

Money Market Report for the week ending 20 March 2020

ECB Decisions

On the 18 March 2020, the Governing Council of the European Central Bank (ECB) decided the following:

(1) To launch a new temporary asset purchase programme of private and public sector securities to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus, COVID-19.

This new Pandemic Emergency Purchase Programme (PEPP) will have an overall envelope of €750 billion. Purchases will be conducted until the end of 2020 and will include all the asset categories eligible under the existing asset purchase programme (APP).

For the purchases of public sector securities, the benchmark allocation across jurisdictions will continue to be the capital key of the national central banks. At the same time, purchases under the new PEPP will be conducted in a flexible manner. This allows for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions.

A waiver of the eligibility requirements for securities issued by the Greek government will be granted for purchases under PEPP.

The Governing Council will terminate net asset purchases under PEPP once it judges that the coronavirus Covid-19 crisis phase is over, but in any case not before the end of the year.

(2) To expand the range of eligible assets under the corporate sector purchase programme (CSPP) to non-financial commercial paper, making all commercial papers of sufficient credit quality eligible for purchase under CSPP.

(3) To ease the collateral standards by adjusting the main risk parameters of the collateral framework. In particular, we will expand the scope of Additional Credit Claims (ACC) to include claims related to the financing of the corporate sector. This will ensure that counterparties can continue to make full use of the Eurosystem's refinancing operations.

The Governing Council of the ECB is committed to playing its role in supporting all citizens of the euro area through this extremely challenging time. To that end, the ECB has stated that it will ensure that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb this shock. This applies equally to families, firms, banks and governments.

The Governing Council has stated that it will do everything necessary within its mandate and is fully prepared to increase the size of its asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed. It will explore all options and all contingencies to support the economy through this shock.

To the extent that some self-imposed limits might hamper action that the ECB is required to take in order to fulfil its mandate, the Governing Council has stated that it will consider revising them to the extent necessary to make its action proportionate to the risks that we face. The ECB will not tolerate any risks to the smooth transmission of its monetary policy in all jurisdictions of the euro area.

Furthermore, on the 20 March 2020, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss

National Bank have announced a coordinated action to enhance the provision of liquidity via the standing US dollar liquidity swap line arrangements.

To improve the swap lines' effectiveness in providing US dollar funding, these central banks have agreed to increase the frequency of 7-day maturity operations from weekly to daily. These daily operations will commence on 23 March 2020, and will continue at least through the end of April. The central banks also will continue to hold weekly 84-day maturity operations.

The swap lines among these central banks are available standing facilities and serve as an important liquidity backstop to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad.

ECB Monetary Operations

On 16 March 2020, the ECB announced a 7-day Main Refinancing Operation (MRO). The operation was conducted on 17 March 2020, and attracted bids from euro area eligible counterparties of €1.47 billion, €0.69 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 17 March 2020, the ECB conducted the Additional Longer-term Refinancing Operation maturing on the 24 June 2020, and attracted bids from euro area eligible counterparties of €109.13 billion. This operation was carried out through a fixed rate tender procedure with full allotment, with an interest rate that is equal to the average deposit facility rate during the life of the operation.

On 18 March 2020, the ECB conducted the 7-day and 84-day US dollar funding operations through collateralised lending in conjunction with the US Federal Reserve. The 7-day USD operation attracted bids of \$36.27 billion, which was allotted in full at a fixed rate of 0.45%. The 84-day USD operation attracted bids of \$75.82 billion, which was allotted in full at a fixed rate of 0.38%.

On 19 March 2020, the ECB conducted the third operation of the Targeted Longer Term Refinancing Operations (TLTRO) programme. This operation attracted bids of €114.98 billion, with the rate fixed at the average rate of the MROs over the life of the operation. However, the final interest rate applied to this operation may differ and will be determined according to the TLTRO-III Decision.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 92-day and 183-day bills for settlement value 18 March 2020, maturing on 18 June and 17 September 2020, respectively. Bids of €48.00 million were submitted for the 92-day bills, with the Treasury accepting €43.00 million, while bids of €22.00 million were submitted for the 183-day bills, with the Treasury accepting €17.00 million. Since €44.00 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €16.00 million, standing at €437.00 million.

The yield from the 92-day bill auction was -0.418%, an increase of 0.1 basis point from bids with a similar tenor issued on 12 March 2020, representing a bid price of €100.1069 per €100 nominal. The yield from the 183-day bill auction was -0.410%, a decrease of 0.5 basis point from bids with a similar tenor also issued on 12 March 2020, representing a bid price of €100.2089 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 bills and 273-day bills maturing on 25 June and 24 December 2020, respectively.