

Money Market Report for the week ending 1 May 2020

ECB Decisions

On 30 April 2020, the Governing Council of the European Central Bank (ECB) decided to further ease the conditions on the targeted longer-term refinancing operations (TLTRO III). Specifically, it was decided to reduce the interest rate on TLTRO III operations during the period from June 2020 to June 2021 to 50 basis points below the average interest rate on the Eurosystem's Main Refinancing Operations (MRO) prevailing over the same period. Moreover, for counterparties whose eligible net lending reaches the lending performance threshold, the interest rate over the period from June 2020 to June 2021 will now be 50 basis points below the average deposit facility rate prevailing over the same period.

In addition, a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) will be conducted to support liquidity conditions in the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective liquidity backstop. The PELTROs consist of seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July and September 2021 in line with the duration of the collateral easing measures. They will be carried out as fixed rate tender procedures with full allotment, with an interest rate that is 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.

Since the end of March, purchases have been conducted under the Governing Council's new pandemic emergency purchase programme (PEPP), which has an overall envelope of €750.00 billion, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic. These purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. The Governing Council will conduct net asset purchases under the PEPP until it judges that the coronavirus crisis phase is over, but in any case until the end of this year.

Moreover, net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20.00 billion, together with the purchases under the additional €120.00 billion temporary envelope until the end of the year. The Governing Council continues to expect monthly net asset purchases under the APP 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.

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.

The Governing Council also decided that the interest rate on the MRO and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council 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 is fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed. In any case, it stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

ECB Monetary Operations

On 27 April 2020, the ECB announced a 7-day MRO. The operation was conducted on 28 April 2020, and attracted bids from euro area eligible counterparties of €0.27 billion, €0.11 billion more 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 28 April 2020, the ECB conducted the Additional Longer-term Refinancing Operation maturing on the 24 June 2020, which attracted bids from euro area eligible counterparties of €36.66 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 29 April 2020, the ECB conducted a three-month, longer-term refinancing operation to be settled as a fixed rate tender procedure with full allotment, with the rate fixed at the average rate of the MROs over the life of the operation. The operation attracted bids of €0.69 billion from euro area eligible counterparties. The amount was allotted in full in accordance with current ECB policy.

Also on 29 April 2020, the ECB conducted the 84-day US dollar funding operation through collateralised lending in conjunction with the US Federal Reserve. This operation attracted bids of \$1.61 billion, which was allotted in full at a fixed rate of 0.32%.

On a daily basis, the ECB conducted the 7-day US dollar funding operations through collateralised lending in conjunction with the US Federal Reserve. The four operations attracted bids of a total of \$5.37 billion, at the rates of 0.29% and 0.32%.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day and 182-day bills for settlement value 30 April 2020, maturing on 30 July and 29 October 2020, respectively. Bids of €17.00 million were submitted for the 91-day bills, with the Treasury accepting all bids, while bids of €73.00 million were submitted for the 182-day bills, with the Treasury accepting €28.00 million. Since €20.00 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €25.00 million, standing at €662.00 million.

The yield from the 91-day bill auction was -0.221%, an increase of 1.8 basis points from bids with a similar tenor issued on 23 April 2020, representing a bid price of €100.0559 per €100 nominal. The yield from the 182-day bill auction was -0.131%, an increase of 5.7 basis points from bids with a similar tenor issued on 16 April 2020, representing a bid price of €100.0663 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 364-day bills maturing on 6 August 2020 and 6 May 2021, respectively.