

Money Market Report for the week ending 19 July 2024

ECB Decisions

On 18 July 2024, 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 4.25%, 4.50% and 3.75% respectively. The incoming information broadly supports the Governing Council's previous assessment of the medium-term inflation outlook. While some measures of underlying inflation ticked up in May owing to one-off factors, most measures were either stable or edged down in June. In line with expectations, the inflationary impact of high wage growth has been buffered by profits. Monetary policy is keeping financing conditions restrictive. At the same time, domestic price pressures are still high, services inflation is elevated, and headline inflation is likely to remain above the target well into next year.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim. The Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction. In particular, its 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 is not pre-committing to a particular rate path.

The Governing Council notes that the asset purchase programme is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

The Eurosystem no longer reinvests all of the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP), reducing the PEPP portfolio by €7.5 billion per month on average. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024. 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 15 July 2024, the ECB announced the 7-day MRO. The operation was conducted on 16 July 2024 and attracted bids from euro area eligible counterparties of €4,687.00 million, €647.00 million less than the previous week. The amount was allotted in full at a

fixed rate equivalent to the prevailing MRO rate of 4.25%, in accordance with current ECB policy.

On 17 July 2024, the ECB conducted a 7-day US dollar funding operation through collateralised lending in conjunction with the US Federal Reserve. This operation attracted bids of \$155.40 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 182-day bills for settlement value 18 July 2024, maturing on 17 October 2024 and 16 January 2025, respectively. Bids of €65.98 million were submitted for the 91-day bills, with the Treasury accepting €11.51 million, while bids of €18.99 million were submitted for the 182-day bills, with the Treasury accepting €6.40 million. Since €20.91 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €3.00 million, standing at €569.55 million.

The yield from the 91-day bill auction was 3.467%, decreasing by 5.40 basis points from bids with a similar tenor issued on 11 July 2024, representing a bid price of €99.1312 per €100 nominal. The yield from the 182-day bill auction was 3.354%, increasing by 0.20 basis points from bids with a similar tenor also issued on 11 July 2024, representing a bid price of €98.3326 per €100 nominal.

During this week, secondary market turnover in Malta Government Treasury bills amounted to €1,040,000, all executed on the On-exchange market of the Malta Stock Exchange.

This week the Treasury will invite tenders for 91-day and 182-day bills maturing on 24 October 2024 and 23 January 2025, respectively.