

Money Market Report for the week ending 12 March 2021

ECB Decisions

On 11 March 2021, the Governing Council of the European Central Bank (ECB) took the following decisions:

First, the Governing Council will continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least the end of March 2022 and, in any case, until it judges that the coronavirus crisis phase is over. Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year.

The Governing Council will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

The Governing Council will continue to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Second, net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion. 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.

The Governing Council also intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it 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.

Third, 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.

Finally, the Governing Council will continue to provide ample liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations remains an attractive source of funding for banks, supporting bank lending to firms and households.

The Governing Council 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 8 March 2021, the ECB announced the 7-day MRO. The operation was conducted on 9 March 2021, and attracted bids from euro area eligible counterparties of €692.00 million, €190.00 million higher than 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 10 March 2021, 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 \$70.00 million, which was allotted in full at a fixed rate of 0.32%. The 84-day USD operation attracted bids of \$5.00 million, which was allotted in full also at a fixed rate of 0.32%.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day bills for settlement value 11 March 2021, maturing on 10 June 2021. Bids of €105.00 million were submitted, with the Treasury accepting €35.00 million. Since €22.00 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €13.00 million, standing at €756.75 million.

The yield from the 91-day bill auction was -0.466%, an increase of 0.2 basis point from bids with a similar tenor issued on 4 March 2021, representing a bid price of €100.1179 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 17 June and 16 September 2021, respectively.