

## **Money Market Report for the week ending 13 September 2019**

### **ECB Decisions**

On 12 September 2019, the Governing Council of the European Central Bank (ECB) decided that the interest rate on the deposit facility will be decreased by 10 basis points to -0.50%, with effect from 18 September 2019. The interest rate on the main refinancing operations (MRO) and the rate on the marginal lending facility will remain unchanged at their current levels of 0.00% and 0.25% respectively. The Governing Council now expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

The Governing Council decided to restart the net purchases under the Governing Council's asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November 2019. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

Furthermore, it was decided that the reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

It was announced that the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III), will be changed to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. The interest rate in each operation will now be set at the level of the average rate applied in the Eurosystem's MRO over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The maturity of the operations will be extended from two to three years.

In order to support the bank-based transmission of monetary policy, the Governing Council introduced a two-tier system for reserve remuneration, in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate.

### **ECB Monetary Operations**

On 9 September 2019, the ECB announced its weekly MRO. The operation was conducted on 10 September 2019, and attracted bids from euro area eligible counterparties of €2.32 billion, €0.03 billion less than the bid amount of the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 0.00%, in accordance with current ECB policy.

On 11 September 2019, the ECB conducted a 7-day US dollar funding operation through collateralised lending in conjunction with the US Federal Reserve. This operation attracted bids of \$0.04 billion, which was allotted in full at a fixed rate of 2.59%.

During the week under review, participants from the second series of targeted longer-term refinancing operations had the option of terminating or reducing their outstanding

amount in these operations before maturity. Accordingly, value 25 September 2019, a total of €31.83 billion will be repaid.

### **Domestic Treasury Bill Market**

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day bills for settlement value 12 September 2019, maturing on 12 December 2019. Bids of €30.00 million were submitted, with the Treasury accepting €10.00 million. Since €17.00 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €7.00 million, at €287.30 million.

The yield from the 91-day bill auction was -0.359%, an increase of 1.6 basis points from bids with a similar tenor issued on 5 September 2019, representing a bid price of €100.0908 per €100 nominal.

During the week under review, there was no trading on the Malta Stock Exchange.

This week the Treasury will invite tenders for 91-day and 181-day bills maturing on 19 December 2019 and 18 March 2020, respectively.