

Money Market Report for the week ending 26 January 2024

ECB Decisions

On 25 January 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 4.50%, 4.75% and 4.00%, respectively. The incoming information has broadly confirmed its previous assessment of the medium-term inflation outlook. Aside from an energy-related upward base effect on headline inflation, the declining trend in underlying inflation has continued, and the past interest rate increases keep being transmitted forcefully into financing conditions. Tight financing conditions are dampening demand, and this is helping to 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. On the pandemic emergency purchase programme (PEPP), the Governing Council intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Over the second half of the year, it intends to reduce the PEPP portfolio by €7.50 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 22 January 2024, the ECB announced the 7-day MRO. The operation was conducted on 23 January 2024 and attracted bids from euro area eligible counterparties of €5,649.00 million, €215.00 million less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 4.50%, in accordance with current ECB policy.

On 24 January 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 \$219.00 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 25 January 2024, maturing on 25 April and 24 October 2024, respectively. Bids of €75.72 million were submitted for the 91-day bills, with the Treasury accepting €28.54 million, while bids of €11.76 million were submitted for the 273-day bills, with the Treasury accepting €8.08 million. Since €21.60 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €15.02 million, standing at €691.78 million.

The yield from the 91-day bill auction was 3.511%, decreasing by 2.20 basis points from bids with a similar tenor issued on 18 January 2024, representing a bid price of €99.1203 per €100 nominal. The yield from the 273-day bill auction was 3.458%, decreasing by 17.70 basis points from bids with a similar tenor issued on 26 October 2023, representing a bid price of €97.4447 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 2 May and 1 August 2024, respectively.