

Money Market Report for the week ending 16 June 2023

ECB Decisions

Inflation has been coming down but is projected to remain too high for too long. The Governing Council of the European Central Bank (ECB) is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Therefore, on 15 June 2023, the Governing Council decided to raise the three key ECB interest rates by 25 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 4.00%, 4.25% and 3.50% respectively, with effect from 21 June 2023. This rate increase reflects the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission.

The Governing Council's future decisions will ensure that the key ECB interest rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary. The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions will continue to be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

The asset purchase programme (APP) portfolio is declining at a measured and predictable pace, as the Eurosystem does 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 June 2023. The Governing Council will discontinue the reinvestments under the APP as of July 2023.

As concerns 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. 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.

As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, the Governing Council will regularly assess how targeted lending operations and their ongoing repayment 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 and to preserve the smooth functioning of monetary policy transmission. Moreover, 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 June 2023, the ECB announced the 7-day MRO. The operation was conducted on 13 June 2023 and attracted bids from euro area eligible counterparties of €1,161.50 million, €164.00 million less than the previous week. The amount was allotted in full at a

fixed rate equivalent to the prevailing MRO rate of 3.75%, in accordance with current ECB policy.

On 14 June 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 \$287.50 million, which was allotted in full at a fixed rate of 5.35%.

During the week under review, participants in the third series of targeted longer-term refinancing operations 5 to 10 had the option of terminating or reducing their outstanding amount before maturity. Accordingly, on 28 June 2023 a total of €29,460.01 million will be repaid.

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 June 2023, maturing on 14 September and 14 December 2023, respectively. Bids of €262.59 million were submitted for the 91-day bills, with the Treasury accepting €37.68 million, while bids of €13.75 million were submitted for the 182-day bills, with the Treasury accepting all amounts. Since €32.66 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €18.77 million, standing at €898.83 million.

The yield from the 91-day bill auction was 3.378%, decreasing by 16.00 basis points from bids with a similar tenor issued on 8 June 2023, representing a bid price of €99.1533 per €100 nominal. The yield from the 182-day bill auction was 3.324%, increasing by 12.80 basis points from bids with a similar tenor also issued on 8 June 2023, representing a bid price of €98.3473 per €100 nominal.

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

This week the Treasury will invite tenders for 90-day and 182-day bills maturing on 20 September and 21 December 2023, respectively.