ISSUE N°1

Newsletter

June 2021

The European Money Markets Institute

Welcome to The European Money Markets Institute

06/2021

Dear reader,

In this first issue, I have the pleasure and the privilege of disclosing the brand-new visual identity of **The European Money Markets Institute** which mirrors our mission, our vision, and our unique positioning.

For over 20 years, The European Money Markets Institute has acted as a trusted partner to facilitate the smooth functioning of euro money markets and to foster their further integration. Besides the development and administration of robust bench-marks that are essential for financial markets and thus for the broader economy, we have promo-ted labels, standards, and practices enabling har-monised access to the markets, and have explored initiatives to answer market's needs.

This new branding also reflects the values which are the dearest to us as an international non-for-profit association working for the public good: transparency, ethics, excellence, and open-min-deness. I invite you in this regard to (re)discover The European Money Markets Institute in the leaflet specially edited to mark the occasion.

The purpose of this newsletter is of course to share our latest business developments with you. In this first issue, we propose insights on the transparency indicators for Euribor®, on Eonia's soon discontinuation, and on the continued success of the Short-Term European Paper (STEP) Label for 15 years, with over 200 labelled programmes and total amounts outstanding of STEP-labelled securities close to €400 billion to date.

I wish you a pleasant reading and look forward to meeting you back at our next edition.

Kind regards,

Jean-Louis Schirmann
CEO – The European Money Markets Institute

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Echoes from the euro money markets

06/2021

Key events closely related to Euribor®

21 Jan: ECB Governing Council decision

The ECB's Governing Council kept key policy rates unchanged and stated that key rates will remain at present or lower levels until the inflation outlook converges to a level close to, but below 2% within its projection horizon.

Once again, it was confirmed that the Pandemic Emergency Purchase Programme (PEPP) will be continued, with the previously announced increased overall envelope of €1,850 billion, and with purchases conducted in a flexible manner over time, until at least the end of March 2022. In addition, it was confirmed that the net purchases under the Asset Purchase Programme (APP) will continue at a monthly pace of €20 billion, along with the continuation of the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III).

11 Mar: ECB Governing Council decision

The ECB's Governing Council kept key policy rates unchanged. The Pandemic Emergency Purchase Programme (PEPP) will continue to be conducted with the increased €1850 billion overall envelope. In any case, the Governing Council will conduct net purchases until it judges that the coronavirus crisis phase is over, and it will extend the reinvestment of principal payments from maturing securities

purchased under the PEPP until at least the end of 2023. Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year. It was announced that PEPP purchases will be flexible according to market conditions and with a view to preventing a tightening of financing conditions; thus, if favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope does not need to be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation. Last, it was also confirmed that the net purchases under the Asset Purchase Programme (APP) will continue at a monthly pace of €20 billion, along with the continuation of the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III).

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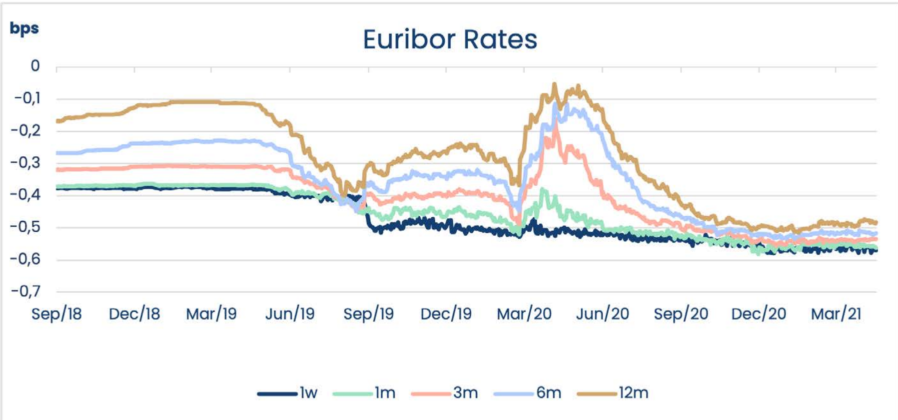
Euro money markets developments & Euribor® rates

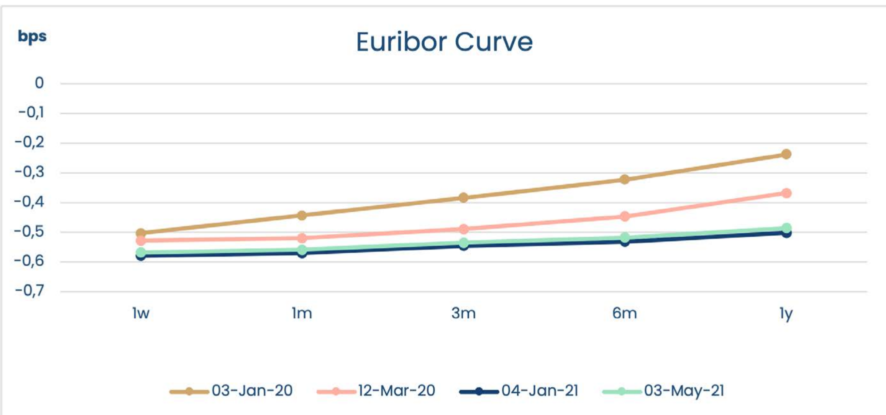
Euribor® rates remained below the Deposit Facility Rate (-0.50%) during Q1, except for the 12-month tenor which increased marginally during the end of the first quarter, from -50.2 bps on 4 January 2021, to -48.4 bps on 31st March 2021.

These rather flat movements signalled that the market environment has not changed significantly compared to the previous quarter, however demand for liquidity is not as high as it was during the peak of the crisis, and we also observe calmer market conditions as well as an unbalance between the demand and the supply of liquidity. It is noteworthy that the European Central Bank did a verbal intervention during its last Council meeting to ease market concerns.



Source: The European Money Markets Institute

The 3-month rate was extremely stable compared to the other rates, as it was set at -53.8 bps on 31 March 2021, compared to -54.6 bps on 4 January 2021. The rate remained below the Deposit Facility Rate for the entire quarter once again. An important driver of this phenomenon is the fact that banks can borrow from the ECB within the TLTRO III operations as low as -1%. Furthermore, banks with access to the ECB's deposit facility could charge a premium to those banks which do not have access to it.



Source: The European Money Markets Institute

The Hybrid Methodology for Euribor® and the Euribor® Transparency Indicators

06/2021

The Hybrid Methodology for Euribor® in a nutshell

The Hybrid Methodology for Euribor® is not based on quotes, but it is essentially grounded in transactions in the unsecured euro money market. The contributions to the determination of Euribor® by the 18 Panel Banks – which are fully representative of the underlying market – follow a three-level hierarchical approach:

• **Level 1** consists of contributions based solely on eligible transactions in the unsecured euro money market, with a minimal notional amount of 10 million euros.

• **Level 2** consists of contributions based on transactions across the broader money market maturity spectrum, nearby maturities for instance, and from recent TARGET days, using a defined range of formulaic calculation techniques provided by The European Money Markets Institute.

• **Level 3** consists of contributions based on transactions in Euribor's underlying interest and/or transactions and data from a range of markets closely related to the unsecured euro money market. It is worth mentioning that Level 3 contributions are different from the previous quote-based methodology; each Panel Bank uses specific modelling techniques tailor-made to their own funding models, and all Level 3 contributions made by a Panel Bank must be duly documented, validated, and always applied in a consistent fashion, following The European Money Markets Institute's guidelines.

The European Money Markets Institute performed the first annual review of the Hybrid Methodology for Euribor® in 2020 and four relevant adjustments have been implemented since April 2021. All of them serve the representativity of the benchmark, without creating additional rate volatility. While it is yet too early to measure their lasting impact due to a too short lookback period, these changes have a positive effect on Euribor®: they improve its robustness, they make it more resistant to undue influence, they induce a decrease of the share of Level 3 submissions and, they enhance its responsiveness to market events.

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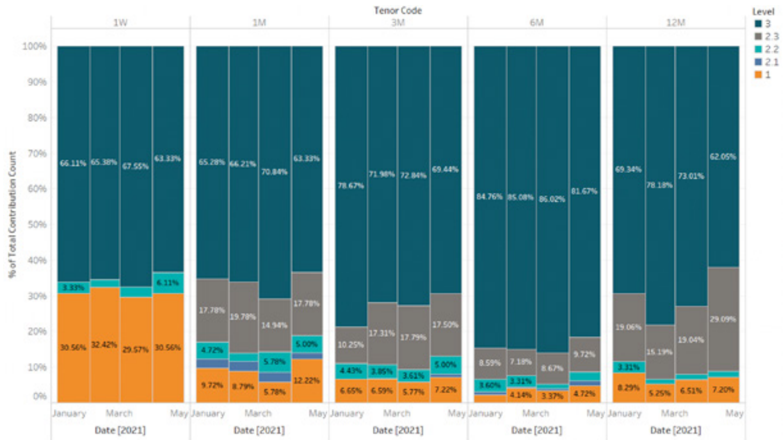
The Euribor® Transparency Indicators for the period January-April 2021

The share of Level 1 contributions was rather stable during the first quarter of 2021. Although, in April we have seen an increased amount of transactions in the 1M tenor.

Use of each level of the hybrid methodology, broken down by tenor

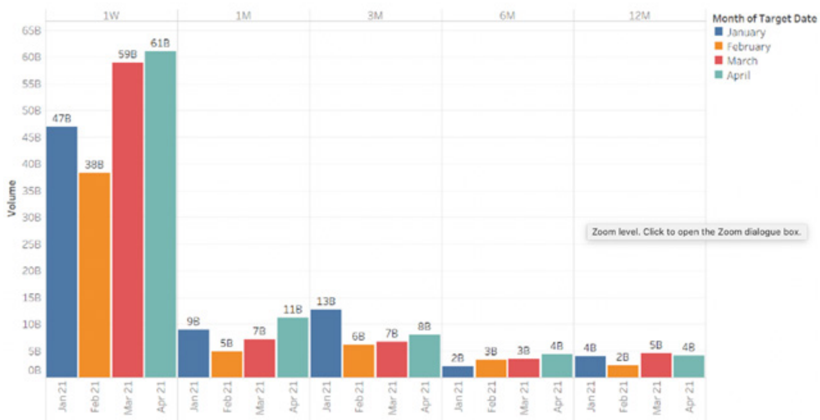


Use of each level of the hybrid methodology, broken down by tenor and date

Source: The European Money Markets Institute | Timeframe : 01/2021 – 04/2021

Aggregate notional volumes of transactions used in the determination of Euribor® (Level 1, Level 2.2[1])

National volumes have increase during the observed period.



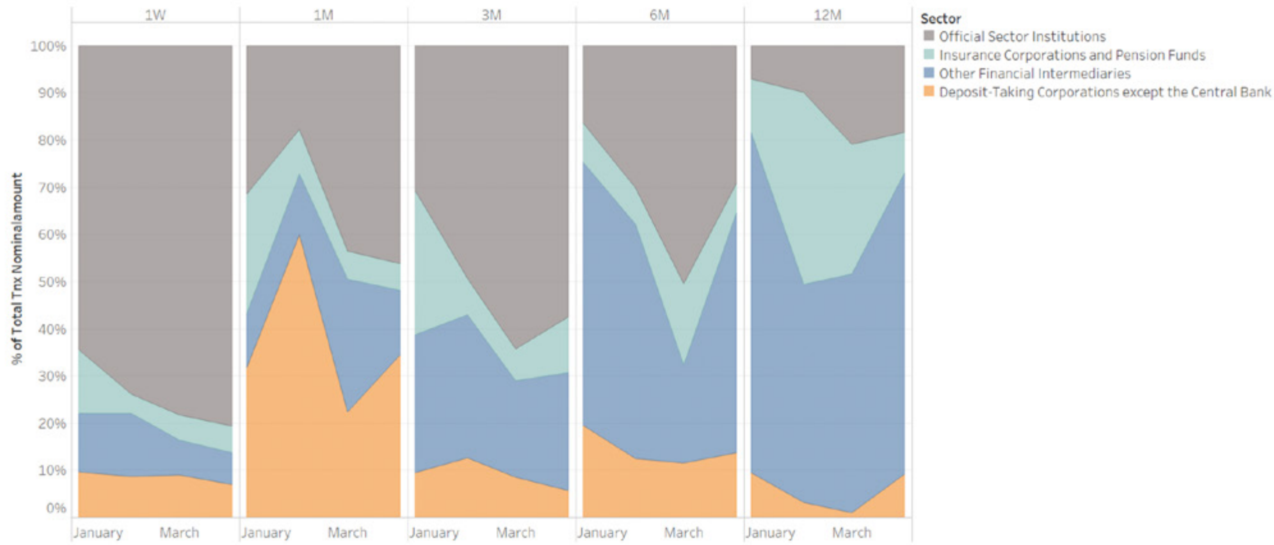
Source: The European Money Markets Institute | Timeframe : 01/2021 – 04/2021

[1]For Level 2.2, only the portion of the overall volume of the transaction that is attributed to a particular tenor is considered.

Counterparty sectors' share of volume used in the determination of Euribor® (Level 1 and Level 2.2), broken down by tenor

During the past quarter, the short end of the curve was dominated by activity with *Official Sector Institutions* while on the longer end of the curve *Other Financial Intermediaries* were the most active.

The counterparty classification is based on the definitions of the European System of Accounts (ESA 2010) as follows: Deposit-Taking Corporations except the Central Bank: S.122; Other Financial Intermediaries: S.123 – S.127; Insurance Corporations and Pension Funds: S.128, S.129; Official Sector Institutions: S.121, S.13. More information.



Source: The European Money Markets Institute | Timeframe : 01/2021 – 04/2021

Planned discontinuation of Eonia®on 3 January 2022 | Eonia® and €STR activity

06/2021

The European Money Markets Institute encourages Eonia® users to accelerate their transition to the €STR – Eonia's replacement rate – and to finalise without delay their phasing-out in the few months remaining before the benchmark's planned cessation.

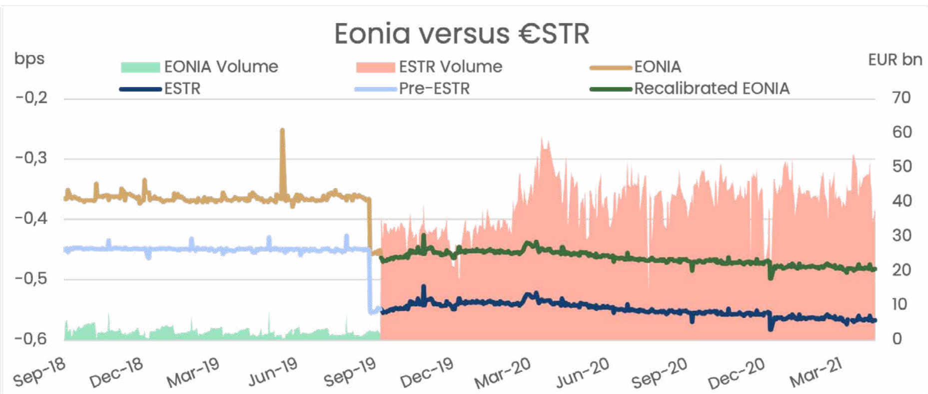
In September 2018, the Working Group on euro risk-free rates has recommended the euro short-term rate (€STR) produced by the European Central Bank as an alternative risk-free rate to replace Eonia®. Along with the publication of the €STR for the first time on 1 October 2019, the methodology for Eonia® has been adapted. Since 2 October 2019 – and until discontinuation on 3 January 2022 – Eonia® is calculated as the €STR plus a spread of 8.5 basis points.

Since the public announcement – on 31 May 2019 – of Eonia's cessation date, The European Money Markets Institute has repeatedly and steadily communicated that the benchmark will be discontinued on 3 January 2022, the date on which it will disappear permanently. Extending its publication is not part of the plans.

In order to mitigate as much as possible any legal and economic risk, Eonia® users are invited to use the €STR in any new financial contract, in particular those maturing after Eonia's cessation date, and to take all necessary actions as part of the transition.

Eonia® and €STR activity

Eonia® under the new methodology and €STR have maintained at very stable levels throughout the entire first quarter of 2021. €STR continued to produce stable volumes – higher than before the beginning of the covid-19 pandemic – with an average of €44 billion in Q1 2021, following the cash hoarding by non-financial corporations and money market funds that deposited overnight at Money Market Statistical Reporting (MMSR) banks.



Source: EMMI, ECB, Bloomberg

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Short-Term European Paper (STEP) label – Keeping the momentum for 15 years

06/2021

Since its creation in 2006, the STEP label has been a continued success, with more than 200 STEP-labelled programmes to date. The total amounts outstanding of STEP debt securities have rapidly increased during the two years following inception and have sustainably maintained at a level close to €400 billion since then.

The STEP initiative establishes common practices and standards for the documentation of short-term paper programmes in Europe. With standardisation and transparency as a backbone, STEP enhances the depth and liquidity of the European markets for short-term paper.

STEP was initially sparked within the European Central Bank's Money Market Contact Group with the active support of the European System of Central Banks (ESCB) and the European Central Bank (ECB). For 15 years now, the European Money Markets Institute and ACI have actively and successfully promoted the STEP label to foster the integration and the development of these markets.

June 2021 marks the 15th anniversary of the STEP initiative, and this jubilee is the perfect occasion to (re)discover the main features of the STEP label, as well as some of its most significant assets for both issuers and investors.

We invite you to read the brochure that we have specially edited for this occasion, and which gives voice to the European Central Bank and market participants that we thank for sharing their experience with the STEP label.

Make your voice heard and participate in the Euribor® users survey

06/2021

The European Money Markets Institute would like to collect your feedback as a valued user of Euribor® data through a short online survey. Answering the 11 questions will take maximum five minutes of your time.

The aim of the survey is to gain deeper insight into the use you make of Euribor® data, and to assess your level of satisfaction with regard to our communications.

We will only collect the information you provide us with by answering the questions in the survey. No personal information will be collected. All information provided via the survey will remain anonymous; we will not be able to identify you as a respondent, nor to link any of your answers to you.

We thank you in advance for your valuable and much appreciated participation.

I participate in the survey

For further information about our survey, please do not hesitate to contact our Users Services team by email: subscriptions@emmi-benchmarks.eu

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