

Money Market Report for the week ending 28 October 2022

ECB Decisions

On 27 October 2022, the Governing Council of the European Central Bank (ECB) decided to raise the three key ECB interest rates by 75 basis points. With this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation. The Governing Council expects to raise interest rates further, to ensure the timely return of inflation to its 2.00% medium-term inflation target. The Governing Council will base the future policy rate path on the evolving outlook for inflation and the economy, following its meeting-by-meeting approach.

Inflation remains far too high and will stay above the target for an extended period. In September, euro area inflation reached 9.90%. In recent months, soaring energy and food prices, supply bottlenecks and the post-pandemic recovery in demand have led to a broadening of price pressures and an increase in inflation. The Governing Council's monetary policy is aimed at reducing support for demand and guarding against the risk of a persistent upward shift in inflation expectations.

In order to align the remuneration of minimum reserves held by credit institutions with the Eurosystem more closely with money market conditions, the Governing Council decided to set the remuneration of minimum reserves at the ECB's deposit facility rate.

Key ECB interest rates

The Governing Council decided to raise the three key ECB interest rates by 75 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 2.00%, 2.25% and 1.50% respectively, with effect from 2 November 2022.

Asset purchase programme (APP) and pandemic emergency purchase programme (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 started 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.

The Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.

Refinancing operations

The Governing Council also decided to change the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO-III). During the acute phase of the pandemic, this instrument played a key role in countering downside risks to price stability. In view of the unexpected and extraordinary rise in inflation, it needs to be recalibrated to ensure that it is consistent with the broader monetary policy normalisation process and to reinforce the transmission of policy rate increases to bank lending conditions. The Governing Council decided to adjust the interest rates applicable to TLTRO-III. From 23 November 2022 until the maturity date or early repayment date of

each respective outstanding TLTRO-III operation, the interest rate on TLTRO-III operations will be indexed to the average applicable key ECB interest rates over this period. The Governing Council also decided to offer banks additional voluntary early repayment dates. In any case, the Governing Council will 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 Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

ECB Monetary Operations

On 24 October 2022, the ECB announced the 7-day MRO. The operation was conducted on 25 October 2022 and attracted bids from euro area eligible counterparties of €4.59 billion, €0.95 billion more than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 1.25%, in accordance with current ECB policy.

On 26 October 2022, the ECB conducted the 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 MRO rate over the life of the operation. The operation attracted bids of €0.41 billion from euro area eligible counterparties.

Also on 26 October 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 \$0.20 billion, which was allotted in full at a fixed rate of 3.33%.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day and 273-day bills for settlement value 27 October 2022, maturing on 26 January and 27 July 2023, respectively. Bids of €160.20 million were submitted for the 91-day bills, with the Treasury accepting €27.20 million, while bids of €8.39 million were submitted for the 273-day bills, with the Treasury accepting €8.29 million. Since €59.50 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €24.02 million, standing at €915.39 million.

The yield from the 91-day bill auction was 1.232%, increasing by 7.00 basis points from bids with a similar tenor issued on 20 October 2022, representing a bid price of €99.6895 per €100 nominal. The yield from the 273-day bill auction was 2.071%, increasing by 163.40 basis points from bids with a similar tenor issued on 14 July 2022, representing a bid price of €98.4538 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 2 February and 4 May 2023, respectively.