

Money Market Report for the week ending 5 June 2020

ECB Decisions

On 4 June 2020, the Governing Council of the European Central Bank (ECB) decided that the envelope for the Pandemic Emergency Purchase Programme (PEPP) will be increased by €600.00 billion to a total of €1,350.00 billion. In response to the pandemic-related downward revision to inflation over the projection horizon, the PEPP expansion will further ease the general monetary policy stance, supporting funding conditions in the real economy, especially for businesses and households. The purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. This allows the Governing Council to effectively stave off risks to the smooth transmission of monetary policy.

In addition, the horizon for net purchases under the PEPP will be extended to at least the end of June 2021. In any case, the Governing Council will conduct net asset purchases under the PEPP until it judges that the coronavirus crisis phase is over.

The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance.

Net purchases under the Asset Purchase Programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 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.

Furthermore, the interest rate on the Main Refinancing Operations (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 continues to stand 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 1 June 2020, the ECB announced a 7-day MRO. The operation was conducted on 2 June 2020, and attracted bids from euro area eligible counterparties of €0.39 billion, €0.06 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 2 June 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 €14.48 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 3 June 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 \$0.50 billion, which was allotted in full at a fixed rate of 0.30%.

During the week under review, the ECB conducted four 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 \$0.12 billion, at the rates between 0.30% 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 4 June 2020, maturing on 3 September and 3 December 2020, respectively. Bids of €105.00 million were submitted for the 91-day bills, with the Treasury accepting €45.00 million, while bids of €135.00 million were submitted for the 182-day bills, with the Treasury accepting €5.00 million. Since €40.00 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €10.00 million, standing at €824.00 million.

The yield from the 91-day bill auction was -0.292%, a decrease of 3.8 basis points from bids with a similar tenor issued on 28 May 2020, representing a bid price of €100.0739 per €100 nominal. The yield from the 182-day bill auction was -0.255%, a decrease of 9.5 basis points from bids with a similar tenor issued on 14 May 2020, representing a bid price of €100.1291 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 182-day bills maturing on 10 September and 10 December 2020, respectively.