EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

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Results of the Euro Money Market Survey 2015

- Overall money market turnover in the second quarter of 2015 fell to the level of the same quarter of 2012, with a year-on-year decline of 12% to €69 trillion (compared with a revised 7% year-on-year rise in the second quarter of 2014)
- Decline especially noticeable in the largest market segment, the secured market, and in the unsecured market
- The switching of funds into longer maturities on account of value or regulatory considerations contributed to the decline in turnover
- Perceived deterioration in liquidity conditions across most segments, while most banks expected no change in turnover as a result of risk limit changes

Today the European Central Bank (ECB) is publishing the results of the “Euro Money Market Survey 2015”, which highlights the main developments in the euro money market in the second quarter of 2015, comparing them with those in the second quarters of 2014 and previous years.

The results of this year’s survey, which are derived from a constant panel of 98 banks (unless otherwise indicated; see the notes below), show that overall turnover has declined in the main segments. This can be partly attributed to the relative attractiveness of instruments with longer maturities on account of value or regulatory considerations.

The decline is especially noticeable in the largest market segment, the secured market, and in the unsecured market. Total turnover in secured lending and borrowing decreased by 13% to €28.6 trillion in the second quarter of 2015 compared with the same period a year earlier. The decline in volumes was most visible in the overnight maturity. However, the share of centrally cleared secured operations remained broadly stable, at 72% of all bilateral repo transactions.

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As in previous years, activity in the derivatives segments covered by the survey showed significant changes. Activity in foreign exchange (FX) swaps, the second-largest market segment, rose by 5% in the second quarter of 2015. The largest change was in overnight index swaps, where turnover decreased by 56%, undoing the increase in the second quarter of 2014. Other interest rate swaps (other IRS) increased by 11%, and forward rate agreements declined by 13%. Cross-currency swaps increased by 18% but continued to show lower turnover than the other segments.

According to comments provided by banks in the survey, risk aversion is not a significant factor behind the decline in turnover across market segments. The main reasons are, first, higher excess liquidity and the resulting lower volatility in the money markets, and, second, regulation, including the burden of capital charges and ratios, especially in the secured segment. These factors have also encouraged banks to trade in longer maturities.

The qualitative part of the survey also shows that perceived market liquidity generally worsened compared with last year. The efficiency of the secured and unsecured market segments as well as that of the short-term securities market was perceived to have remained broadly unchanged, while the efficiency of the derivatives market was seen as having deteriorated slightly.

In the forward-looking questions, participants were asked to assess how their interbank trading volumes or the number of their counterparties were likely to evolve in the light of expected changes to their risk limits. The overall results suggest that turnover expectations are generally stable, as the share of participants expecting no change in terms of turnover as result of changes in risk limits remains the largest and is even growing (112 out of 149, compared with 104 out of 149 for the same period last year). However, a larger number of respondents said they expected turnover to contract owing to changes in risk limits, while the number of banks expecting an increase in turnover fell.

Notes

This survey has been conducted on an annual basis since 1999, and always compares data for the second quarter of the current year with data for the second quarter of the previous year. It is prepared by experts from the European System of Central Banks, i.e. the ECB and the national central banks of the European Union. The survey uses a constant panel of 98 banks wherever longer-term comparisons are made, but also includes data provided by the full panel of banks in order to obtain a more complete picture of the market. The full panel currently comprises 149 banks.

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