EMMEC Meeting - Summary

Meeting title	EMMEC meeting
Date and time	27 November 19.00 - 28 November 2023 16.30
Location	ACI France premises in Paris and conference call
Attendees	EMMEC Members F. PAILLOUX -Chair- (Société Générale) for ACI France – physical O. HUBERT (Nataxis) for ACI France - physical P. LE VEZIEL (Credit Agricole SA & Crédit Agricole CIB) for ACI France – physical L. BRANDTNER (Raiffeisenlandesbank Oberösterreich) for TMA Austria - virtual R. BRUNNER (Erste Group Bank AG) for TMA Austria - virtual H. WESTERMANN (Commerzbank) for AEFMA Germany - physical F. SPAHN (DZ Bank) for AEFMA Germany - physical P. BYRNE (Bank of Ireland) - virtual M.C. LEGE (Intesa SanPaolo SpA) for Assiom Forex Italy - virtual S. CIMINO (UniCredit) for Assiom Forex Italy - virtual C. CAGNAZZI (Banca Popolare di Sondrio) for Assiom Forex Italy - physical V. GIUNTA for LFMA Luxembourg - virtual C. HUSS (Union Bancaire Privée) for LFMA Luxembourg - physical F. BESET (Rabobank) - virtual J. M. TASSARA (Cecabank) for ACI Spain - virtual L. BARRIGON (Banco Santander SA) for ACI Spain - physical M. PESONEN (Nordea) - virtual J. LARDINOIS (Belfius Bank) for ACI Belgium - virtual K. WINDING LARSEN for ACI FMA – virtual M. GALLI (Banco BPM) for Assiom Forex Italy - virtual Guest speakers V. CAILLON – Société Générale - physical C. MICHEL - Crédit Agricole CIB - physical R. TORRES – Funcas - physical M. WAGISHAUSER - Deutsche Börse Group - virtual G. DENHAM - Deutsche Börse Group - virtual Observers H. WACKET – ECB - virtual J. JACKOVICKA – ECB - virtual P. KARL – ECB - virtual F. HEBEISEN - ACI France - physical

Agenda items	Speaking points
	EMMEC Secretariat G. DILLEN – EMMI - physical R. CAPPARELLI – EMMI – physical F. NUNZIANTE CESARO – EMMI - virtual
Introduction	EMMEC members were reminded of competition law, confidentiality and conflicts of interest.
Item 1	**Members' roundtable: speaking points** Theme 1: Overall rate environment • The recent pause in interest rate hikes reflects a temporary respite in monetary policy adjustments. Despite the ongoing conflict in the Middle East, there has been no discernible impact on inflation. In fact, there is a downward trend in overall inflation, with actual data falling below initial expectations. Surprisingly for the speed and scale, there is a market anticipation of interest rate cuts in 2024, although central bankers are currently eliminating the possibility of such cuts. They express a commitment to take further action should inflation show signs of resurgence. • Christine Lagarde's recent statement invoked some uncertainties to the continuation of reinvestments in the Pandemic Emergency Purchase Programme (PEPP) until the close of 2024, sparking discussions around the potential impact on peripheral countries. Analysts are closely examining Minimum Reserve Requirements (MRR) for insights in this regard. The principal justification for sustaining reinvestment in PEPP lies in the European Central Bank's (ECB) imperative to maintain flexibility. Market participants are advised not to be surprised by the potential resurgence of volumes in ECB open market operations (LTRO or even MRO). A notable paradox emerges in the market dynamics as autonomous factors exhibit a decline, adding a layer of complexity to the overall economic landscape. Some participants think that this decline is probably coming from the investments of the excess liquidity from min fin following the decision of the ECB to cap the remuneration of the treasuries by the national central banks at ESTR – 20bp. Theme 2: Liquidity towards year end • The US dollar market is notably well-funded, primarily driven by US money market funds. Changes are underway in the bond market concerning available volumes. The anticipated year-end transition is expected to proceed smoothly, free from tensions and issues. Notably, there is a lack of stress in the dollar funding market, a departure from previous years' signs of strain. The key factor attributed to this stability is the shrinking size of the European banks balance sheet. There is a discernible demand for liquidity solutions that are both counted in the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Additionally, on the repo side, there are no indications of tension as the year draws to a close. • Market participants are universally seeking opportunities for refinancing with longer tenors. However, challenges arise in the primary market as heightened competition makes it more difficult to achieve targets, posing obstacles for many in meeting their LCR ratios. Theme 3 – Monetary Policy • The announcement regarding Minimum Reserve Requirements (MRR) is set to coincide with the introduction of an new operational framework. It is emphasized that raising the MRR would essentially mirror a rate cut. Indeed, some participants are stating that at

	some point banks would compensate the extra cost to their depositors/lenders by decreasing their borrowing rates , notably on the short term buckets. • The feasibility of pursuing this option becomes more likely if, at a certain juncture, the European Central Bank (ECB) decides to implement rate cuts. • There is a prevailing impression that the European Central Bank (ECB) is not effectively communicating with the market, creating a sense of uncertainty regarding its intentions. The lack of clear guidance to market participants is contributing to a floating mood, making the market more nervous as it grapples with ambiguity about the ECB's objectives and actions. • The foreign exchange (FX) market is exhibiting an unexpected level of resilience. The potential future adoption of both hawkish and dovish approaches by the Federal Reserve (FED) and the European Central Bank (ECB) is identified as the primary driver shaping forthcoming developments in this context. The general consensus among market participants is that the ECB is unlikely to implement rate cuts before the FED. Nevertheless, it's noteworthy that some money market experts has brought up the perspective that the ECB might consider rate cuts prior to the FED, contingent upon the emergence of an appropriate scenario. Some participants noted that the US economy seems much more resilient than in Europe, as we have started to notice in the last economic figures the combined effects of the rate hikes and inflation on the consumption in the Euro economy. • Monitoring peripheral spreads, particularly those of countries like Italy, is crucial and warrants close attention. The change of the forward guidance of the reinvestment of the PEPP till December 2024 could have a big impact on the spreads core vs non-core. • Looking forward to the next year, two primary areas of focus emerge. Firstly, the impact of the 2023 TLTRO repayments is not perceived as problematic, given the anticipated predictability associated with the maturity of these funds. Secondly, there is a notable apprehension surrounding geopolitical uncertainties, which is identified as a significant element warranting attention in the coming year.
Item 2	**Presentation:** on Intraday (Mr Vincent Caillon – Intraday Group Treasurer, Société Générale) Mr Vincent Caillon presented a dedicated tool for intraday liquidity management, explaining the main advantages and benefits. Among others, these are identified as: Fast identification of stress situations, flexible adaptation and use of forecast of intraday liquidity management strategies, reduction of intraday liquidity usage Comments and questions from members on the following points: • In extreme stress situations an intraday monitoring tool is essential for liquidity management; behavior of counterparties will be monitored, and attention brought to actual receipts of cash and to potential changes in uncommitted credit lines made available by banks. • Artificial intelligence may be very helpful to manage intraday liquidity but it requires a huge amount of standardized data. It can be key to identify stress, manage it, and improve liquidity management in BAU. • KPIs for custodian accounts are key to assess performance in settlements management and measure liquidity usage, as their liquidity impact on main cash accounts can be very large. • Upcoming regulation on SEPA instant payments may have important consequences on intraday liquidity, depending on maximum amounts permitted for such payments and on clients actual usage of these.

	• Intraday Money Market deals between banks have been traded and can potentially be traded, if needed, in Japanese Yen and Korean Won but such deals are currently very marginal. • Call from FSB to move to T+1 settlement will not have significant change for intraday liquidity.

Item 3	**Presentation:** on Artificial Intelligence for Finance (Mr Christophe Michel – Global Head of Capital Markets Quantitative Research, Crédit Agricole CIB)
	
	The presentation gave a general overview of the use of artificial intelligence in finance, giving some possible use cases and examples.
	
	Comments and questions from members on the following points:
	• Members related the examples provided during the presentation to their actual market practices, e.g.
	  o fast pricing
	  o transform chat into RFQ (Request For Quote)
	  o chatbots for customer assistance
	  o pattern discovery for algorithmic trading
	  o calculating precise hedging amounts
	  o validate assumptions during back-testing

Item 4	**Presentation:** Monetary policy and public debt dynamics (Mr Raymond Torres - Director for Macroeconomic and International Analysis, Funcas) • During the presentation, an examination of public deficits and debts across European countries was provided. Special attention was given to Portugal, emphasizing its noteworthy success in recalibrating its debt dynamics in recent years. The figures presented specifically pertain to a significant amount of debt maturing next year, which will need refinancing at higher rates. These adjustments are associated with meeting European fiscal rules, with a focus on the most substantial changes that would be required in Greece and Italy to meet those requirements. • The Eurozone is currently witnessing a deceleration in GDP growth, accompanied by PMI indicators residing in contraction territory. The absence of favourable elements suggests a lack of indications for a robust recovery, especially when considering the demand for European products from foreign countries. Regarding private consumption, the reduction in private savings poses a challenge for anticipating sustained growth in the foreseeable future. It is noted that the labour market has exhibited resilience, potentially serving as a sustaining force for private consumption. • On the job market: Job retention is a crucial element. Certain countries are beginning to witness positive growth in real wages, a trend after enduring years of losses in real terms. Concurrently, there is an ongoing disinflation process, marked by a decline in the percentage of Consumer Price Index (CPI) items that were previously experiencing rapid growth. However, the backdrop is tempered by deteriorating credit conditions. Collectively, these economic dynamics paint a less than reassuring picture for the Eurozone. • The discussion underscored the Italian situation, noting its failure to achieve a primary balance surplus and the incurrence of new deficits. Emphasis was placed on the ECB's potential intervention through flexible PEPP reinvestments and, if needed, the use of the

	TPI as a last-resort measure. There is an anticipation that the spread will be maintained within the range of 175 to 200 basis points. However, it was acknowledged that if the ECB perceives instability in Italian public finances, this range may be breached. • The discussion highlighted the influence of expansive fiscal policies on price increases and pointed out that contractionary fiscal measures could have an opposite impact on the Consumer Price Index (CPI). This effect may be indirect, stemming from the reduced transfers and assistance that the government previously provided to sustain household income.
Item 5	**Presentation:** on the DLT/blockchain specific for the repo market (Mr Manan Wagishauser – VP Funding & Financing Product & Business Development /Eurex Repo, Deutsche Börse Group & Mr Gerard Denham, VP, Funding & Financing Product and Business Development /Eurex, Deutsche Börse Group) Eurex Repo & Clearing provides CCP Cleared Repo and bilateral DLT HQLAx market. They presented an overview of DLT/Blockchain technology together with possible use cases, pain points and promises. Some risks and inefficiencies of current financial markets infrastructure can be mitigated thanks to DLT/Blockchain, bringing less costs and higher efficiency in Capital Markets. The regulatory environment has allowed for the introduction of DLT Pilot Regimes and sandboxes. The Bank for International Settlement (BIS) and Central Banks developed projects, pilots and use cases where DLT is used alongside Digital Currencies (CBDCs) for securities movements and payments. Adoption of DLT enables accurate digital representation of collateral, simplified lifecycle management, enhanced distribution channels and reduced operational risks. One of the main challenges remains interoperability amongst platform providers. One of the possible use cases of the DLT/Blockchain is the implementation of an intra-day repo transaction instead of traditional repo. This can reduce funding costs, balance sheet and required capital. Comments and questions from members on the following points: • Digital Representation and the possibility to use Atomic Settlement in CBDC • Energy efficiency and sustainability • Interoperability with Target system would be a quick step forward • Harmonization of technologies will take some time • Intraday Repo will go live Q2 2024, has 2 parts: commercial bank solution connecting to JP Morgan and central bank solution using omnibus account at Bank of England • Cross-currency liquidity (e.g. collateral in Euro marked to provide USD) is Work in Progress • Time-critical payments for Intraday Repo will be possible Q2 2024, you need to have pre-funding, there are 2 different approaches (go minute-by-minute or work with a basic fee) More use-cases for DLT/Blockchain and New Technologies can be found on the website of the ECB NTW-contact group , with most recent presentations on 07/09/23 and 15/11/23 .
AOB	1. Work and outcome of the taskforce on T2T2S Consolidation • The taskforce gathered for 2 ad-hoc calls since the previous EMMEC meeting • Conclusion is there is no need for a working group at European level, some countries prefer to deal directly with their central banks if they have an issue.

	• It remains interesting to mention the subject in the Roundtable from time to time, some central banks appear to be more pro-active. 2. EMMEC communication: • EMMEC coverage in the November edition of *EMMI Newsletter* with an interview of Mr Carlos Ocaña of Funcas, a thinktank that has been a regular presenter at EMMEC meetings. • EMMEC coverage by LFMA "Spot&Forward": presentation of their *Youtube Video*. All EMMEC-members are invited to distribute this link in their national associations to promote the EMMEC initiave. 3. EMMEC meeting dates for 2024 with confirmed venues: • Wednesday, 27 March – with a dinner organized on 26 March – Location: Milan, Italy - hosted by Assiom Forex Italy • Thursday, 27 June – with a dinner organized on 26 June – Location: Frankfurt, Germany - hosted by AEFMA Germany • Wednesday, 25 September – with a dinner organized on 24 September – Location: TBD • Thursday, 12 December – with a dinner organized on 11 December – Location: TBD