

Money Market Report for the week ending 3 February 2023

ECB Decisions

On 2 February 2023, the Governing Council of the European Central Bank (ECB) 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 3.00%, 3.25% and 2.50% respectively, with effect from 8 February 2023. In view of the underlying inflation pressures, the Governing Council intends to raise interest rates by another 50 basis points at its next monetary policy meeting in March and it will then evaluate the subsequent path of its monetary policy. 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. In any event, the Governing Council's future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

The Governing Council also decided on the modalities for reducing the Eurosystem's holdings of securities under the asset purchase programme (APP). As communicated in December, the APP portfolio will decline by €15 billion per month on average from the beginning of March until the end of June 2023, and the subsequent pace of portfolio reduction will be determined over time. Partial reinvestments will be conducted broadly in line with current practice. In particular, the remaining reinvestment amounts will be allocated proportionally to the share of redemptions across each constituent programme of the APP and, under the public sector purchase programme (PSPP), to the share of redemptions of each jurisdiction and across national and supranational issuers. For the Eurosystem's corporate bond purchases, the remaining reinvestments will be tilted more strongly towards issuers with a better climate performance. Without prejudice to the ECB's price stability objective, this approach will support the gradual decarbonisation of the Eurosystem's corporate bond holdings, in line with the goals of the Paris Agreement.

Regarding the pandemic emergency purchase programme (PEPP), the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. 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 30 January 2023, the ECB announced the 7-day MRO. The operation was conducted on 31 January 2023 and attracted bids from euro area eligible counterparties of €0.78

billion, €0.46 billion less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 2.50%, in accordance with current ECB policy.

On 1 February 2023, 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 \$0.44 billion, which was allotted in full at a fixed rate of 4.84%.

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 2 February 2023, maturing on 4 May and 3 August 2023, respectively. Bids of €190.97 million were submitted for the 91-day bills, with the Treasury accepting €60.97 million, while bids of €10.61 million were submitted for the 182-day bills, with the Treasury accepting all bids. Since €55.05 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €16.53 million, standing at €885.68 million.

The yield from the 91-day bill auction was 2.561%, increasing by 8.40 basis points from bids with a similar tenor issued on 26 January 2023, representing a bid price of €99.3568 per €100 nominal. The yield from the 182-day bill auction was 2.770%, increasing by 9.80 basis points from bids with a similar tenor also issued on 26 January 2023, representing a bid price of €98.6190 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 11 May and 10 August 2023, respectively.