The European
Money Markets
Institute

Issue Nº9

Newsletter July 2024

Navigating new frontiers

Dear readers,

As we move forward in 2024, I am pleased to reflect on a series of significant accomplishments that have strengthened the foundation and expanded the reach of the European Money Markets Institute (EMMI) over the past three months. These milestones represent our continuous commitment to transparency, reliability, and innovation in the money markets space.

Firstly, we are pleased to announce Finland's OP Corporate Bank and the National Bank of Greece as the latest additions to the panel of credit institutions contributing to Euribor®. Their participation enhances the diversity and robustness of our panel, ensuring that our benchmark accurately reflects the dynamics of the European money markets. The inclusion of these banks not only broadens the geographical and market representation, but also reinforces the credibility and resilience of our benchmark. We extend a warm welcome to our new partners and look forward to their valuable contributions.

Secondly, we have successfully initiated the phase-in of the Euribor® Hybrid Methodology. The changes aim to ease the burden on current panel banks and attract new ones, as we aspire to a larger and well-diversified Euribor® panel. The transition to the enhanced methodology will take place gradually over the coming months, with the phase-in period expected to be completed by November this year. The smooth beginning of the phase-in process is a testament to the meticulous planning and cooperation among our team and panel banks.

Lastly, we are proud to introduce the ESG Commercial Paper Transparency Monitor. As the demand for sustainable finance continues to grow, the ESG CP Transparency Monitor aims to provide greater visibility into the environmental, social, and governance (ESG) characteristics of commercial paper issuers. This innovative tool provides investors with easy access to concise and comparable information, to make informed decisions, aligning their investment choices with their sustainability goals. The launch of this monitor underscores our commitment to promoting transparency and supporting the integration of ESG considerations into the financial markets.

These achievements are a reflection of our team's hard work and the invaluable support of our stakeholders. We remain steadfast in our mission to enhance the transparency, reliability, and sustainability of the European money markets.

Thank you for your continued trust and collaboration.

Kind regards,
Jean-Louis Schirmann
CEO – The European Money Markets Institute

OP Corporate Bank and the National Bank of Greece join Euribor® panel

Finland’s OP Corporate Bank and the National Bank of Greece have become the latest additions to the panel of credit institutions contributing to Euribor®.

Mikko Timonen, Chief Financial Officer of OP Financial Group, highlighted the importance of Euribor® in the Finnish market.

“OP Financial Group is the largest financial services group in Finland. A high proportion of loans in Finland are tied to Euribor® rates, which makes the Euribor® very important to our customers,” Mr. Timonen said. “Because no Nordic banks are currently on the Euribor® panel, we strengthen the representativeness of the Euribor® benchmark. Our membership will diversify the panel and its contributors’ profile, while strengthening the Euribor’s position on European money markets,” he added.

OP has over 2 million customer-owners, offering retail and corporate banking services all over Finland, as well as insurance services.

Timonen also addressed feedback from stakeholders and the internal processes OP will employ to submit data to the panel. "The Euribor® is a systemically important benchmark rate, which is widely known due to its prevalence on the Finnish market. The feedback we have received has been positive. We are also delighted to be joining the Euribor® panel when its methodology is being revised and look forward to the phase-in of enhancements to its Hybrid Methodology."

Continues on page 3

Mikko Timonen, OP Financial Group's Chief Financial Officer

Similarly, the National Bank of Greece's (NBG) inclusion in the Euribor® panel marks a significant milestone for the institution. NBG's CEO, Pavlos Mylonas, expressed pride in this development: "We welcome the decision of the European Money Markets Institute (EMMI) to add NBG to the panel, diversifying further its composition. Being selected to be among Europe's most prominent Banks is tangible recognition of our governance standards and our successful efforts to transform NBG into a leading regional player."

NBG's participation in the Euribor® panel underscores its commitment to transparency, stability, and market integrity. The bank's involvement is seen as a vote of confidence from its peers, enhancing its relationships with international counterparties and solidifying its status as a leading financial institution in the Eurozone. NBG's unique perspective on Greek market conditions will contribute to more comprehensive Euribor® rate-setting decisions, taking into account diverse economic factors.

Both OP Financial Group and NBG joining the Euribor® panel represent significant steps towards a more diverse and representative benchmark. These additions are expected to bring greater stability and integrity to the European money markets, benefiting stakeholders across the region.

The addition of these banks is the result of a rigorous selection process designed to ensure that all panel banks meet the highest standards of market activity, operational capability and adequate governance.

EMMI's CEO, Jean-Louis Schirmann, said the addition of the two new banks comes to cement Euribor's® reputation in the Eurozone: "The enlargement of the panel is a very important step towards maintaining Euribor's® long-term sustainability. Applications from banks to re-join the panel is a huge sign of trust in the benchmark. The enlargement of the Euribor® panel will contribute to the robustness and reliability of Euribor®, as welcomed by the European Securities and Markets Authority (ESMA), the supervisor of EMMI. "

Pavlos Mylonas, National Bank of Greece's Chief Executive Officer

The enhanced Euribor® hybrid methodology is a game changer for panel banks, which are no longer required to provide any Level 3 contribution or so-called "expert judgement".

EMMI seeks in this way to further strengthen the Euribor panel and diversify it in terms of banks' business models and geography. This is key for the representativeness of Euribor® and, ultimately, for its long-term viability.

Euribor® Hybrid Methodology: phase-in period begins

EMMI has begun the much-anticipated enhancements to the Euribor® Hybrid Methodology. The changes aim to ease the burden on current panel banks and attract new ones. The transition to the enhanced methodology began at the end of May and it will continue to take place gradually over the coming months, with phase-in period expected to be completed by November this year.

Currently, banks on the Euribor® panel make their submissions based on a three-level hierarchy. So-called Level 3 contributions refer to banks' own internal estimates of borrowing costs when there is insufficient transaction data. The new methodology ditches this type of submission with the aim of reducing the operational burden for banks and attracting new banks to the panel.

With the new enhancements, come some adaptations in the governance framework. As was the case with its predecessor, the adapted governance framework will continue to uphold Euribor's highest levels of transparency and accountability. The previous governance framework will still apply for the coming months, for the banks that are yet to phase-in.

EMMI launches ESG Commercial Paper Transparency Monitor

In line with the mission of facilitating the smooth functioning of Money Markets and fostering their integration, the European Money Markets Institute ("EMMI") has launched an initiative to support the transparency in the ESG commercial paper market.

EMMI will collect up-to-date information from Applicants about the main ESG features included in their commercial paper programmes and publish it in a standardised and harmonised way. The published information will be accessible for consultation by all interested parties.

EMMI does not provide any judgement nor valuation of the information provided by issuers, which is published as it is. Issuers are responsible for providing the information following EMMI's requirements, and for ensuring the data is accurate.

If you are interested in this initiative, please send an email to ESG-CP@emmi-benchmarks.eu with your questions or comments.

Echoes from the euro money markets

Following 10 consecutive rate increases between July 2022 and September 2023, the European Central Bank (ECB) cut its three key policy rates by 25 basis points on the 6th of June 2024. The ECB maintained its key policy rates unchanged in the monetary policy meetings of October 2023, December 2023, January 2024, March 2024 and April 2024.

The market had already anticipated the interest rate cut in June, but there's significant uncertainty about future monetary policy meeting until year end. Policymakers are issuing cautionary statements, suggesting that additional interest rate cuts in 2024 should not be taken for granted.

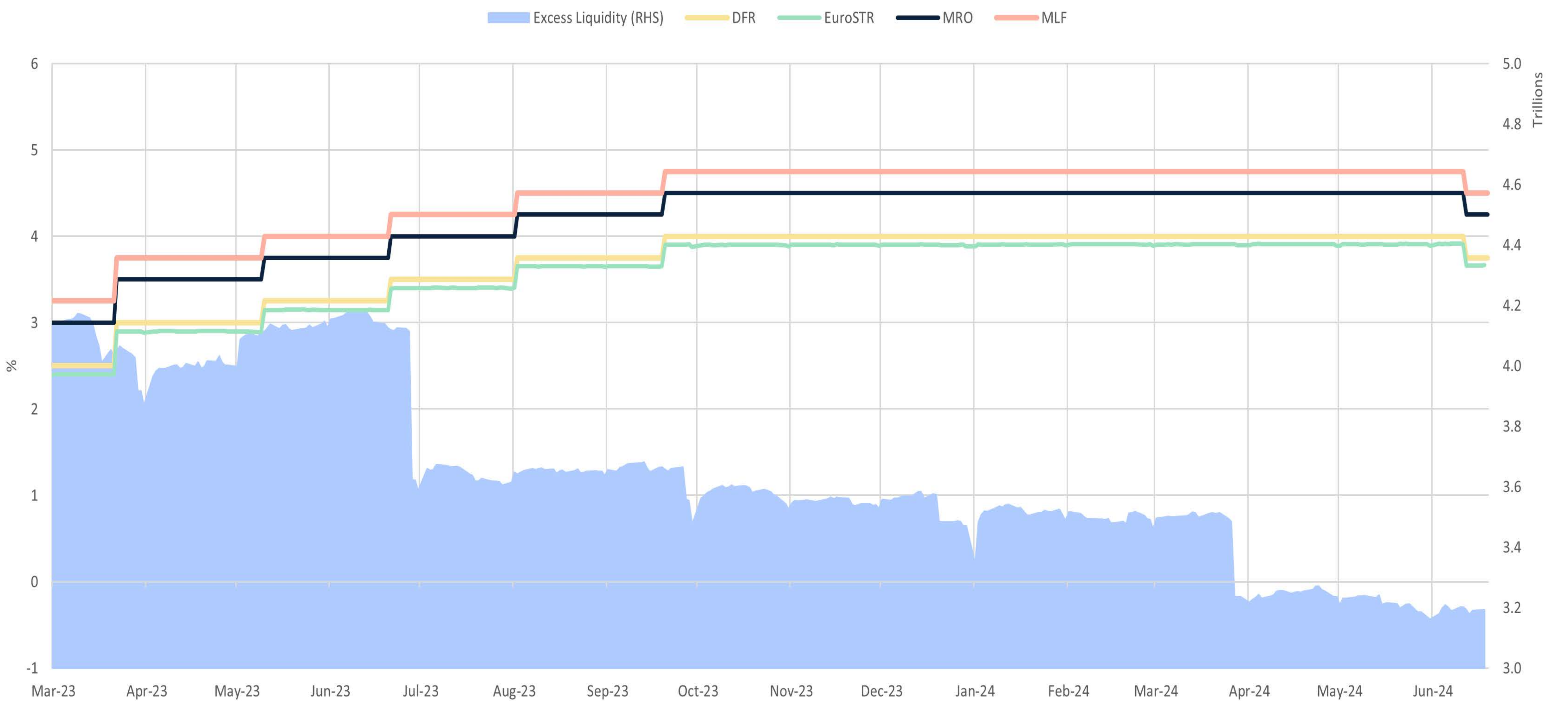
As part of the ECB monetary policy normalisation, the Eurosystem's balance sheet continued its decline, and will continue to do so at a measured and predictable pace in the coming months.

The primary factor contributing to this reduction is the Targeted Longer Term Refinancing Operations (TLTRO). In March 2024, early repayments amounting to EUR 35 billion were made. Additionally, the maturity of TLTRO III.7 led to a further reduction of EUR 212 billion in TLTRO outstanding.

As of June 2024, three operations from the third series remain outstanding, but the amount has almost halved compared to the original allotment (EUR 140.95 billion vs. EUR 259.37 billion) due to early repayments by banks.

Furthermore, banks have announced that they will make early repayments of EUR 17.1 billion for the last two outstanding operations on June 26. On the same day, an additional EUR 47.4 billion will be repaid due to the maturity of TLTRO III.8.

ECB rates and excess liquidity

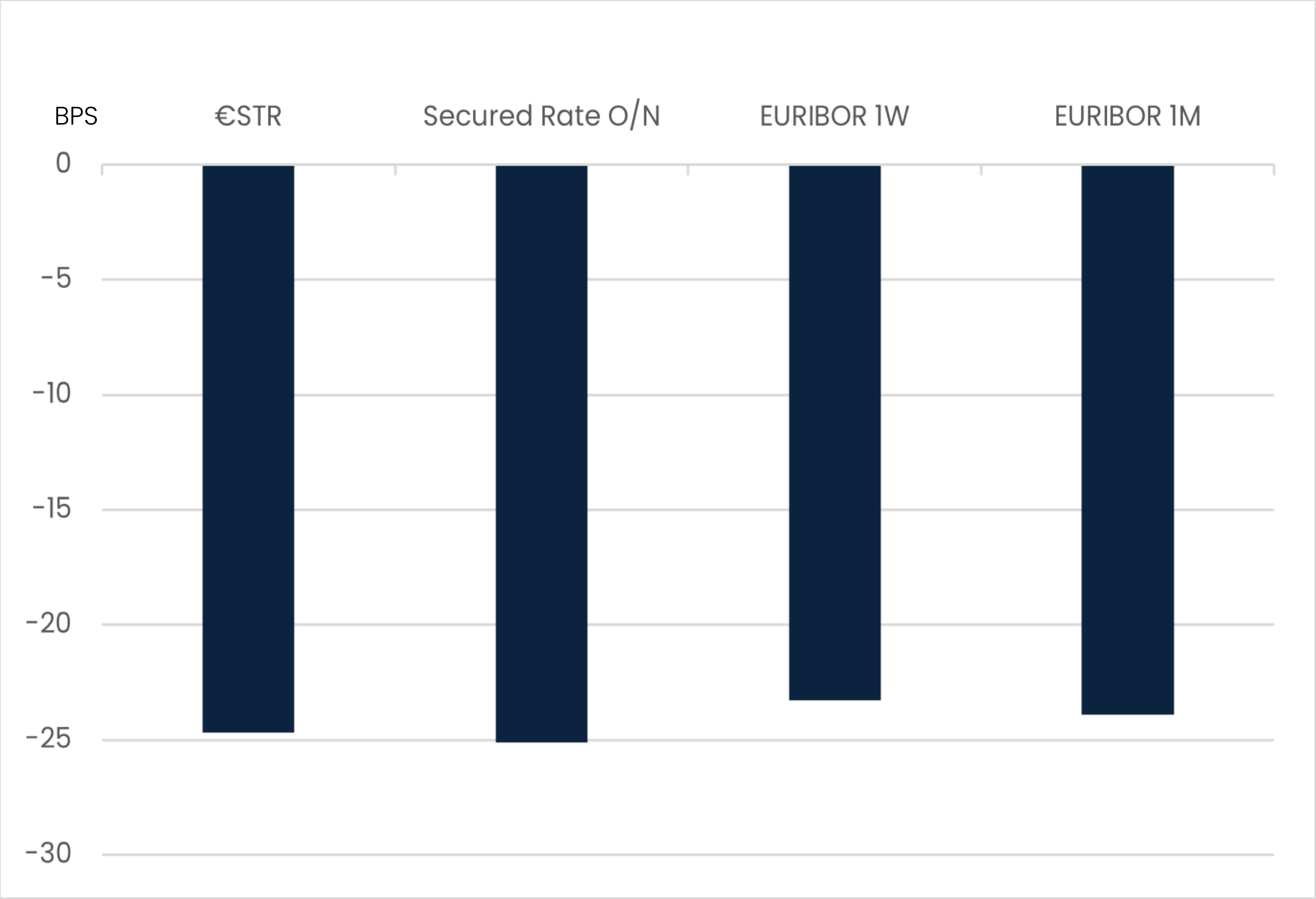


Source: Bloomberg

Money markets rates pass through

For the first months of 2024, money market rates remain steady for shorter-term tenors and have begun to decline for longer-term tenors. At the end of May however, money market rates at shorter-term tenors also started to decline reacting to a well anticipated June interest rate cut.

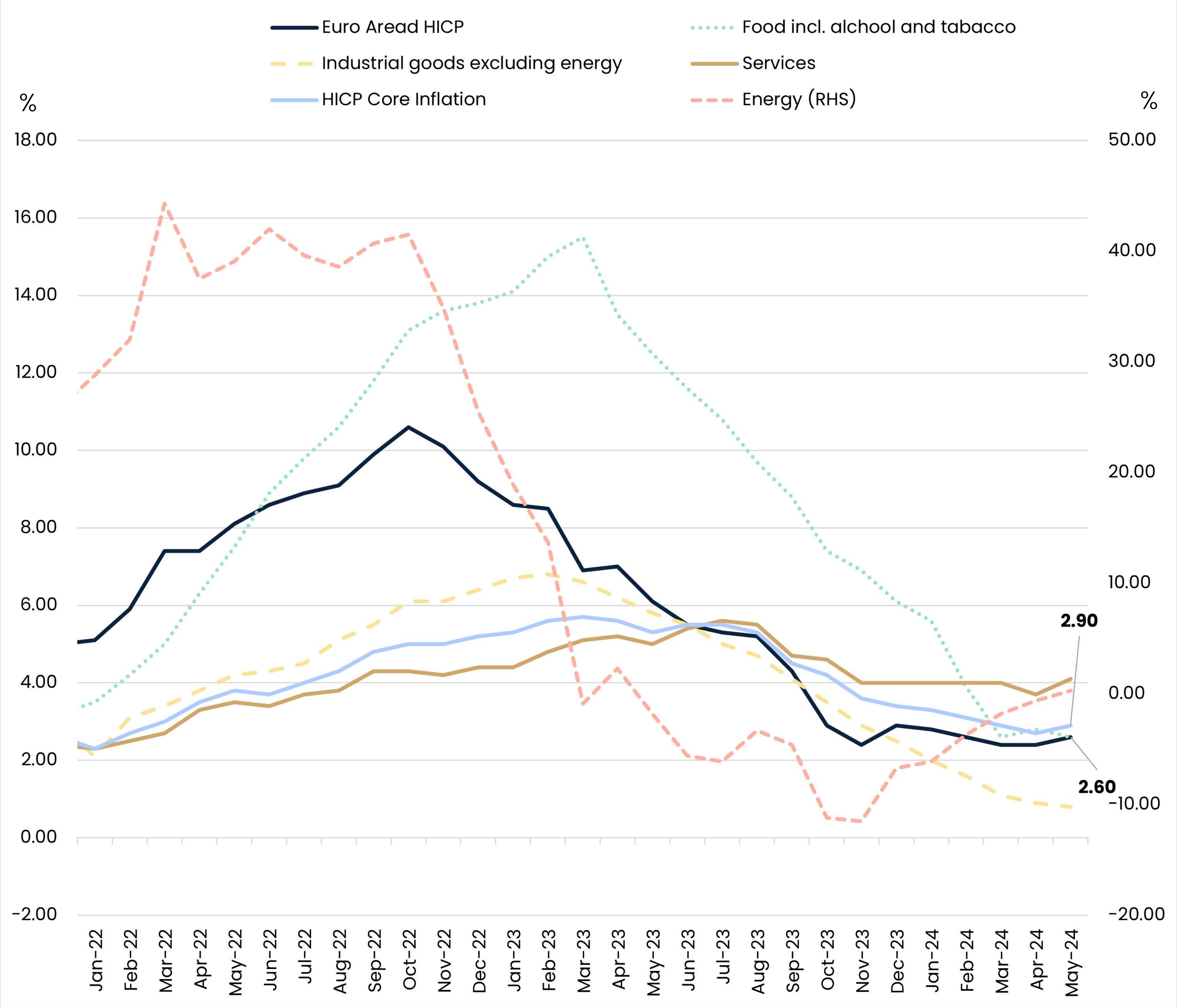
The transmission of the ECB June interest rate cut into euro money market rates (pass through) was almost perfect in June 2024 for the 1W Euribor, 1M Euribor, and the secured and unsecured overnight rates.



Source: Bloomberg and EMMI's calculations. (note: Overnight rates pass through represents the difference between rates of the last day of the 1st MP and the first day of the 2nd MP. The same logic is applied for 1W and 1M rates).

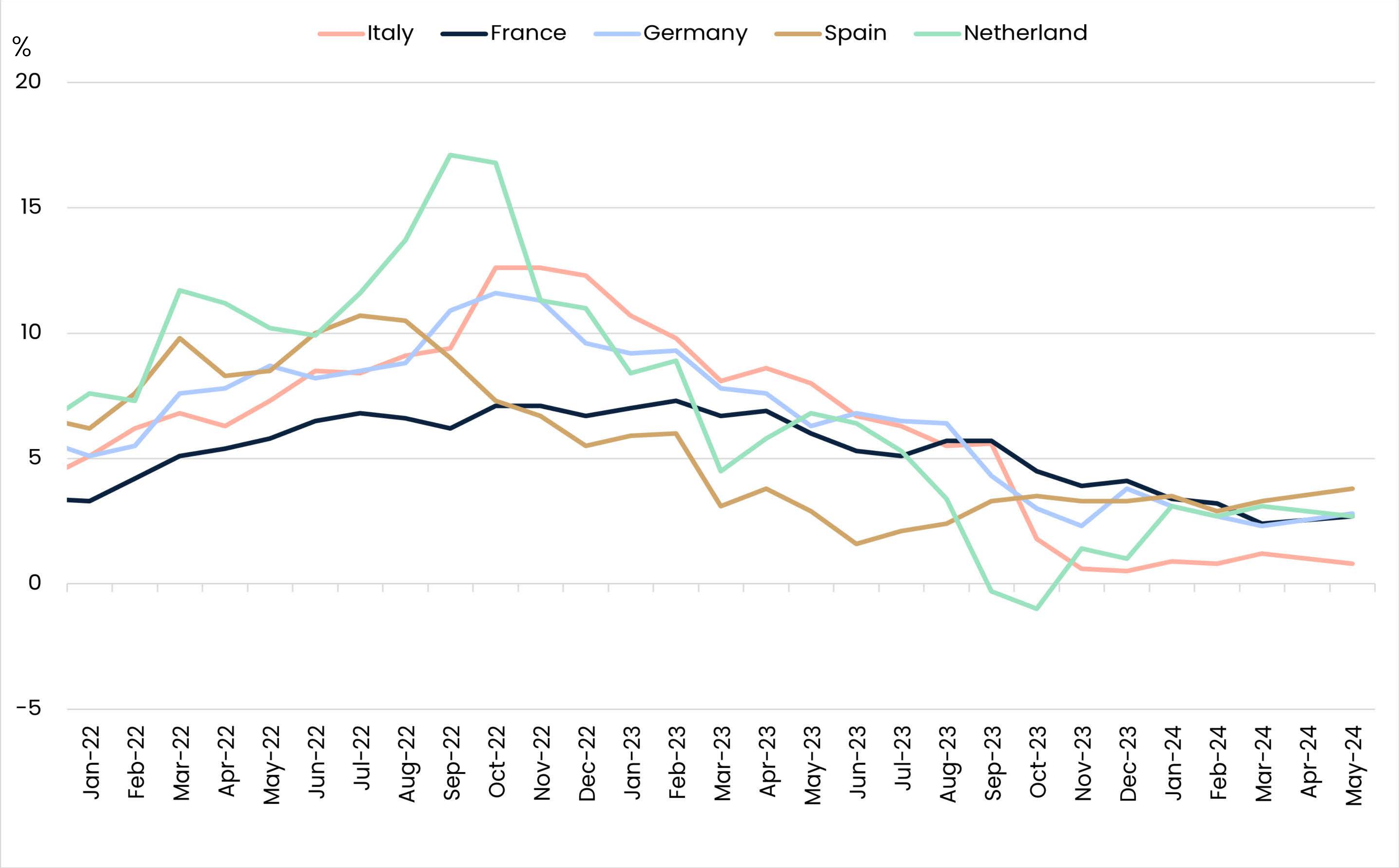
The current monetary policy landscape is marked by historically elevated interest rates, and these rates are having an impact on tempering economic activity and reducing inflation. In May, inflation increased slightly compared to April's values from 2.4% year-on-year (y/y) to 2.6% (y/y) in the Eurozone. The higher data is partially attributed to French inflation which increased for the first time this year. Consumer prices in the euro area's second-largest economy rose to 2.7% from a year ago in May after holding steady at 2.4% y/y the previous month. Inflation increased compared to April also in Germany and Spain, to 2.8% and 3.8% y/y respectively, while it decreased further in Italy to 0.8% y/y and in the Netherlands to 2.7% y/y.

Euro Area Inflation components



Source: ECB SDW

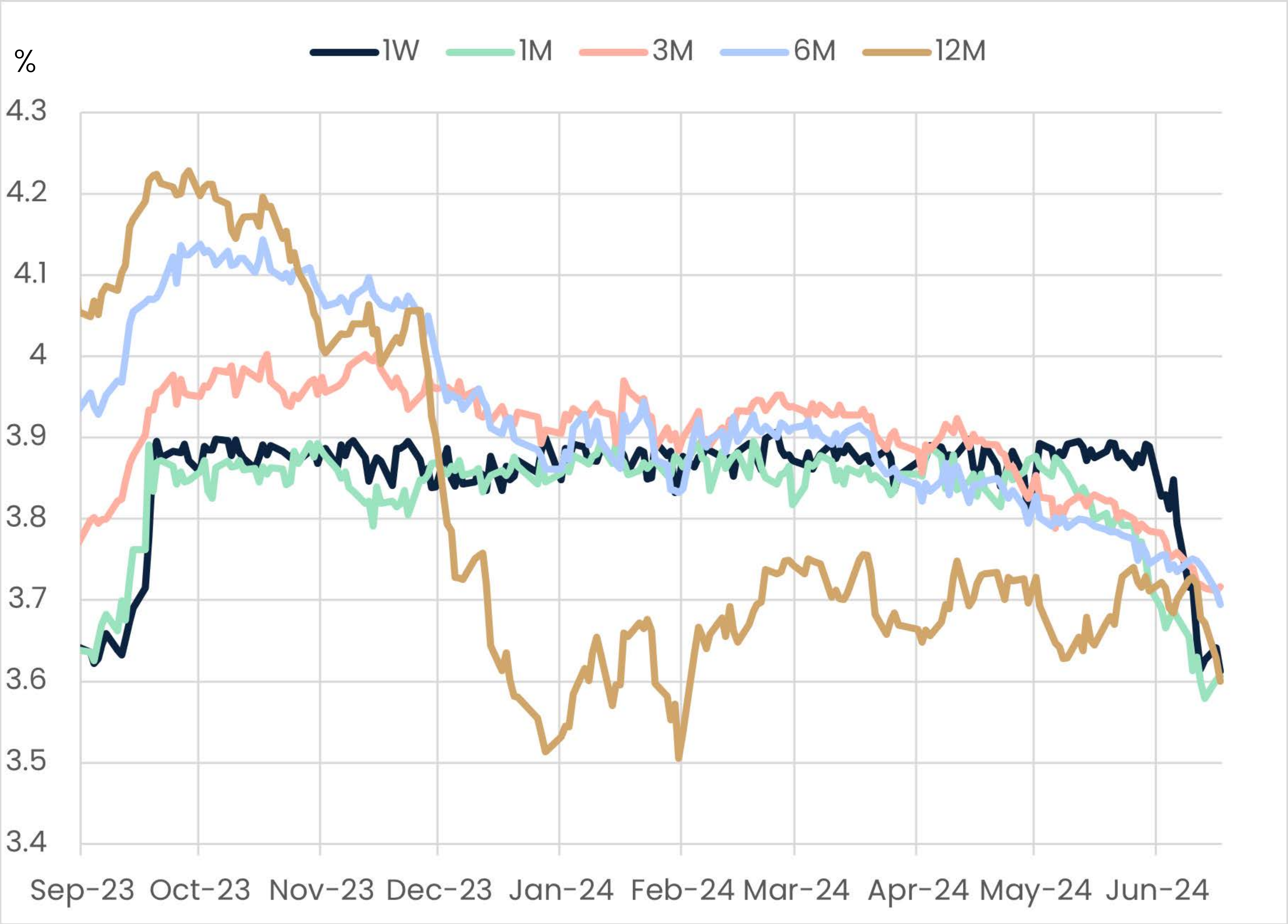
Euro area countries inflation (HICP)



Source: ECB SWD

Since April 2024, the 1-month (1M), 3-month (3M), and 6-month (6M) Euribor® rates have shown a significant downtrend due to the market's anticipation of ECB rate cuts. The 12-month (12M) Euribor® has stayed within the range of 3.5% to 3.75% since the beginning of the year. This stability is attributed to the market's anticipation of rate cuts in the first part of 2024, which were already factored into the rates early in the year. However, expectations for rate cuts toward the year's end have evolved over time. The 1-week (1W) Euribor® rate began to decline around the time of the ECB Governing Council meeting, fully reflecting the 25 basis point cut on the first day of the new Maintenance Period.

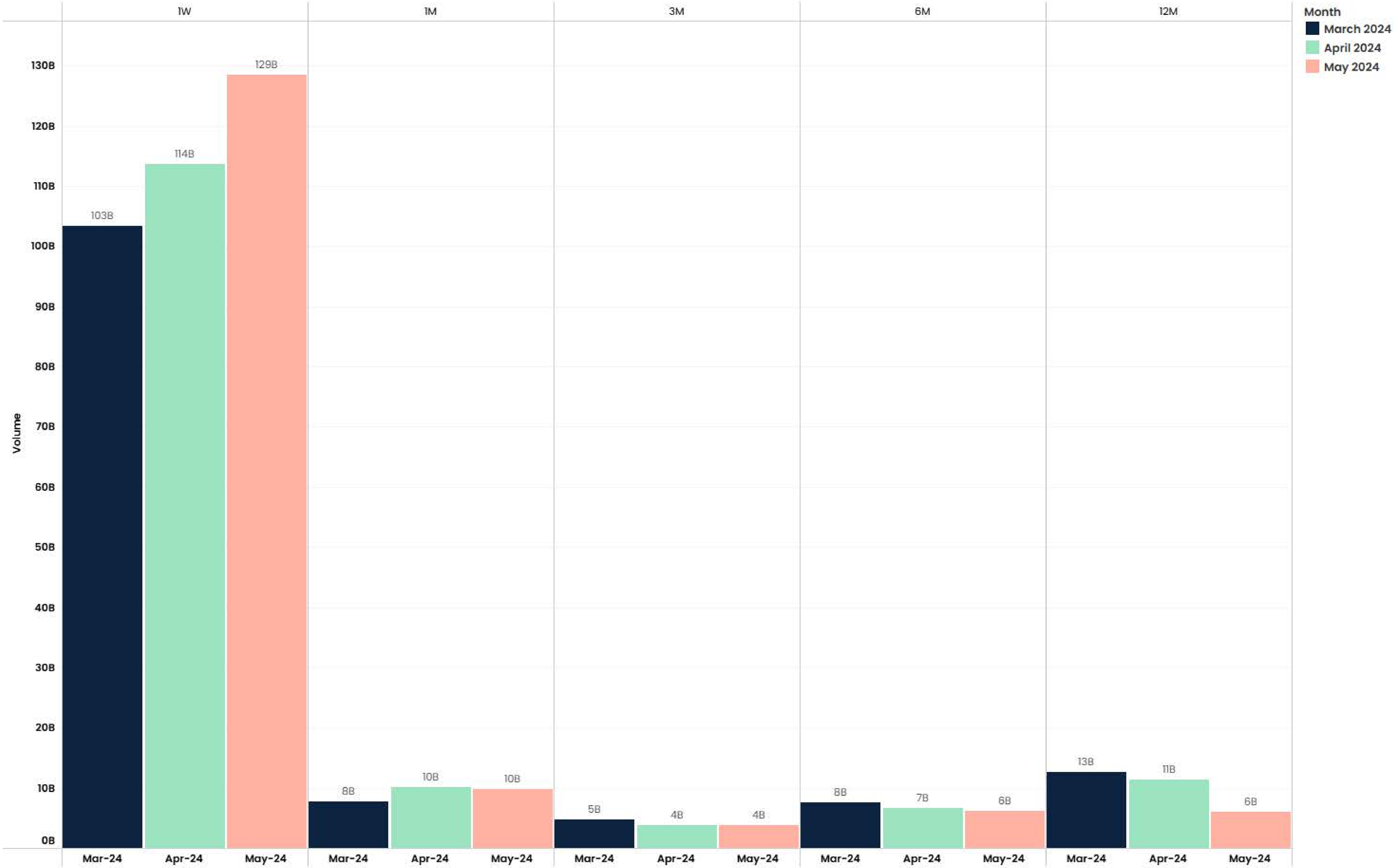
Euribor® rates



Source: EMMI

Euribor® aggregated volumes reached EUR 155 billion in May 2024, increasing by EUR 9 billion from previous month. 1W underlying volumes has increased while the underlying volumes in the 12M decreased In May compared to April. The other tenors' volumes remained stable.

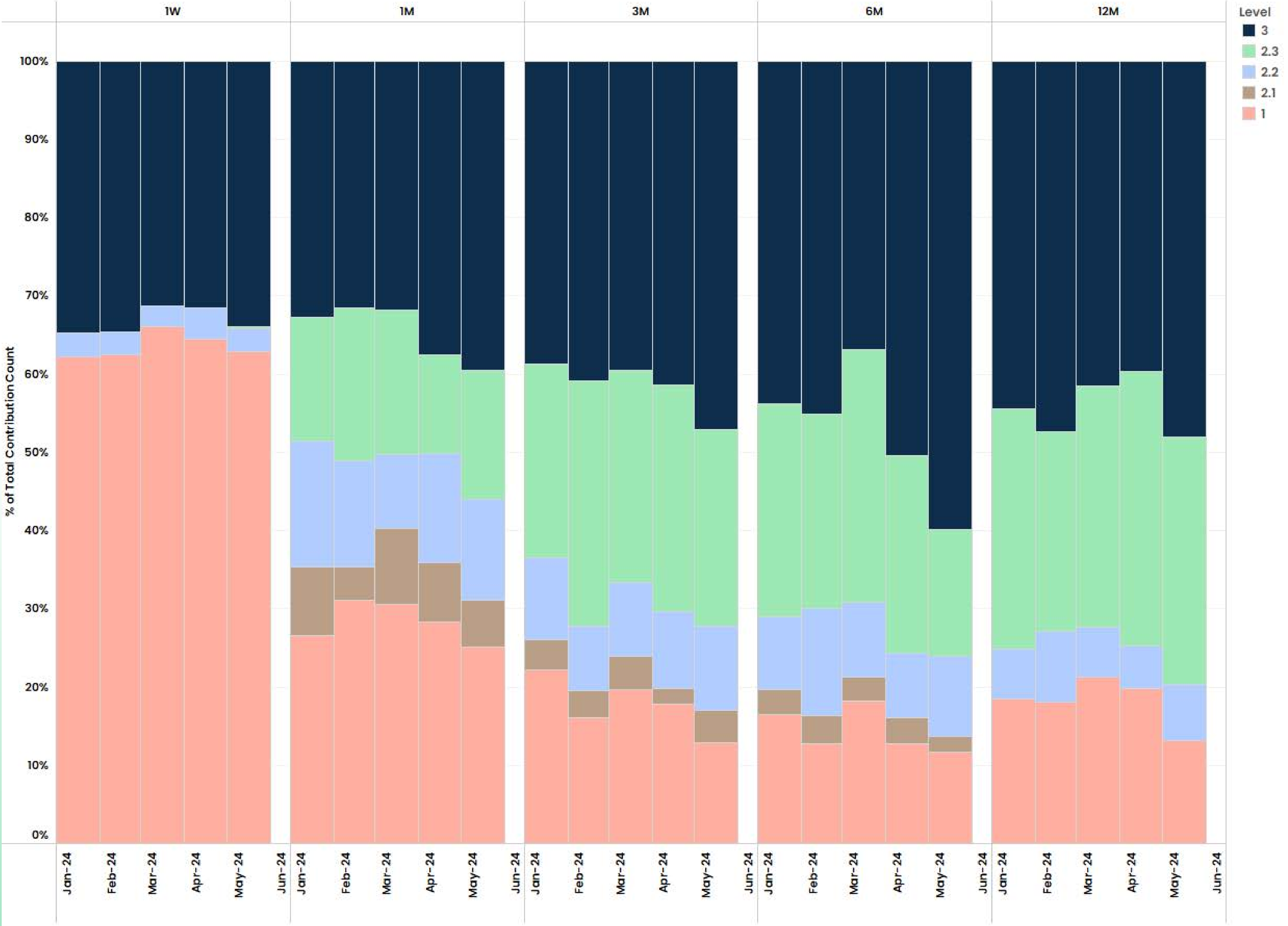
Euribor® volumes



Sum of Transaction.Nominal.Amount. for each Publication.Date1 Month broken down by Tenor1. Color shows details about Publication.Date1 (MY). The data is filtered on Level1, which keeps 1 and 2.2. The view is filtered on Publication.Date1 (MY), which keeps March 2024, April 2024 and May 2024.

Source: EMMI's calculations

Euribor® levels



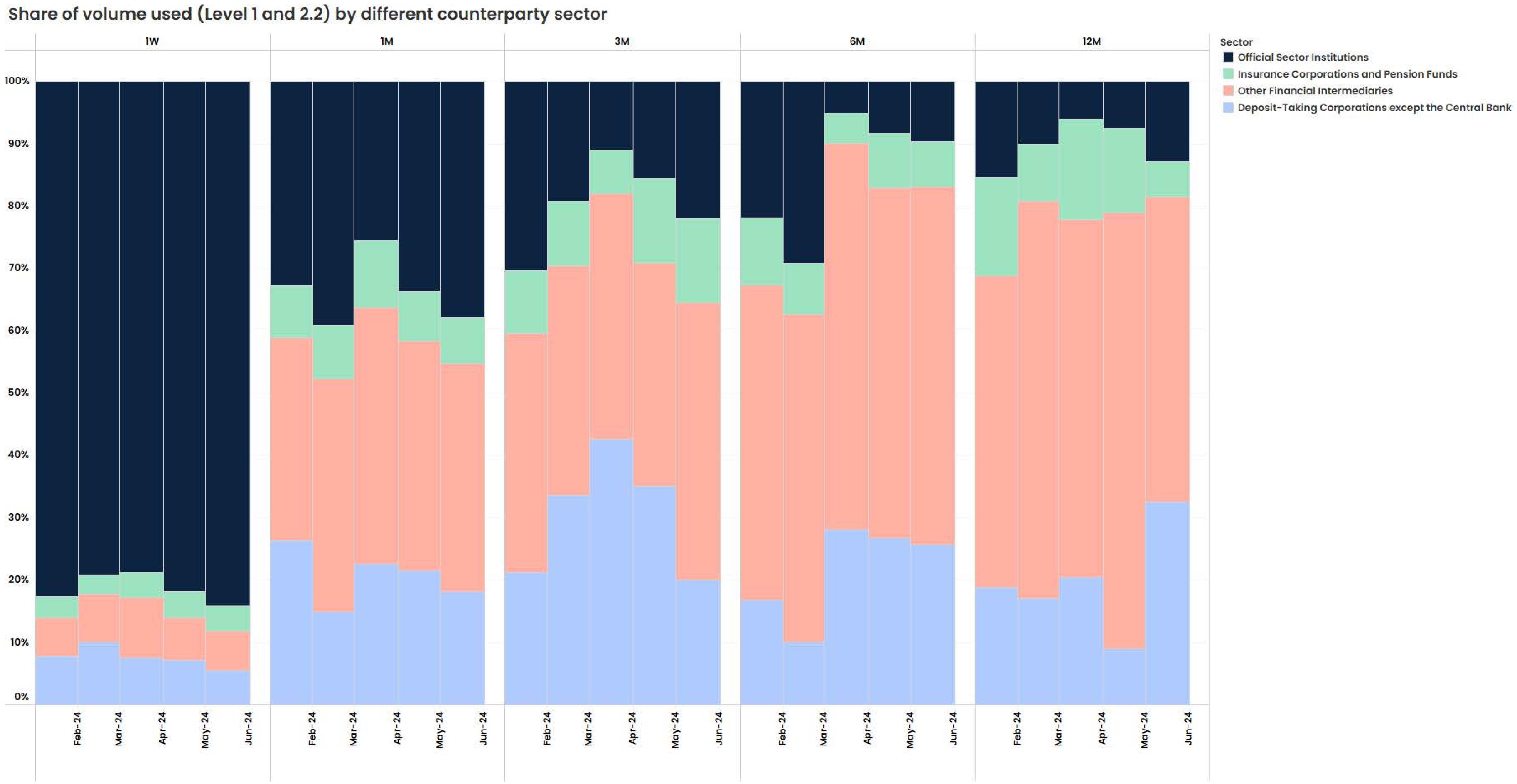
The plot of Calculation1 for Publication Date1 Month broken down by Tenor Code1. Color shows details about Level1. The data is filtered on Publication Date1 (MY), which keeps January 2024, February 2024, March 2024, April 2024 and May 2024. The view is filtered on Calculation1, which includes everything.

Source: EMMI's calculations

The Euribor® Hybrid methodology levels reflect the developments of the underlying volumes. Level 1 contributions are stable in the 1-week tenor, while they are slightly decreasing in longer-term tenors compared to the beginning of the year.

The composition of Euribor® counterparty sectors has remained stable since the beginning of the year. However, there some highlights in specific tenors: in the 12M Tenor a record high proportion of deposit-taking corporations was recorded in May. This indicates a significant increase in the participation of banks and similar financial institutions in this longer-term borrowing segment. In the 1W Tenor, the official sector institutions, which include central banks and other governmental financial bodies, represent the majority of Euribor counterparties. This suggests that short-term borrowing is predominantly driven by public sector entities.

Euribor® counterparty sectors



The plot of SUM([Transaction.Nominal.Amount.]) / TOTAL(SUM([Transaction.N... for Publication.Date1 Month broken down by Tenor1. Color shows details about Sector. The data is filtered on Publication.Date1 (MY), which keeps January 2024, February 2024, March 2024, April 2024 and May 2024. The view is filtered on Sector, which excludes Null.

Source: EMMI's calculations

Any questions?

For any enquiry or question related to our activities, please do not hesitate to contact us:

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The European Money Markets Institute