

Money Market Report for the week ending 12 April 2024

ECB Decisions

On 11 April 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 the Governing Council's previous assessment of the medium-term inflation outlook. Inflation has continued to fall, led by lower food and goods price inflation. Most measures of underlying inflation are easing, wage growth is gradually moderating, and firms are absorbing part of the rise in labour costs in their profits. Financing conditions remain restrictive and the past interest rate increases continue to weigh on demand, which is helping to push down inflation. However, domestic price pressures are strong and are keeping services price inflation high.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It considers that the key ECB interest rates are at levels that are making a substantial contribution to the ongoing disinflation process. The Governing Council's future decisions will ensure that its policy rates will stay sufficiently restrictive for as long as necessary. If the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. In any event, the Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction, and it is not pre-committing to a particular rate path.

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 8 April 2024, the ECB announced the 7-day MRO. The operation was conducted on 9 April 2024 and attracted bids from euro area eligible counterparties of €1,382.00

million, €813.00 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 10 April 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 \$174.10 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 bill for settlement value 11 April 2024, maturing on 11 July 2024. Bids of €57.35 million were submitted for the 91-day bills, with the Treasury accepting €17.08 million. Since €18.84 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €1.76 million, standing at €495.39 million.

The yield from the 91-day bill auction was 3.145%, increasing by 14.70 basis points from bids with a similar tenor issued on 4 April 2024, representing a bid price of €99.2113 per €100 nominal.

During this week, secondary market turnover in Malta Government Treasury bills amounted to €72,000, 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 18 July and 17 October 2024, respectively.