

Money Market Report for the week ending 23 April 2021

ECB Decisions

On 22 April 2021, the Governing Council of the European Central Bank (ECB) decided to reconfirm its very accommodative monetary policy stance and took the following decisions:

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 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. Since the incoming information confirmed the joint assessment of financing conditions and the inflation outlook carried out at the March monetary policy meeting, the Governing Council expects purchases under the PEPP over the current quarter to continue to be conducted at a significantly higher pace than during the first months of the 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.

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.

Finally, the Governing Council will continue to provide ample liquidity through its refinancing operations. In particular, the latest operation in the third series of targeted longer-term refinancing operations (TLTRO-III) has registered a high take-up of funds.

The funding obtained through TLTRO-III plays a crucial role in 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.

Furthermore, on the 23 April 2021, in view of the sustained improvements in US dollar funding conditions and low demand at recent US dollar liquidity-providing operations, the ECB, the Bank of England, the Bank of Japan, and the Swiss National Bank, in consultation with the Federal Reserve, have jointly decided to discontinue offering US dollar liquidity at the 84-day maturity. This operational change will be effective as of 1 July 2021. From 1 July 2021 onwards, these central banks will continue to hold weekly operations with a 7-day maturity. These central banks stand ready to re-adjust the provision of US dollar liquidity, including restarting the 84-day operation, as warranted by market conditions. 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 19 April 2021, the ECB announced the 7-day MRO. The operation was conducted on 20 April 2021, and attracted bids from euro area eligible counterparties of €126.00 million, €11.00 million less 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 21 April 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 \$63.50 million, which was allotted in full at a fixed rate of 0.32%. The 84-day USD operation attracted bids of \$10.00 million, which was also allotted in full at a fixed rate of 0.33%.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day bills and 273-day bills for settlement value 22 April 2021, maturing on 22 July 2021 and 20 January 2022, respectively. Bids of €84.00 million were submitted for the 91-day bills, with the Treasury accepting €34.00 million, while bids of €86.00 million were submitted for the 273-day bills, with the Treasury accepting €16.00 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 €799.75 million.

The yield from the 91-day bill auction was -0.458%, an increase of 0.1 basis point from bids with a similar tenor issued on 15 April 2021, representing a bid price of €100.1159 per €100 nominal. The yield from the 273-day bill auction was -0.444%, an increase of 2.7 basis points from bids with a similar tenor issued on 4 February 2021, representing a bid price of €100.3378 per €100 nominal.

During this week, turnover in Malta Government Treasury bills amounted to €4.50 million, all executed on the Off-exchange market of the Malta Stock Exchange.

This week the Treasury will invite tenders for 91-day bills and 364-day bills maturing on 29 July 2021 and 28 April 2022, respectively.