

Money Market Report for the week ending 27 October 2023

ECB Decisions

On 26 October 2023, the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations (MRO) and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.50%, 4.75% and 4.00%, respectively. Inflation is still expected to stay too high for too long, and domestic price pressures remain strong. At the same time, inflation dropped markedly in September, including due to strong base effects, and most measures of underlying inflation have continued to ease. The Governing Council's past interest rate increases continue to be transmitted forcefully into financing conditions. This is increasingly dampening demand and thereby helps push down inflation.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal. The Governing Council's future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary. The Governing Council will continue to follow a data-dependent approach to determine the appropriate level and duration of restriction. In particular, the Governing Council's interest rate decisions will 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 Governing Council notes that the asset purchase programme portfolio is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities. 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 23 October 2023, the ECB announced the 7-day MRO. The operation was conducted on 24 October 2023 and attracted bids from euro area eligible counterparties of €10,490.00 million, €2,813.00 million more than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 4.50%, in accordance with current ECB policy.

On 25 October 2023, 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 €540.00 million from euro area eligible counterparties.

Also on 25 October 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 \$241.20 million, which were allotted in full at a fixed rate of 5.58%.

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 26 October 2023, maturing on 25 January and 25 July 2024, respectively. Bids of €160.10 million were submitted for the 91-day bills, with the Treasury accepting €21.60 million, while bids of €38.46 million were submitted for the 273-day bills, with the Treasury accepting €4.41 million. Since €26.74 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €0.72 million, standing at €499.87 million.

The yield from the 91-day bill auction was 3.444%, decreasing by 1.70 basis point from bids with a similar tenor issued on 19 October 2023, representing a bid price of €99.1369 per €100 nominal. The yield from the 273-day bill auction was 3.635%, increasing by 82.70 basis points from bids with a similar tenor issued on 20 September 2023, representing a bid price of €97.3174 per €100 nominal.

During this week, secondary market turnover in Malta Government Treasury bills amounted to €650,000, all executed on the On-exchange market of the Malta Stock Exchange.

This week the Treasury will invite tenders for 28-day and 182-day bills maturing on 30 November 2023 and 2 May 2024, respectively.