



# EURO Money Market Update

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# Market reaction to the recent ECB meeting

## ECB meeting on 14<sup>th</sup> April

### Key announcements:

- No policy changes, however, strengthened the guidance with respect to asset purchases concluding in Q3
- Same pace of tapering of net asset purchase €40bn in April, €30bn in May, €20bn in June as indicated in March
- Reinforced any rate adjustments to be sometime after the end of APP

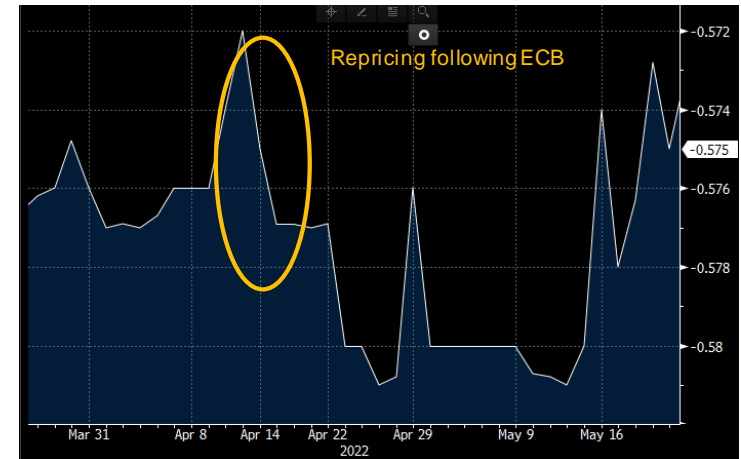
### Market reaction

- BTPS widened vs Bund by 5bp
- EURUSD dropped below 1.08

## EUR USD FX



## 1y €STR



## 10Y BTP vs 10Y Bunds



# Market reaction to the recent ECB meeting (contd.)

## ECB meeting on 9<sup>th</sup> June

### Key announcements:

- APP to end on 1 July
- Deposit rate unchanged in June, but a 25bp hike intended in July, and a larger increment in September if inflation persists
- Revised forecasts – inflation at 2.1% in 2024
- TLTRO special conditions to end on 23 June 2022
- PEPP reinvestments to be used as the main tool to fight any unwarranted fragmentation

### Market reaction

- Rates sold off with 1y €STR moving up 10bps
- EGB yields ending the day at significantly higher levels. The sell-off was most acute in peripherals, with 10Y BTPs ending the day 25bps higher and BTP/Bund spread widening 15bps to 215bps

## 1y €STR

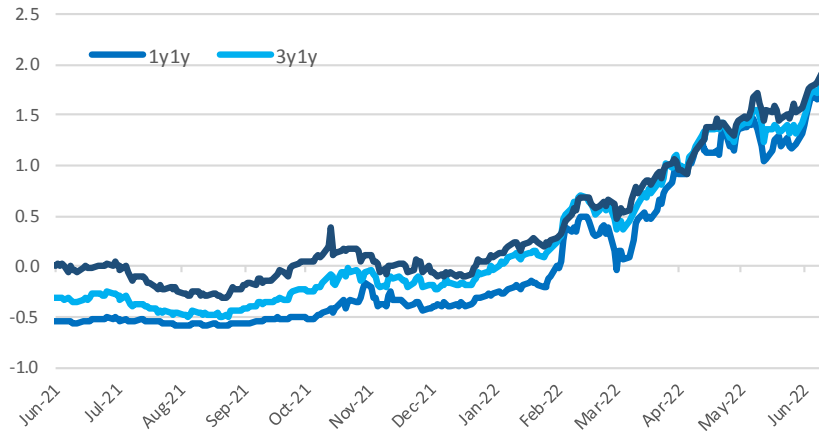


## 10Y BTP vs 10Y Bunds

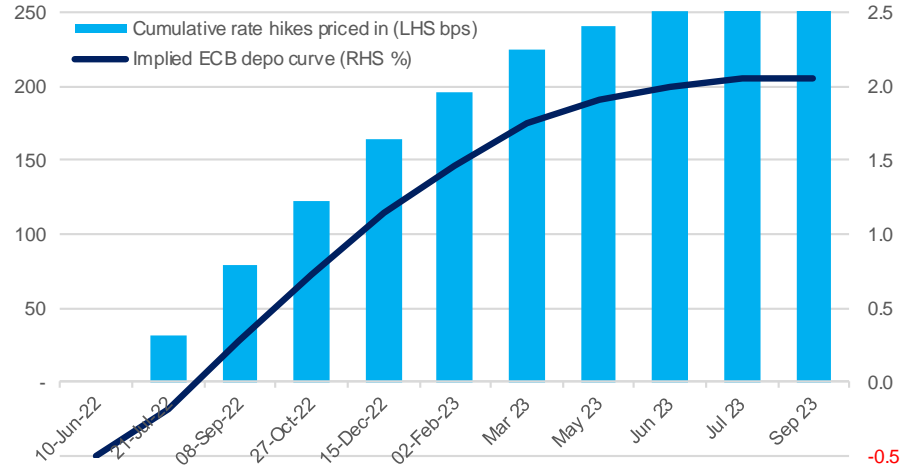


# Market expectations for rate lift off

**EURO Forwards**



**ECB Rate Hike Path**

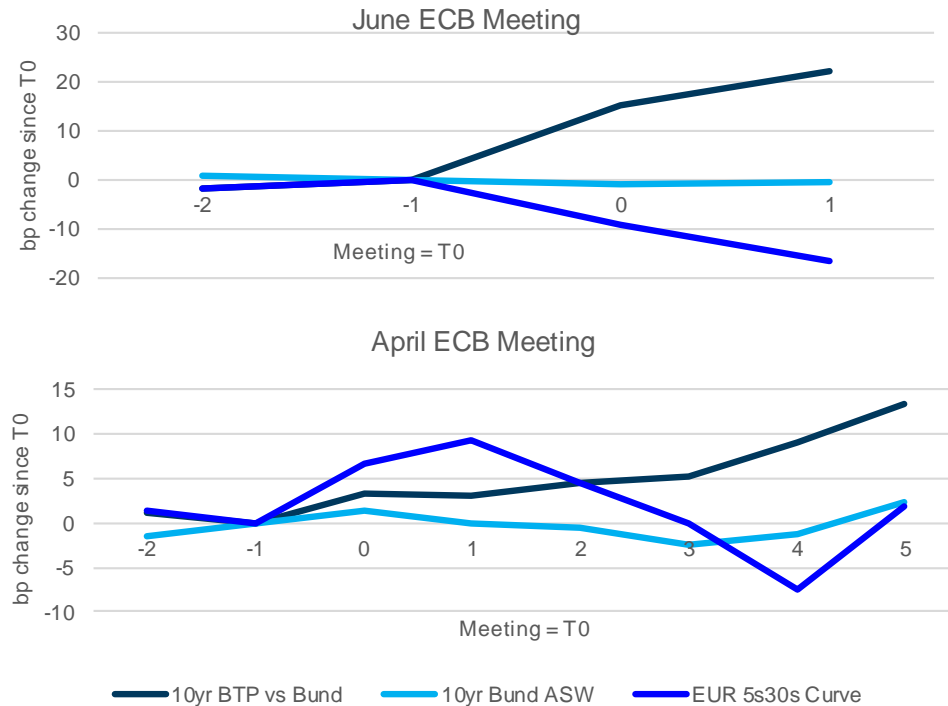


- The return of the depo rate into positive territory will mark the end of the Negative Interest Rate Policy (NIRP) that has characterized the ECB's monetary policy over the past eight years
- The ECB-dated €STR curve is pricing in a 50bp depo rate hike in September and the possibility of further 50bp hikes in October and December
- As the depo rate is expected to be in positive territory by the end of Q3 the tiering system has lost its importance

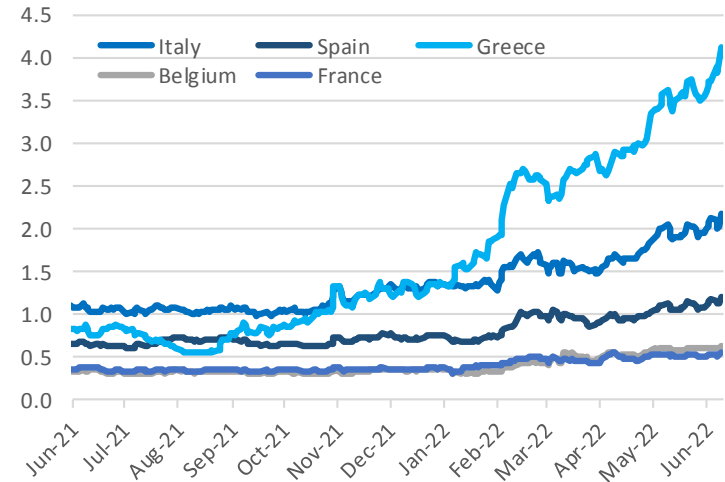
*Placeholders used for 2023 - Dates for meetings not officially announced*

# ASW and Peripheral Bond Spreads

**ASW – June and April ECB reactions**



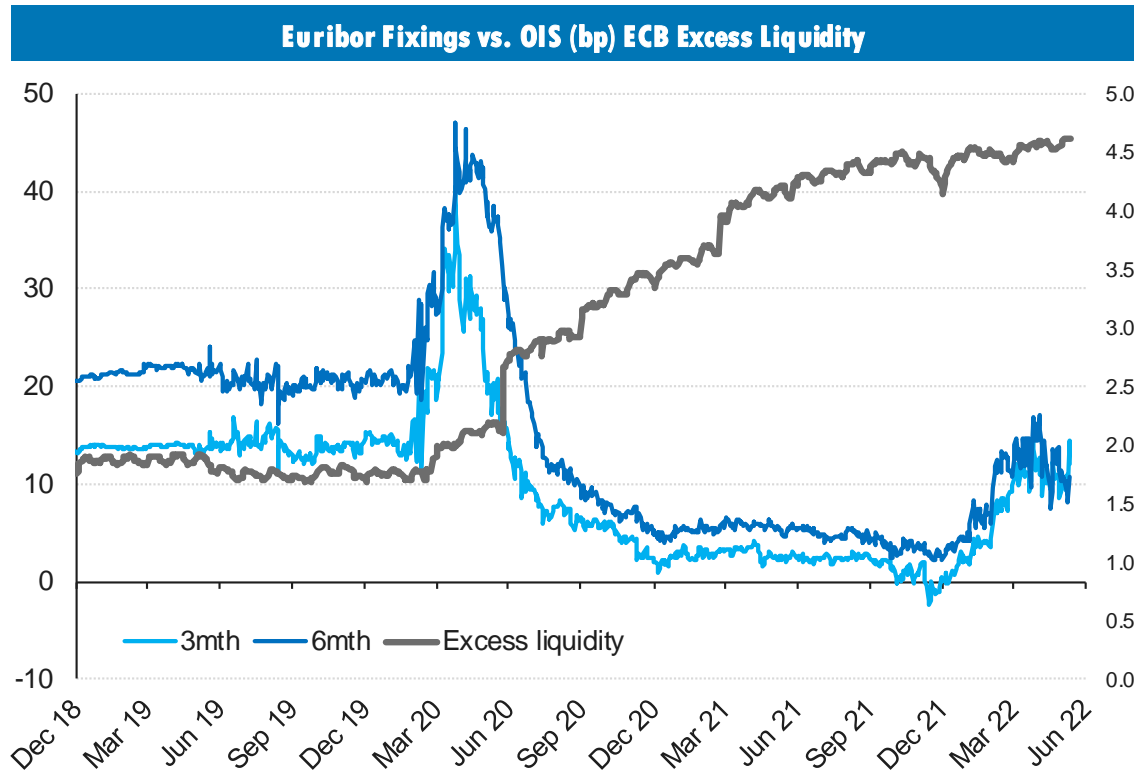
**10yr EGB Yields vs Bund Yields (bp)**



- 10-year government bond yields and spreads have increased significantly since the beginning of the year, and the increase has not been uniform

- Peripheral spreads (10yr BTP vs Bund) widened after both April and June ECB meetings

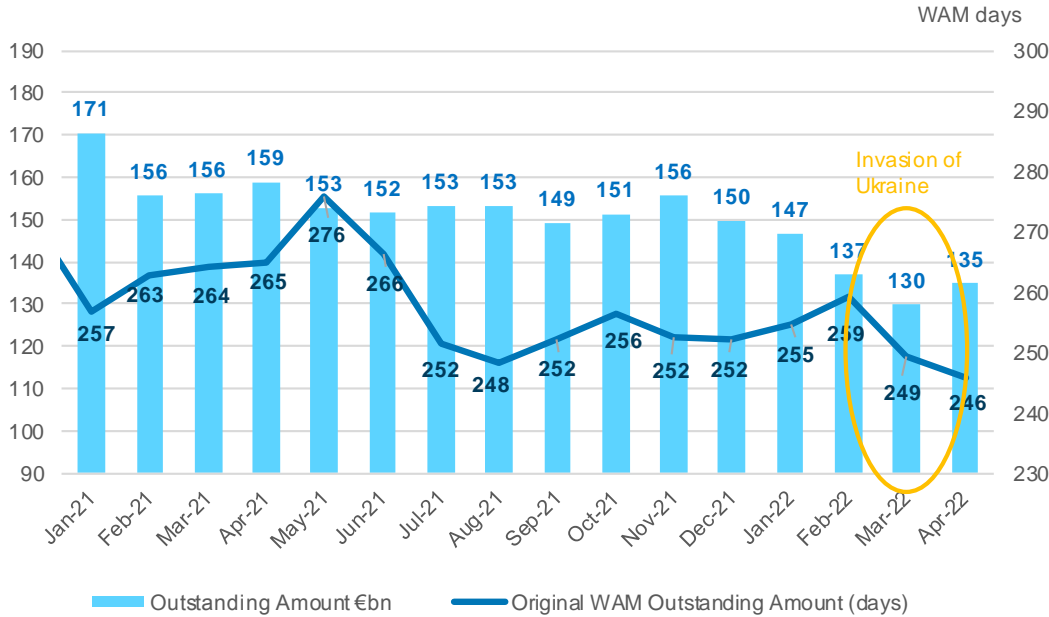
# FRA OIS



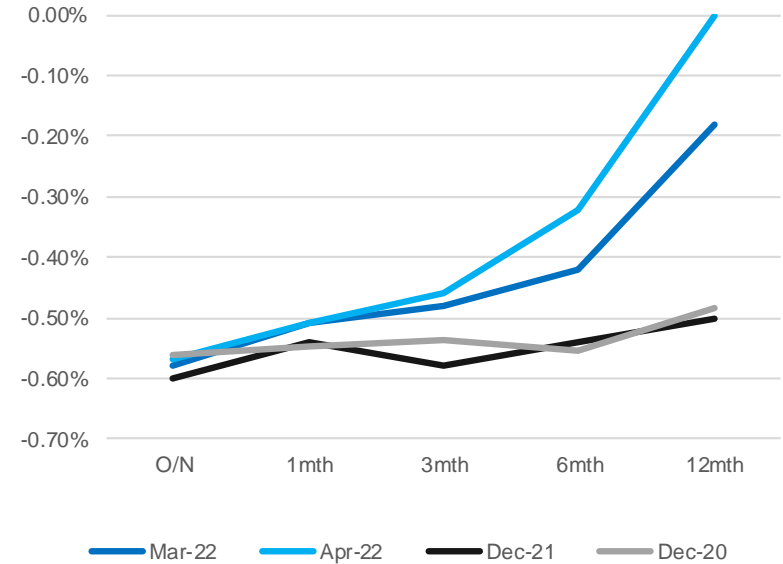
- FRA OIS widened during the COVID crisis. Following the ECB's easing actions, basis settled at historic tight levels
- FRA OIS has widened since the start of the year due to combination of factors:
  - 1) the spillover effect from the widening of the US FRA/OIS basis;
  - 2) increase in risk aversion; and
  - 3) uncertainty on the potential implications for euro area banks and general euro area liquidity

# CP Market

Financial Issuers NeuCP Outstanding Amount €bn, WAM



Financial Issuers NeuCP Average Rate %



Source: BdF

- Russia's invasion of Ukraine led to reduced issuance in the French NeuCP market along with WAM compression
- Rate hike / credit widening expectations also keeping WAM compressed

- In the French CP market, issuance rates are heading up, especially at the 12m tenor, amid subdued market activity