

Money Market Report for the week ending 22 July 2022

ECB Decisions

On 21 July 2022, in line with the European Central Bank (ECB) Governing Council's strong commitment to its price stability mandate, the Governing Council took further key steps to make sure inflation returns to its 2% target over the medium term. The Governing Council decided to raise the three key ECB interest rates by 50 basis points and approved the Transmission Protection Instrument (TPI).

The Governing Council judged that it is appropriate to take a larger first step on its policy rate normalisation path than signalled at its previous meeting. This decision is based on the Governing Council's updated assessment of inflation risks and the reinforced support provided by the TPI for the effective transmission of monetary policy. It will support the return of inflation to the Governing Council's medium-term target by strengthening the anchoring of inflation expectations and by ensuring that demand conditions adjust to deliver its inflation target in the medium term.

At the Governing Council's upcoming meetings, further normalisation of interest rates will be appropriate. The frontloading today of the exit from negative interest rates allows the Governing Council to make a transition to a meeting-by-meeting approach to interest rate decisions. The Governing Council's future policy rate path will continue to be data-dependent and will help to deliver on its 2% inflation target over the medium term. In the context of its policy normalisation, the Governing Council will evaluate options for remunerating excess liquidity holdings.

The Governing Council assessed that the establishment of the TPI is necessary to support the effective transmission of monetary policy. In particular, as the Governing Council continues normalising monetary policy, the TPI will ensure that the monetary policy stance is transmitted smoothly across all euro area countries. The singleness of the Governing Council's monetary policy is a precondition for the ECB to be able to deliver on its price stability mandate.

The TPI will be an addition to the Governing Council's toolkit and can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area. The scale of TPI purchases depends on the severity of the risks facing policy transmission. Purchases are not restricted ex ante. By safeguarding the transmission mechanism, the TPI will allow the Governing Council to more effectively deliver on its price stability mandate.

In any event, the flexibility in reinvestments of redemptions coming due in the pandemic emergency purchase programme (PEPP) portfolio remains the first line of defence to counter risks to the transmission mechanism related to the pandemic.

Key ECB interest rates

The Governing Council decided to raise the three key ECB interest rates by 50 basis points. Accordingly, the interest rate on the main refinancing operations (MRO) and the interest rates on the marginal lending facility and the deposit facility will be increased to 0.50%, 0.75% and 0.00% respectively, with effect from 27 July 2022.

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Asset purchase programme (APP) and PEPP

The Governing Council 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 ample liquidity conditions and an appropriate monetary policy stance.

As concerns the PEPP, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Redemptions coming due in the PEPP portfolio are being reinvested flexibly, with a view to countering risks to the transmission mechanism related to the pandemic.

Refinancing operations

The Governing Council will continue to monitor bank funding conditions and ensure that the maturing of operations under the third series of targeted longer-term refinancing operations (TLTRO III) does not hamper the smooth transmission of its monetary policy. The Governing Council will also regularly assess how targeted lending operations are contributing to its monetary policy stance.

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises at its 2% target over the medium term. The Governing Council's new TPI will safeguard the smooth transmission of its monetary policy stance throughout the euro area.

ECB Monetary Operations

On 18 July 2022, the ECB announced the 7-day MRO. The operation was conducted on 19 July 2022 and attracted bids from euro area eligible counterparties of €976.00 million, €60.00 million more 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 20 July 2022, the ECB conducted the 7-day US dollar funding operation through collateralised lending in conjunction with the US Federal Reserve. This operation attracted bids of \$205.90 million, which was allotted in full at a fixed rate of 1.83%.

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 21 July 2022, maturing on 20 October 2022 and 19 January 2023, respectively. Bids of €75.00 million were submitted for the 91-day bills, with the Treasury accepting €36.00 million, while bids of €36.50 million were submitted for the 182-day bills, with the Treasury accepting €13.50 million. Since €46.60 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €2.90 million, standing at €870.30 million.

The yield from the 91-day bill auction was 0.149%, increasing by 4.0 basis points from bids with a similar tenor issued on 14 July 2022, representing a bid price of €99.9624 per €100 nominal. The yield from the 182-day bill auction was 0.451%, increasing by 2.0

basis points from bids with a similar tenor issued on 7 July 2022, representing a bid price of €99.7725 per €100 nominal.

During this week, there was no trading on the Malta Stock Exchange.

This week the Treasury will invite tenders for 91-day and 182-day bills maturing on 27 October 2022 and 26 January 2023, respectively.