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PRESS RELEASE

ECB PUBLISHES THE EURO MONEY MARKET STUDY 2012

Today the European Central Bank (ECB) is publishing a biennial report entitled “Euro money market study 2012”, which focuses on euro money market developments during the second quarter of 2012 and compares them with the second quarters of previous years. The study complements the results of the Euro money market survey 2012, which was published on 28 September 2012, and analyses the developments in greater depth. The main findings of the study show the significant impact of the euro area sovereign debt crisis on the euro money market, as well as the effect of the Eurosystem’s extraordinary policy measures.

Aggregate turnover for all instruments in the euro money market decreased by 14% in the second quarter of 2012 compared with the second quarter of the previous year. This decline can be attributed to the euro area debt crisis and the related impairment of the interbank market, as well as to the environment of high excess liquidity that prevailed in the euro interbank market as a result of the two three-year longer-term refinancing operations (LTROs) conducted by the Eurosystem in December 2011 and February 2012.

The most notable declines in turnover took place in overnight index swaps (OIS), where turnover declined by 50%, and in the unsecured market, where it contracted by 36%. The contraction in the unsecured market can be explained by the general trend towards secured lending and by a shortening of maturities on the back of greater aversion to counterparty risk. At the same time the current high level of excess liquidity provided by the Eurosystem reduces the demand for interbank funding, while stricter regulation requirements tend to reduce the supply of, particularly, unsecured interbank lending. For the OIS segment, the environment of high excess liquidity combined with the low level of interest rates and the low volatility of overnight interest rates (as measured by the euro overnight index average or EONIA) significantly reduced the need to hedge interest rate risk.

The secured market remained the largest segment of the euro money market, although turnover declined by 15%. Overall, secured market business declined on the back of, among other factors, increased margin requirements following rating downgrades and increases in the yields of some peripheral euro area debt and the fact that many banks had already fulfilled their funding needs for 2012 with the liquidity received from the LTROs. The only market segment where activity picked up significantly (12%) was the market for foreign exchange swaps, as these remained an important cash funding tool for European banks.

Three features of the 2012 study are new compared with the previous studies: (i) a question on the impact of banks' counterparty limits on money market activity was introduced in the 2012 survey and is discussed in this study for the first time; (ii) information about the currency breakdown of foreign exchange swap and forward transactions was introduced; and (iii) the aggregate volume data from the survey is released for the first time, complementing the regular indices of transaction volumes.

The results of the new qualitative question on credit limits showed that nearly half of survey participants assessed changes in their risk limits vis-à-vis their counterparties to have had a contractionary impact on current money market activity in terms of turnover; for the future, survey participants foresee a slowdown of this deterioration process.

The Euro money market survey has been conducted since 1999 on an annual basis by the Market Operations Committee, which is composed of experts from the European System of Central Banks (ESCB), i.e. the ECB and the national central banks of the European Union.

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