ISSUE N°2

Newsletter

October 2021

The European Money Markets Institute

Seeking continuous improvement

Dear readers,

I am delighted to meet you again in the second edition of our newsletter and would like to thank you for your positive and supportive reactions after the first release in June. Your enthusiastic response has been much appreciated, and we have already observed an increase in the number of readers. I look forward to welcoming many more in the near future.

I view our newsletter as a privileged channel to share with you insights on our daily activities or developments and elaborate on our future or contemplated initiatives. As such, I take this opportunity to inform you that The European Money Markets Institute has the intention to explore potential ways of centralising – at Administrator level – the calculation of Level 3 contributions under the Hybrid Methodology for Euribor®. Such a step in the evolution of Euribor® may further facilitate the Panel Banks' contribution to the benchmark, and potentially attract additional banks to join the Euribor® panel. As a first move, the Institute has started to involve existing Panel Banks in the preparation of different options for the centralised calculation of Level 3 contributions before proceeding to their in-depth assessment.

Regarding Eonia®, I invite you to read our article dedicated to the transition to €STR which is now entering the closing stretch with the fast-approaching discontinuation planned on 3 January 2022. You will among others read about a new significant milestone reached on 18 October 2021, as CCPs ceased clearing OIS linked to Eonia®, and re-hitched successfully nearly €14 trillion[1] of cleared Eonia® swaps to €STR after markets closing on 15 October.

As in June's release, you will find in this edition the Quarterly Transparency Indicators for Euribor® and a review of the key events closely related to the benchmark on the euro money market. You will also learn about three new options in our data access offer as of January 2022, and about our soon-to-be-launched new corporate website which will modify the way our Delayed and Historical data can be consulted online.

At last, in this release, you will find out the key take-aways of the "Euribor® data users' survey" organised this summer and read about – or register to – our upcoming free webinar on STEP focussing on the Italian domestic market. The Institute will host this virtual event on 25 November in partnership ABI, the Italian Banking Association, and Assiom Forex, the Italian Association of Financial Markets Operators.

I wish you a pleasant reading and look forward to meeting you back in our next edition in early 2022.

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

[1] Source: Risk.net on 20/10/2021

Echoes from the euro money markets

10/2021

Key events closely related to Euribor®

22 Jul: ECB Governing Council decision

The ECB's Governing Council kept key policy rates unchanged.

In support of its symmetric 2% inflation target, and in line with its monetary policy strategy, the Governing Council expected the key ECB interest rates to remain at their present or lower levels until inflation reaches 2%, well ahead of the end of its projection horizon.

The key ECB interest rates have been close to their lower bound for some time and the medium-term outlook for inflation was still well below the Governing Council's target. In these conditions, the Governing Council revised its forward guidance on interest rates. It did so to underline its commitment to maintain a persistently accommodative monetary policy stance to meet its inflation target.

Once again, it was confirmed that the Pandemic Emergency Purchase Programme (PEPP) will be continued, with the previously 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. The Governing Council expected purchases under the PEPP over Q3 to be conducted at a significantly higher pace than during the first months of the year. 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).

09 Sep: ECB Governing Council decision

The ECB's Governing Council kept key policy rates unchanged.

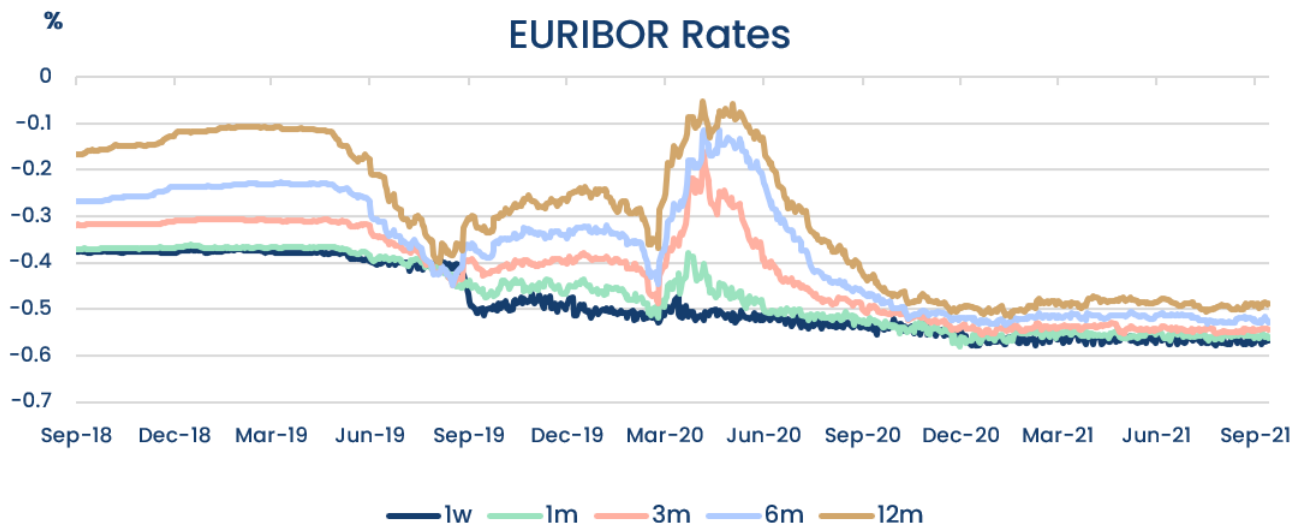
In support of its symmetric 2% inflation target, and in line with its monetary policy strategy, the Governing Council expected the key ECB interest rates to remain at their present or lower levels until it inflation reaches 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon. The ECB's Governing Council judged that realised progress in underlying inflation was sufficiently advanced to be consistent with inflation stabilising at 2% over the medium-term.

It was confirmed that the Pandemic Emergency Purchase Programme (PEPP) will continue to be conducted with the €1 850 billion overall envelope. The Governing Council will continue to reinvest the 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 judged that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the pandemic emergency purchase programme (PEPP) than in the previous two quarters. 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).

Euro money markets development & Euribor® rates

Euribor® rates remained below the Deposit Facility Rate (-0.50%) during Q3, except for the 12-month tenor which stayed marginally and periodically above it, with rates of -48.5 bps on 1 July 2021, and -48.8 bps on 30 September 2021 (see Chart below).

These rather flat movements signalled that market environment has not changed significantly compared to the previous quarter. Also, the demand for liquidity is not as high as it was during the peak of the crisis, and we observe calmer market conditions as well as an unbalance between demand and supply of liquidity.



Source: The European Money Markets Institute

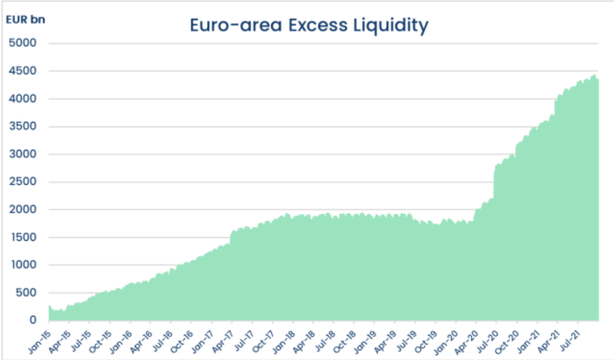
Potential future drivers of the fixing

According to analysts, future euro-zone inflation levels has changed fundamentally. From the market's point of view, the European Central Bank is less sensitive towards rising inflation than other major central banks on the short-term, which could be a driver of euro-zone market movements. Even though the ECB is calming the markets with its communication, some analysts believe that inflation rates will not come down again significantly in 2022. More importantly, according to them, economic growth will be markedly lower than expected by the ECB.

Three-month Euribor® rate

The 3-month rate was extremely stable during Q3: -54.0 bps on 1 July 2021 compared to -54.5 bps on 30 September 2021 (see Chart). 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.

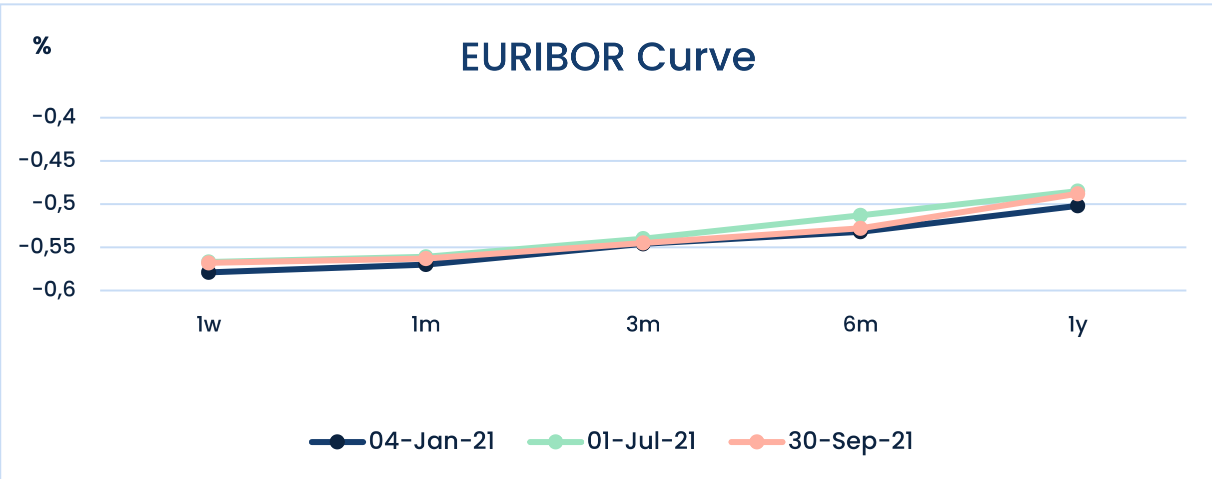
Excess liquidity



Source: Bloomberg, ECB

The level of excess liquidity in the euro-area continued its increasing trend. As of the end of Q3, euro-area excess liquidity had already increased by approximately €2 600 billion since mid-March 2020, from €1 699 billion on 17 March 2020 to **€4 320 billion on 30 September 2021**. Focusing only on the third quarter of 2021, excess liquidity increased by €120 billion.

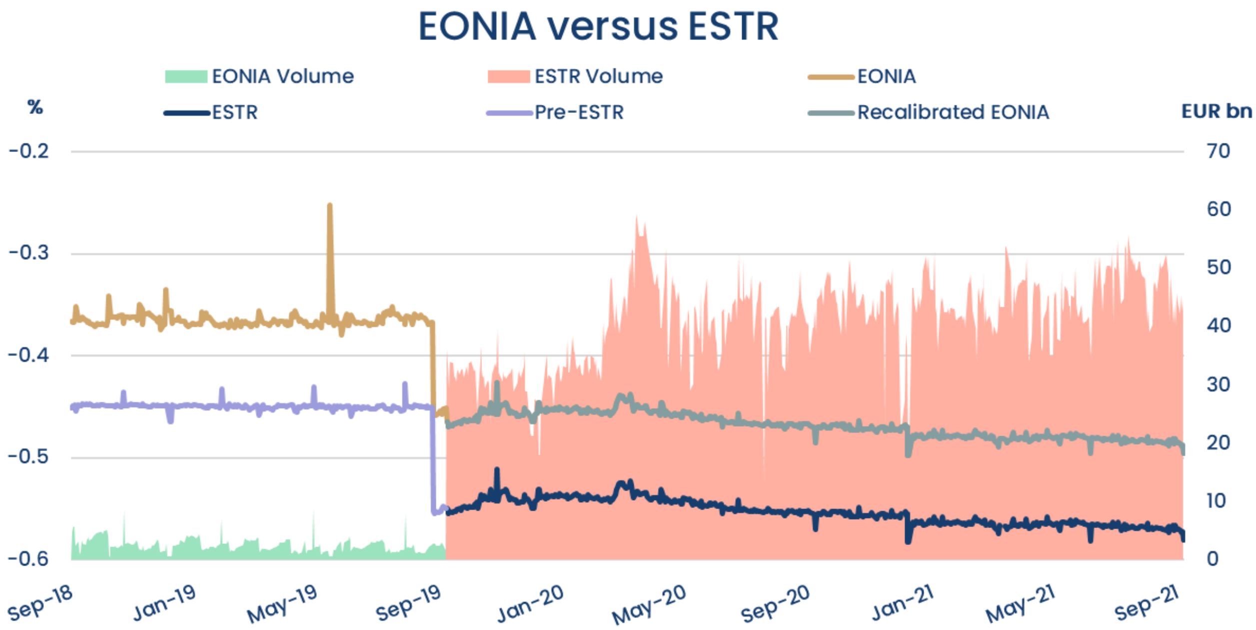
The increase was mainly attributable to targeted Pandemic Emergency Longer-Term Refinancing Operations (PELTROs) and to holdings under the increased Asset Purchase Programme. Moreover, TLTRO III take-up was extremely high as well, due to the remarkable favourable terms. This take-up on eased conditions significantly influenced the front-end EUR rates (see Key Events), including Euribor®



Source: The European Money Markets Institute

Eonia® and €STR activity

Eonia® under the recalibrated methodology and €STR have maintained at very stable levels throughout the entire second quarter of 2021. €STR continued to produce stable volumes and even higher volumes than before the beginning of the covid-19 crisis with an average of €47.8 billion in Q3 2021, following the cash hoarding by non-financial corporations and money market funds that was deposited overnight at MMSR banks.



Source: EMMI, ECB, Bloomberg

Euribor® Transparency Indicators Continuous improvement for Euribor®

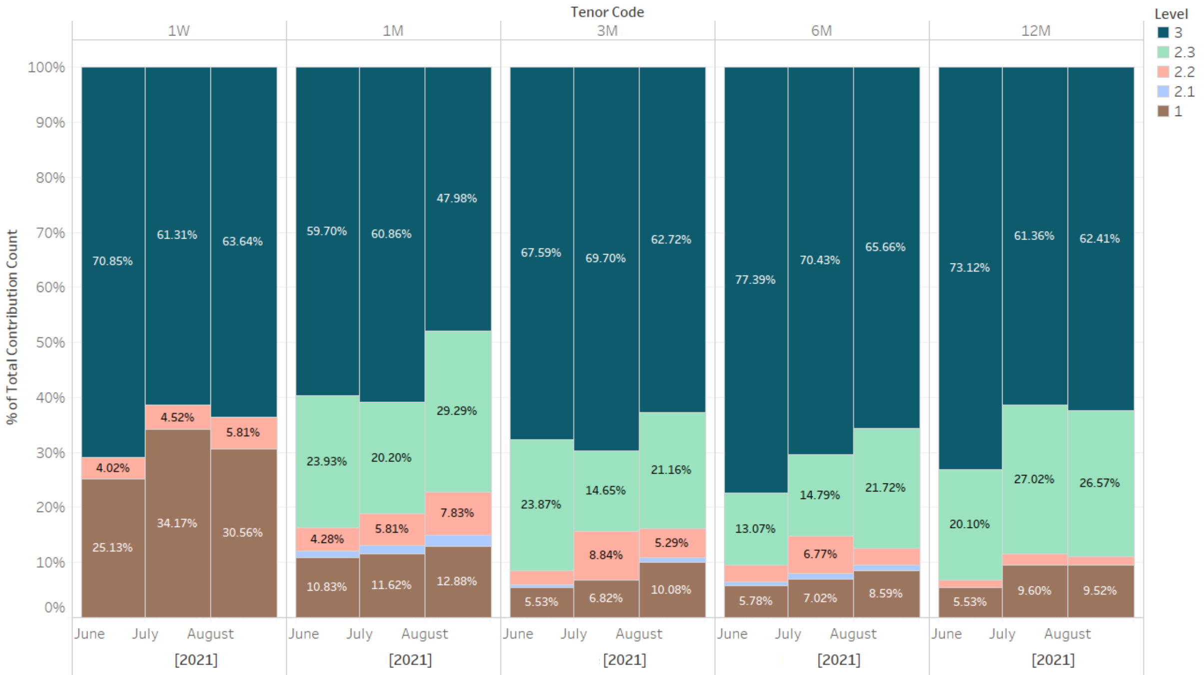
10/2021

Euribor® Transparency Indicators for the period June – August 2021

Use of each level of the Hybrid Methodology, broken down by tenor and date

The share of Level 3 contributions decreased between June and August compared to previous months. The decrease was due to two main factors:

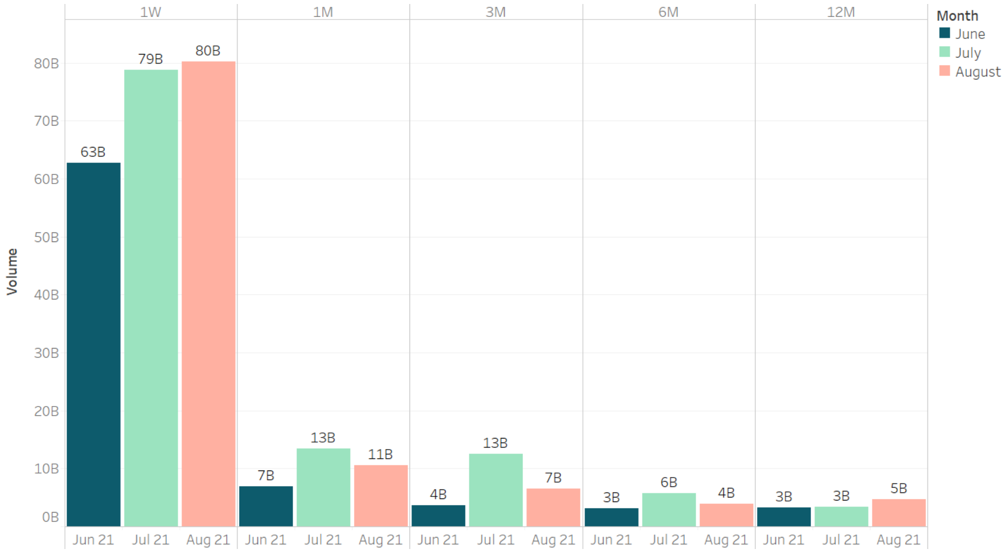
- The volumes on the short end of the curve were higher during the summer
- The four non-material adjustments to the Hybrid Methodology implemented on 19 April – based on the first Annual Review of the Hybrid Methodology – have induced elevated Level 1 and Level 2 contributions as anticipated (see Chart below).



Source: The European Money Markets Institute | Timeframe : 06/2021 – 08/2021

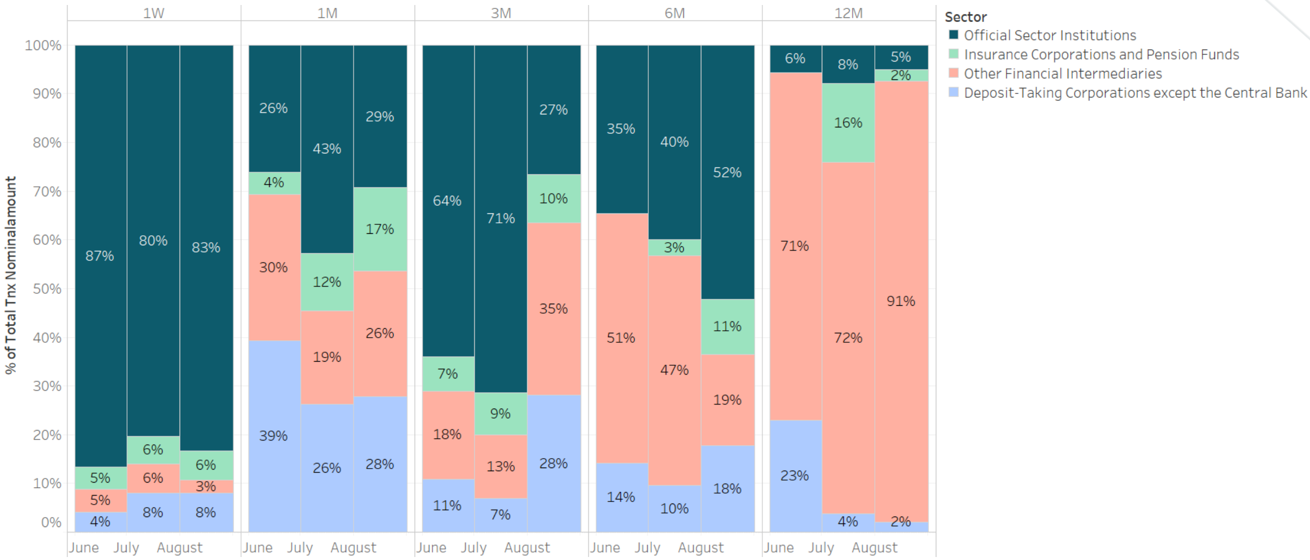
Aggregate notional volumes of transactions used in the determination of Euribor® (Level 1 and Level 2.2[1])

Aggregate notional volumes have increased during the observed period.



Source: The European Money Markets Institute | Timeframe: 06/2021 – 08/2021

Counterparty sectors'[2] share of volume used in the determination of Euribor® (Level 1 and Level 2.2), broken down by tenor



Source: The European Money Markets Institute | Timeframe : 06/2021 – 08/2021

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

[2] 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 can be found here).

During the observed period, 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.

Seeking continuous improvement for Euribor®

The European Money Markets Institute has the intention to explore potential ways of centralising – at the Administrator – the calculation of Level 3 contributions under the Hybrid Methodology for Euribor®.

Such a step in the evolution of Euribor® may further facilitate Panel Banks' contribution to the benchmark and potentially attract additional banks to join the Euribor® panel.

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Eonia® to €STR transition entering the closing stretch

10/2021

18 October 2021 marked a new important milestone in the transition from Eonia® to €STR, the euro short-term rate of the European Central Bank. On that day, upon a recommendation of the Working Group on Euro Risk-Free Rates – and as part of the '€STR First' initiative – interdealer brokers switched their trading and quoting conventions to €STR.

In parallel, central clearing counterparties (CCPs) flipped their outstanding Eonia® exposures to €STR to discount cashflows and calculate interest payments on collateral. The European Money Markets Institute is strongly supportive of both moves which it views as an additional push to make sure that Eonia® trading is halted in time, and is shifting to €STR.

This summer, James von Moltke, Chair of the Working Group on Euro Risk-Free Rates, addressed a letter to the European Commission, requesting the latter to designate €STR plus 8.5 basis points as the statutory replacement for Eonia® in 'legacy contracts' i.e., maturing after the benchmark's permanent cessation in January 2022.

The European Commission organised a market consultation in August and released a 'Draft Implementing Regulation' designating €STR plus 8.5 basis points as the statutory replacement. The European Commission adopted the 'Implementing Regulation' on 21 October.

The European Money Markets Institute keeps on encouraging vigorously market participants to continue their repapering efforts and to take all actions deemed necessary to ensure a timely and successful transition. The shift to €STR goes indeed well beyond contract renegotiation; it is also about ensuring smooth trading and clearing, with for instance calculation systems and valuation models readiness well ahead of Eonia's planned discontinuation.

Ever since Eonia's cessation was publicly announced in May 2019, The European Money Markets Institute has regularly and steadily communicated that the benchmark will be discontinued permanently on 3 January 2022. Two months before the deadline, the European Money Markets Institute confirms the discontinuation of Eonia® on 3 January 2022.

Dissemination of our benchmarks' rates: one change and three innovations

10/2021

Online access to Delayed and Historical data

By the end of the year, The European Money Markets Institute will release a new version of its website, with amongst others, direct consequences on online access to the Delayed and Historical data for Euribor® and Eonia®. While the experience will be considerably enhanced for all visitors thanks to a brand-new visual interface and advanced technical features, the access **to Delayed and Historical data for Euribor® and Eonia® will be limited.**

As from the launch of our new website, only the **last 25 days** of data will be displayed on our webpages, in a non-downloadable format.

This change will have no impact if you receive the data directly from us or via an Authorised Information Vendor. If you retrieve the data directly from our website, however, you may want to **consider alternatives**. You can either:

- Contact us to receive the data directly from The European Money Markets Institute
- Go through an Authorised Information Vendor

A broader, more diversified offer

In line with current data consumption patterns and trends, The European Money Markets Institute has reviewed its data access model and has enriched it with three new options:

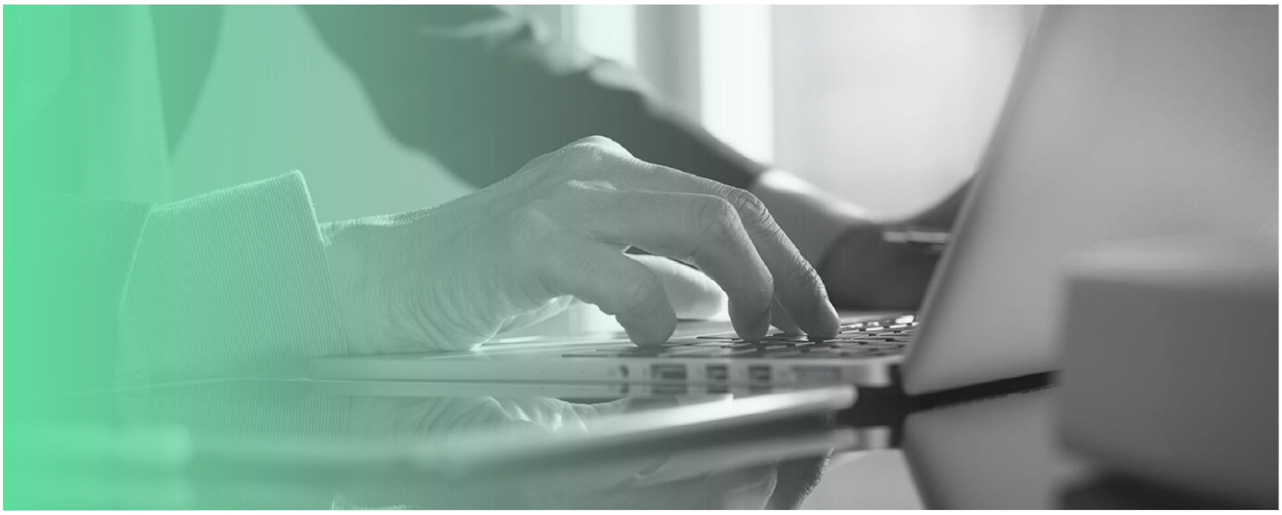
- ***Enterprise Subscription***: to reflect the increasing need to access and consume data via enterprise applications
- ***Historical data***: for the use of Historical data at Enterprise level, in conjunction with a Single Screen and/or Medium-Size Country Subscriptions
- ***Derived Data Licence***: for the use of Live or Historical data with the purpose of transforming them or combining them with other data to create derived information or a derived product offered externally

With this revised offer, you can choose among a variety of options the data access solution that is most suitable to your specific needs.

Should you have any questions, please do not hesitate to contact us:
subscriptions@emmi-benchmarks.eu

The STEP Label, a catalyst to release the potential of the commercial paper market in Italy

10/2021



STEP is of particular relevance for the Italian market, as Italian banks are now allowed to issue commercial paper following the regulatory change introduced by the "*Decreto Rilancio*".

As the promoter of the STEP Label, The European Money Markets Institutes organises, on **Thursday 25th November from 14:00 to 16:00 CET**, a free webinar dedicated to the Italian domestic market: **'STEP: a catalyst to release the potential of the commercial paper market in Italy'**. The event will be co-hosted by the Italian Banking Association – ABI – and the Italian Association of Financial Markets Operators – Assiom Forex.

During the webinar, The European Money Markets Institute will explain the concept behind the STEP Label, its main advantages for issuers of commercial paper and for investors, as well as the practicalities to get the label.

Several participants active on the Italian domestic market – among which **CiviBank**, **Intesa Sanpaolo** (IMI Corporate & Investment Banking), and **Monte Titoli** – will also share their experience with the STEP Label, from the perspective of the Italian domestic market for commercial paper.

These experts will discuss the recent change in the regulation ruling the issuance of commercial paper in Italy and the practical consequences for Italian banks. They will furthermore share insights on the potential of commercial paper in Italy and elaborate on their role in dealing with the STEP Label as a dealer, Securities Settlement System, and arranger of commercial paper programmes. At the end of the event, participants will have the opportunity to ask their questions to the panellists.

You can register for free and consult the provisional programme on our online platform. **The webinar will be held mostly in Italian, and only partly in English.**

The European Money Markets Institute, ABI and Assiom Forex look forward to welcoming you or one of your Italian speaking colleagues on this special occasion.

Register here

Euribor® data users' survey: key take-aways

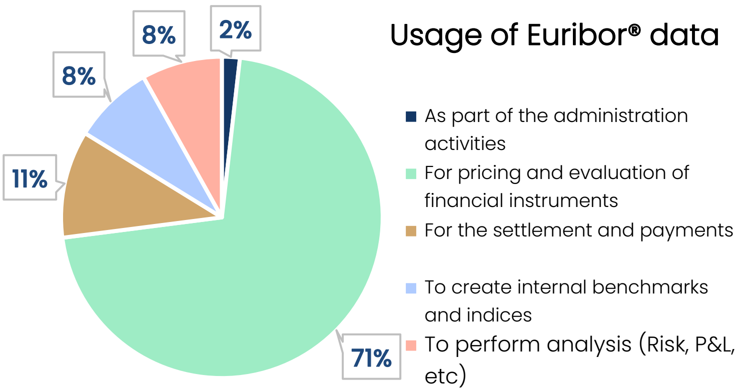
10/2021

This summer, The European Money Markets Institute invited a large number of Euribor® data users to participate in a quantitative survey consisting of 11 closed-ended questions. The main objective of the survey was to gain a deeper insight into their geographical locations, company entities, use of the rates, and degree of satisfaction with our communications.

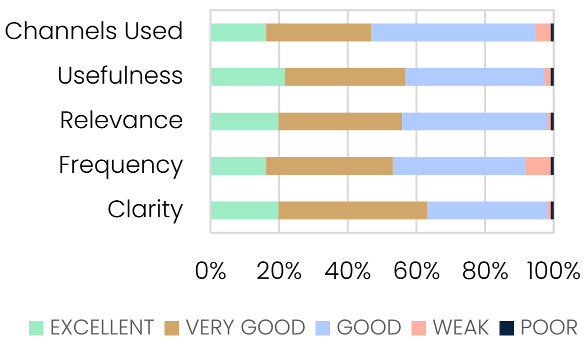
Key results[1]

- **80%** of respondents are located in the EU, and 10% in the UK and Switzerland
- **70%** of respondents belong to the Banking (**53%**) and Fund Management (**17%**) industries
- More than **70%** of respondents work in a Front Office Desk or Dealing Room; **15%** work in a Middle Office or Risk Management Department
- **71%** of respondents use Euribor® data for pricing and evaluating financial instruments

Usage of Euribor® data



Quality of communication



- **70%** of respondents get access to Euribor® data through Screens or Terminals, **25%** via FTP (Enterprise applications) and Platforms
- In terms of data timeliness, **71%** of respondents need Live Euribor® data and **22%** use End-of-day data
- **80%** of respondents use Euribor® data for Fixed Income and Money Markets asset classes, and another 18% for Derivatives
- **40%** of respondents use Historical data; **44%** use Euribor® as an input for creating Internal Curves
- **90%** of respondents value the information they receive from The European Money Markets Institute. Furthermore, they deem it qualitative
- **Direct mailings** and **Vendors terminals** are the users' two preferred communication channels to keep abreast of The European Money Markets Institute's latest developments

[1] 3,7% pickup rate at end September 2021