

Other remarks

Main Developments in the Money Markets since December 2021

16th March 2022

Item 1.1:

Evolution of Risk sentiment since February: general remarks

Introduction by: Cécile Mouton (Amundi)

MMCG Members may provide further comments on the following:

- Size of the exposure of euro area counterparties to Russia;
- Potential demand for additional liquidity based on outflows or margin calls;
- Perceptions on credit and liquidity risks within the euro area;
- Impact of volatility in commodity prices.

Item 1.2: FX Swap segment

Introduction by: Bineet Shah (Barclays) and Harry-David Gauvin (HSBC)

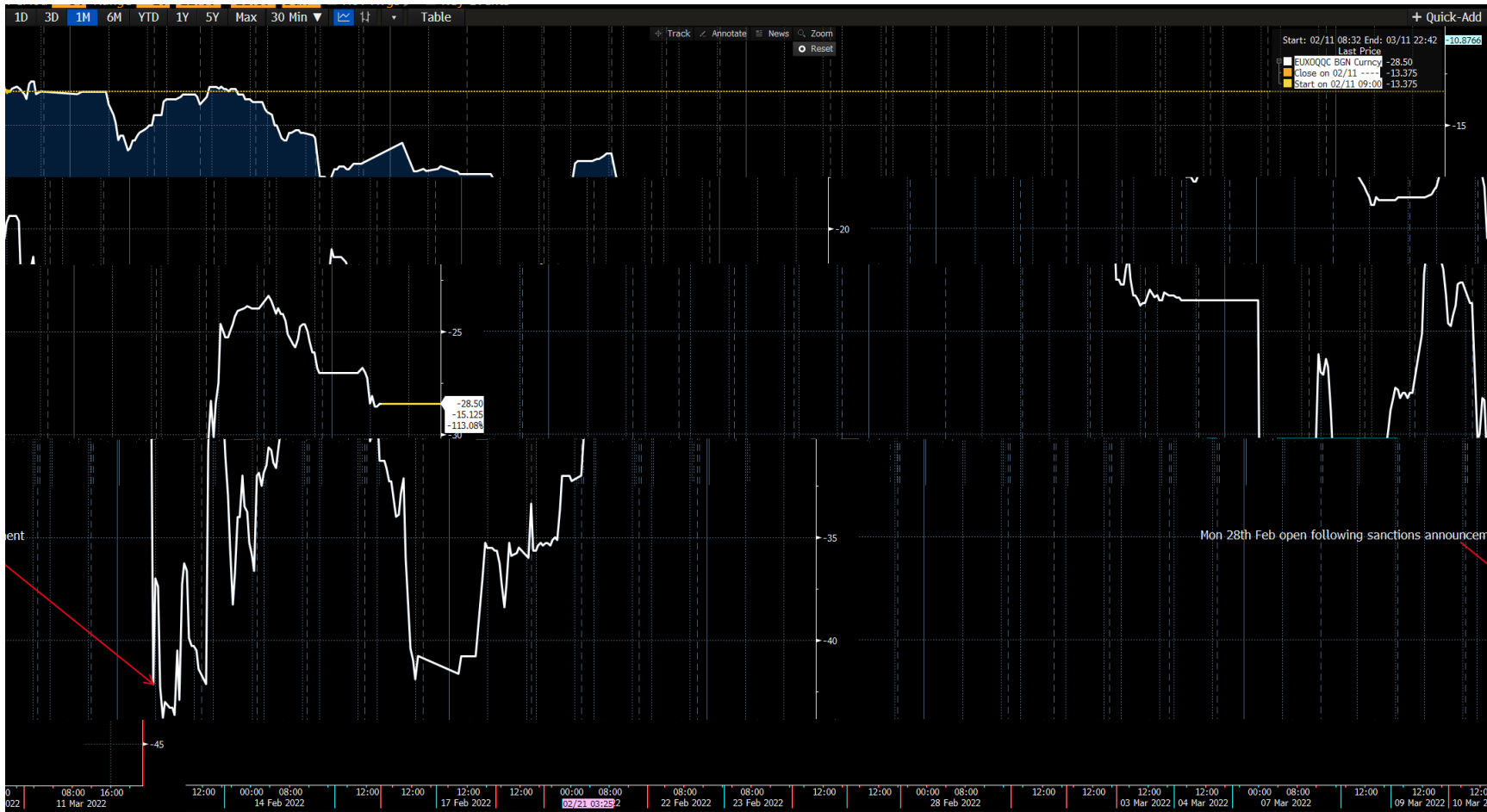
- RUB and CEE currencies market situation;
- Deterioration of USD funding conditions on 28th of February (sharp increase in T/N), 4th of March (tensions on longer maturities);
- Funding risk premium FRA/OIS;
- Problems on USD provision of funds and eventual evidence for missing USD funding (triggered by absence of Russian banks and/or unwillingness of American banks);
- Central Banks Swap lines backstops.

Factors behind the episodic deterioration of USD funding conditions for term maturities across currency pairs

- 28th Feb:
 - EURUSD basis in all tenors widened out as much as 20bps following news of Russia sanctions
 - Accounts were raising term USD in the FX Swap market given the uncertainty around Russia/Ukraine conflict
 - Given this was also month end, there was also appetite to borrow USD from accounts who roll their funding as BAU which added the widening pressure
- 1st-4th Mar:
 - Basis tightened back across all tenors following the knee jerk widening on the 28th where accounts were raising term USD
 - T/N basis across G5 currencies traded at positive basis given there is end usage for the USD borrowed (this continues to be the trend)
- 5th Mar:
 - FX basis widened back out towards the wides seen on 28th Feb primarily driven by borrowing of USD driven by the fear of potential weekend headlines
 - TN continues to trade at positive basis, further highlighting that there is no issue in USD liquidity
- 6th -10th Mar:
 - Market has tightened back in similar fashion to the previous week
 - 1month EURUSD trading 5bps wider than pre sanctions

Date	EURUSD Basis (ESTR/SOFR)				
	T/N	1M	3M	6M	1Y
25/02/2022	-10	-28	-28	-26	-29
28/02/2022	-62	-61	-45	-35	-34
01/03/2022	4	-51	-40	-32	-33
02/03/2022	2	-39	-31	-27	-30
03/03/2022	1	-29	-25	-24	-28
04/03/2022	5	-57	-44	-36	-36
07/03/2022	1	-45	-38	-34	-36
08/03/2022	1	-39	-35	-33	-36
09/03/2022	-3	-26	-26	-27	-32
10/03/2022	1	-33	-29	-28	-32

EURUSD 3M Basis Intraday (ESTR/SOFR)



MMCG Meeting

FX swap segment update

Impact of Sanctions on the FX Market

Direct war impacts

- Flight-to-quality on safe haven currencies such as USD and CHF
- The closer a currency is from the conflict the larger the depreciation *(below spot rates variations from Feb 17th to March 8th)*

USD PLN	USD CZK	USD NOK	USD GBP	EUR USD	EUR CHF
+16%	+11%	+1.5%	+3.6%	-4.5%	-3.2%

The ability of Russian banks to transact with any financial institution at a global scale will be limited (SWIFT ban / Bank ban).

- Impact on FX market liquidity and market depth due to the 'withdrawal' of Russian large players worth 200bn USD on the FX markets
- Issues experienced by EU banks to square their Nostro accounts in RUB via FX or MMK and payment processing issues

Transactions with the Russian Central Bank have been prohibited in the EU and USA and Russian Central Bank FX reserves in EU and USA have been frozen (630bn USD)

- RUB dropped against G3 currencies: USDRUB spot + 59% from Feb 9th to March 14th up to 118
- On the longer-run, risk that some countries such as China could be incentivized to achieve a swifter reduction of their USD reserves holdings, thus potentially leading to undermining the international role of dollar.
- Yesterday Saudi Arabia was said to consider accepting Yuan instead of USD for its oil sales.

Ban of Russian Oil by USA – being considered in EU

- Currencies in some heavy oil / gas importing countries dropped: for instance Turkey with +8.6% on USDTRY from Feb 28th to March 11th

MMCG Meeting

FX swap segment update

USD funding deterioration

Term funding

- USD term funding rushed on by players wanting to secure USD position: EURUSD and GBPUSD term volatility was materially higher than usual
- EURUSD 1M swap points have shown 36% amplitude between high and low points since the beginning of the conflict
- O/N March 31st to April 1st implied yield of USD to EUR (ECB depo rate) has varied from 2.3% to 5.9% since the war began
- Similar trends were observed on GBPUSD and USDJPY
- Lower market making activity observed since end of February (wider bid/offers, empty tenors).

ON funding

- The above trend resulted in material amount of short-term USD cash being redeployed in the FX markets
- Implied EURUSD O/N has been down to 3bps on some end of days
- FX swap market move on USA opening has been stronger over the past weeks

Role of Policy backstops

Central Banks

- Following the initial squeeze on USD – market's confidence in the ECB ability to inject USD in the European economy should it be required was restored swiftly, especially following Japan announcement.
- In the early stages on the conflict, Fed president Powell reassured the market regarding continued availability of the existing FED lines with other major Central Banks (FIMA): *'Just the knowledge that that is there will help support good market function, which despite all this market volatility, we still have'*.
- No further usage of the FIMA facility by foreign Central Banks so far.

Item 1.3: OIS segment

Introduction by: Ileana Pietraru (Société Générale) and Juergen Sklarczyk (Deutsche Bank)

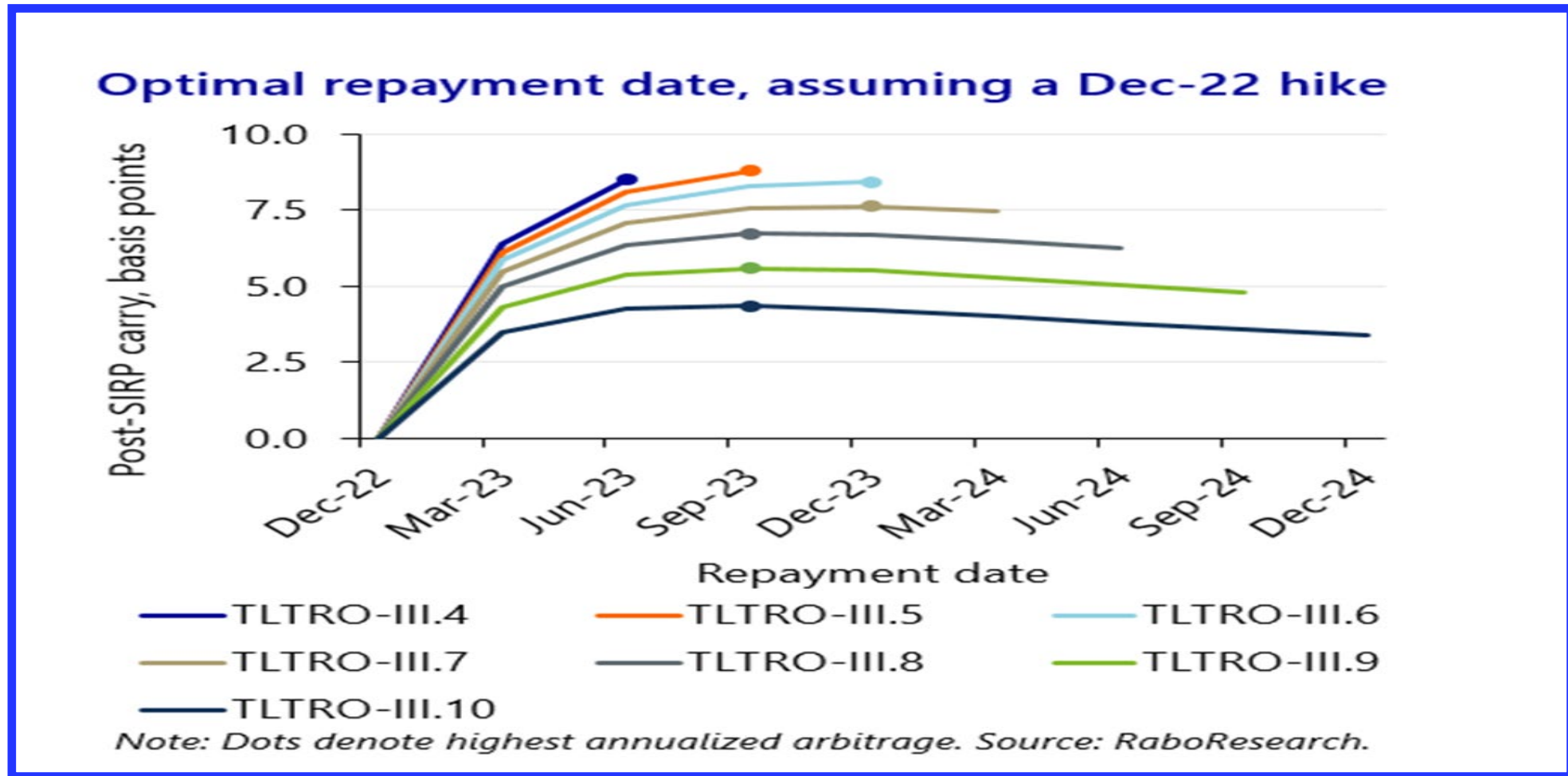
- Timing and magnitude of ECB DFR hikes;
- Drivers of price volatility and changes in volumes;
- Uncertainty on short-term rates.

Item 1.4: Unsecured segment

Introduction by: Bineet Shah (Barclays) , Eric Di Scotto Rinaldi (Rabobank) and Andreas Biewald (Commerzbank)

- Rise in prices for commercial paper;
- Stability of €STR;
- TLTRO early repayments ;
- Effects on EURIBOR and FRA-OIS spread;

TLTRO early repayments



Source: RaboResearch 9th March 2022

Item 1: (i) Evolution of risk sentiment

Classified as Private (Amber)



Item 1.5: Secured segment

Introduction by: Corentine Poilvet-Clediere (LCH SA)

- Liquidity flows in the secured segment;
- Difference between cleared and non-cleared transactions;
- Evidence of a shortening in the maturity of secured transactions and reasons behind it.