

Money Market Report for the week ending 16 December 2022

ECB Decisions

On 15 December 2022, the Governing Council of the European Central Bank (ECB) decided to raise the three key ECB interest rates by 50 basis points and based on the substantial upward revision to the inflation outlook, expects to raise them further. In particular, the Governing Council judges that interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% medium-term target. Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations. The Governing Council's future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach. The key ECB interest rates are the Governing Council's primary tool for setting the monetary policy stance.

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 2.50%, 2.75% and 2.00% respectively, with effect from 21 December 2022.

The Governing Council also discussed principles for normalising the Eurosystem's monetary policy securities holdings. From the beginning of March 2023 onwards, the asset purchase programme (APP) portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time.

At its February meeting the Governing Council will announce the detailed parameters for reducing the APP holdings. The Governing Council will regularly reassess the pace of the APP portfolio reduction to ensure it remains consistent with the overall monetary policy strategy and stance, to preserve market functioning, and to maintain firm control over short-term money market conditions. By the end of 2023, the Governing Council will also review its operational framework for steering short-term interest rates, which will provide information regarding the endpoint of the balance sheet normalisation process.

Regarding 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.

Regarding refinancing operations, as banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, 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 returns to 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 12 December 2022, the ECB announced the 7-day MRO. The operation was conducted on 13 December 2022 and attracted bids from euro area eligible counterparties of €1.46 billion, €0.08 billion more than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 2.00%, in accordance with current ECB policy.

On 14 December 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 \$0.21 billion, which was allotted in full at a fixed rate of 4.59%.

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 15 December 2022, maturing on 16 March and 15 June 2023, respectively. Bids of €178.45 million were submitted for the 91-day bills, with the Treasury accepting €55.45 million, while bids of €7.15 million were submitted for the 182-day bills, with the Treasury accepting €5.15 million. Since €52.00 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €8.60 million, standing at €857.07 million.

The yield from the 91-day bill auction was 2.149%, increasing by 4.90 basis points from bids with a similar tenor issued on 7 December 2022, representing a bid price of €99.4597 per €100 nominal. The yield from the 182-day bill auction was 2.398%, decreasing by 2.4 basis points from bids with a similar tenor also issued on 7 December 2022, representing a bid price of €98.8022 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 364-day bills maturing on 23 March and 21 December 2023, respectively.