

Money Market Report for the week ending 10 June 2022

ECB Decisions

On 9 June 2022, on the basis of its updated assessment, the Governing Council of the European Central Bank (ECB) decided to take further steps in normalising its monetary policy. Throughout this process, the Governing Council will maintain optionality, data-dependence, gradualism and flexibility in the conduct of monetary policy.

Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)

The Governing Council decided to end net asset purchases under its APP as of 1 July 2022. 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.

In the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions in order to avoid an interruption of purchases in that jurisdiction, which could impair the transmission of monetary policy to the Greek economy while it is still recovering from the fallout from the pandemic. Net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks related to the pandemic.

Key ECB interest rates

The Governing Council undertook a careful review of the conditions which, according to its forward guidance, should be satisfied before it starts raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied.

Accordingly, and in line with the Governing Council's policy sequencing, the Governing Council intends to raise the key ECB interest rates by 25 basis points at its July monetary policy meeting. In the meantime, the Governing Council decided to leave the interest rate on the main refinancing operations (MRO) and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.50% respectively.

Looking further ahead, the Governing Council expects to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting.

Beyond September, based on its current assessment, the Governing Council anticipates that a gradual but sustained path of further increases in interest rates will be appropriate. In line with the Governing Council's commitment to its 2% medium-term target, the pace at which the Governing Council adjusts its monetary policy will depend on the incoming data and how it assesses inflation to develop in the medium term.

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. As announced previously, the special conditions applicable under TLTRO-III will end on 23 June 2022.

The Governing Council stands ready to adjust all of its instruments, incorporating flexibility if warranted, to ensure that inflation stabilises at its 2% target over the medium term. The pandemic has shown that, under stressed conditions, flexibility in the design and conduct of asset purchases has helped to counter the impaired transmission of monetary policy and made the Governing Council's efforts to achieve its goal more effective. Within the ECB's mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability.

ECB Monetary Operations

On 6 June 2022, the ECB announced the 7-day MRO. The operation was conducted on 7 June 2022 and attracted bids from euro area eligible counterparties of €447.00 million, €37.00 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 8 June 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 \$198.50 million, which was allotted in full at a fixed rate of 1.08%.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 90-day and 364-day bills for settlement value 9 June 2022, maturing on 7 September 2022 and 8 June 2023, respectively. Bids of €43.00 million were submitted for the 90-day with the Treasury accepting them all, while bids of €17.00 million were submitted for the 364-day bills, with the Treasury accepting €3.00 million. Since €46.00 million worth of bills matured during the week, the outstanding balance of Treasury bills remained unchanged at €869.10 million.

The yield from the 90-day bill auction was -0.144%, increasing by 3.8 basis points from bids with a similar tenor issued on 2 June 2022, representing a bid price of €100.0360 per €100 nominal. The yield from the 364-day bill auction was 0.450%, increasing by 78.7 basis points from bids with a similar tenor issued on 17 March 2022, representing a bid price of €99.5471 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 15 September and 15 December 2022, respectively.