

Money Market Report for the week ending 5 May 2023

ECB Decisions

In light of the ongoing high inflation pressures, on 4 May 2023, the Governing Council of the European Central Bank (ECB) 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 3.75%, 4.00% and 3.25% respectively, with effect from 10 May 2023. Overall, the incoming information broadly supports the assessment of the medium-term inflation outlook that the Governing Council formed at its previous meeting. Headline inflation has declined over recent months, but underlying price pressures remain strong. At the same time, the past rate increases are being transmitted forcefully to euro area financing and monetary conditions, while the lags and strength of transmission to the real economy remain uncertain.

The Governing Council's future decisions will ensure that the policy 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, the Governing Council's policy 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 key ECB interest rates remain the Governing Council's primary tool for setting the monetary policy stance. In parallel, the Governing Council will keep reducing the Eurosystem's Asset purchase programme (APP) portfolio at a measured and predictable pace. In line with these principles, the Governing Council expects to 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 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. The ECB's policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed. 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 28 April 2023, the ECB announced the 7-day MRO. The operation was conducted on 2 May 2023 and attracted bids from euro area eligible counterparties of €1,175.50 million, €757.50 million less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 3.50%, in accordance with current ECB policy.

On 3 May 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 \$421.50 million, which was allotted in full at a fixed rate of 5.30%.

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 4 May 2023, maturing on 3 August and 2 November 2023, respectively. Bids of €219.72 million were submitted for the 91-day bills, with the Treasury accepting €57.72 million, while bids of €3.43 million were submitted for the 182-day bills, with the Treasury accepting all amounts. Since €62.07 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €0.92 million, standing at €788.45 million.

The yield from the 91-day bill auction was 3.121%, increasing by 15.30 basis points from bids with a similar tenor issued on 27 April 2023, representing a bid price of €99.2173 per €100 nominal. The yield from the 182-day bill auction was 3.046%, increasing by 9.70 basis points from bids with a similar tenor also issued on 27 April 2023, representing a bid price of €98.4834 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 273-day bills maturing on 10 August 2023 and 8 February 2024, respectively.