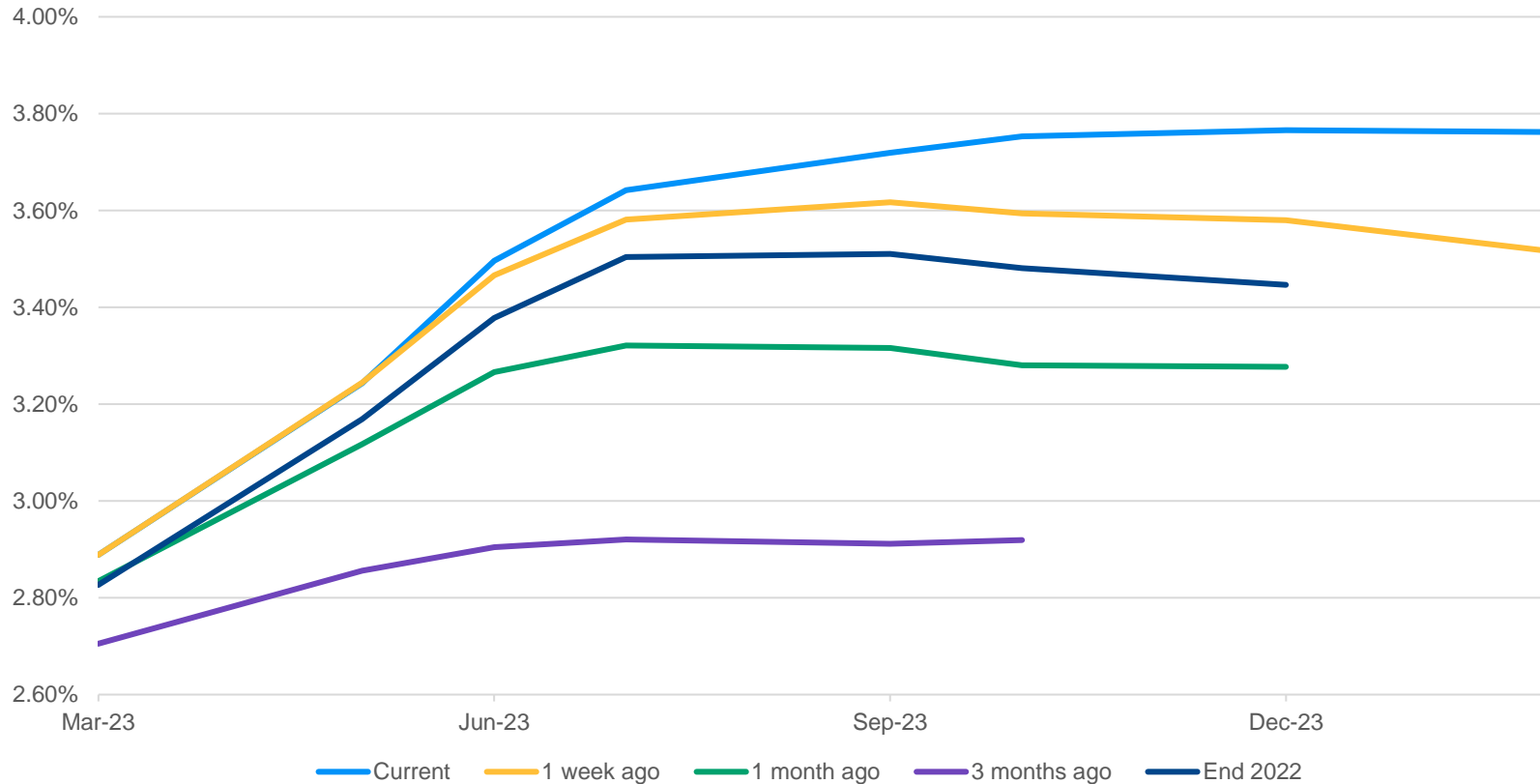


Source: ECB, J.P. Morgan Asset Management as at February 27th 2023.

Terminal Rate Expectations

Markets are currently pricing an ECB terminal rate around 3.75%

Figure 10: Market implied ECB interest rate expectations over time



Source: Source: Bloomberg, J.P. Morgan Asset Management as at February 27th 2023 . Calculated using OIS forwards.

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