Global Markets Division

BMCG: Repo Market & Securities Lending

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27 May 2021

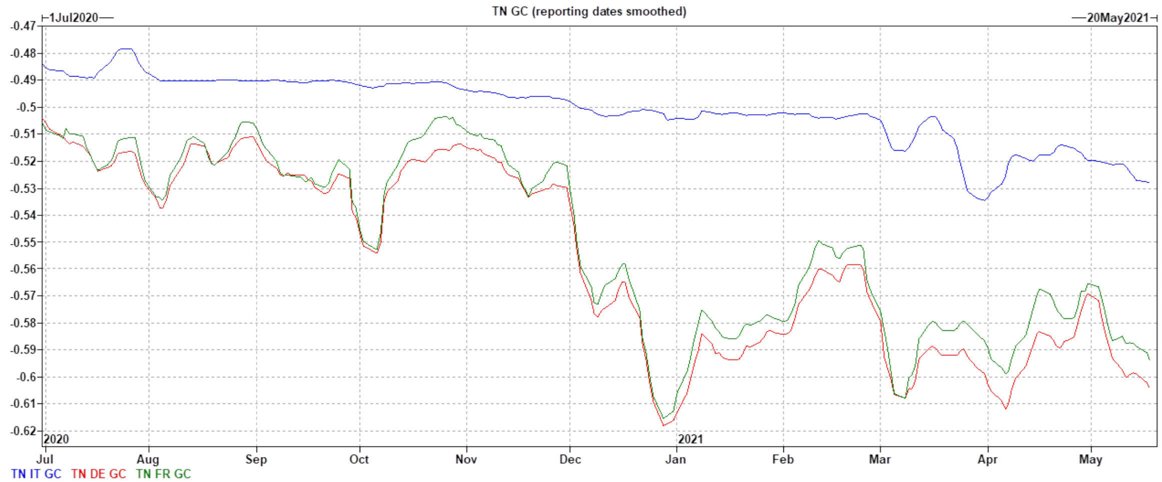
Repo Markets

GC Curves Richening

Global Markets Division

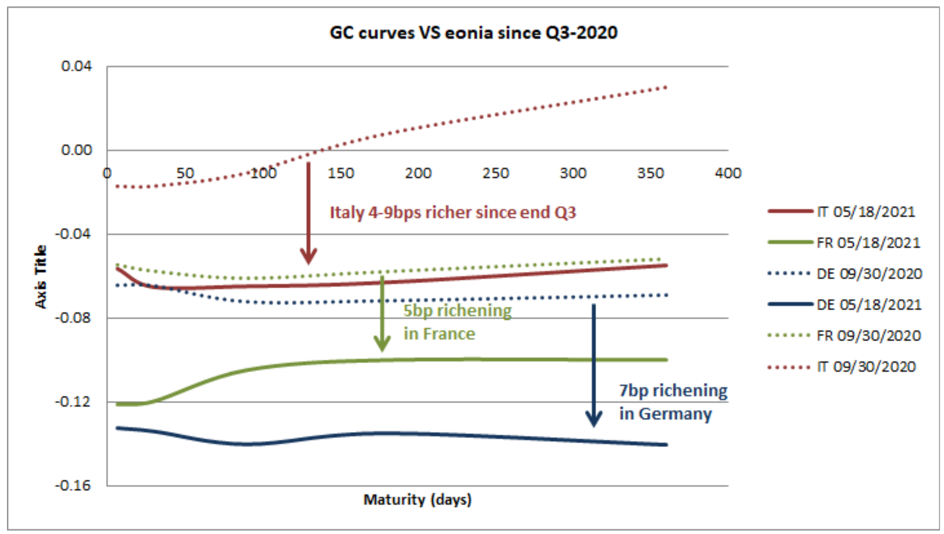
T/N repo has richened 5/7bps in France and Germany respectively from the end of Sep 2020

Italy has richened 4bps leaving the core-peripheral spread ~3bps wider



The Italian GC curve has flattened with the 1y point richening 9bps

French & German curves have richened in fairly parallel fashion



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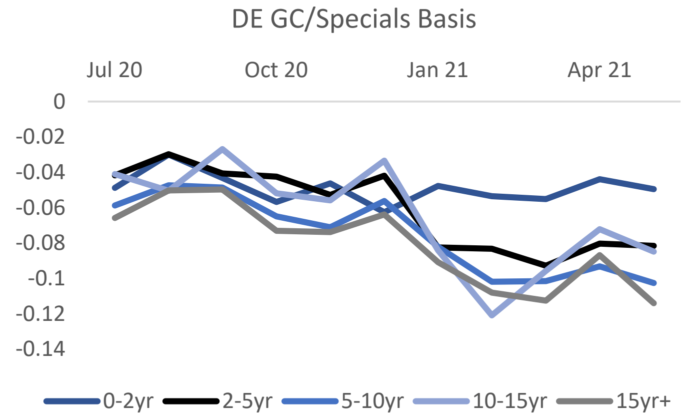
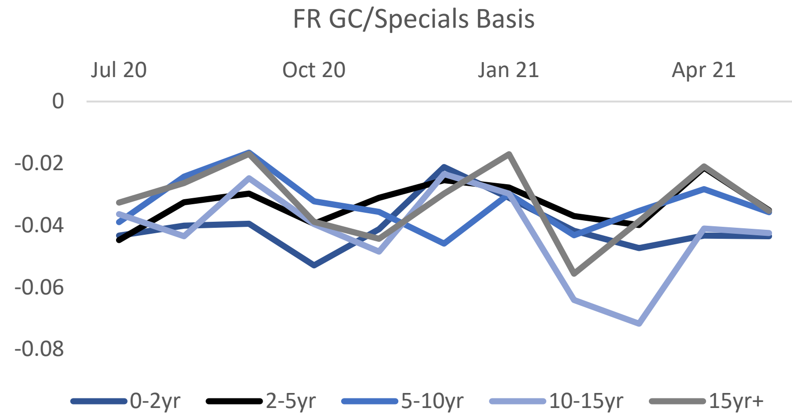
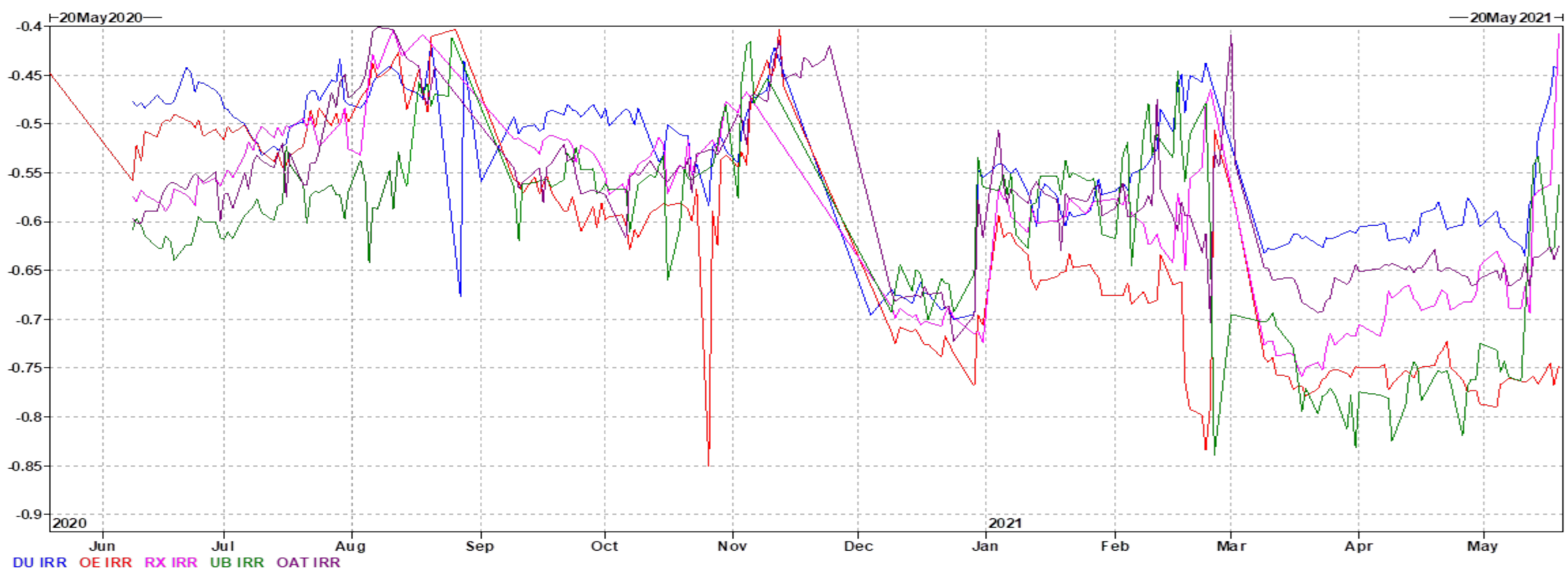
GC/Specials Basis Widened

The spread between “specifics” and GC has widened in Germany whilst staying benign in France in most sectors





As a result, the implied repo through each futures cycle has richened, but remains contained vs prior years



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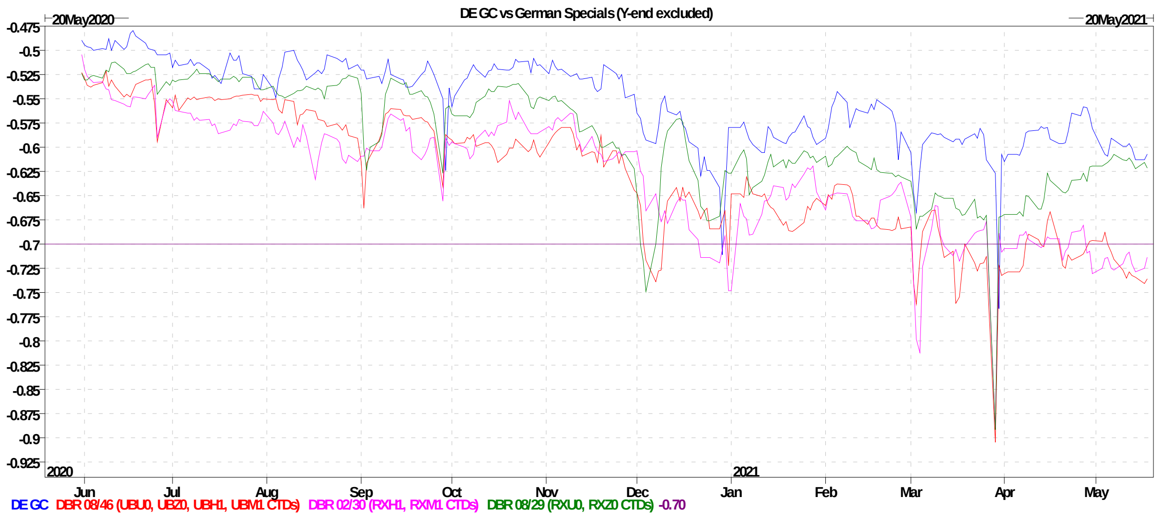
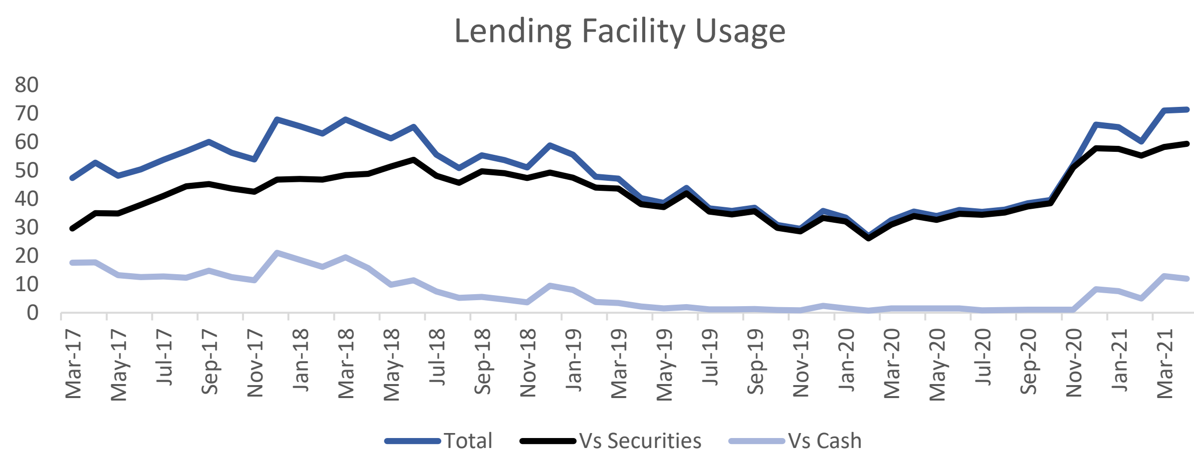
Lending Facility Usage has Increased

German specials have richened to consistently trade through -0.70



As a result borrowing vs cash at the ECB lending facilities has increased



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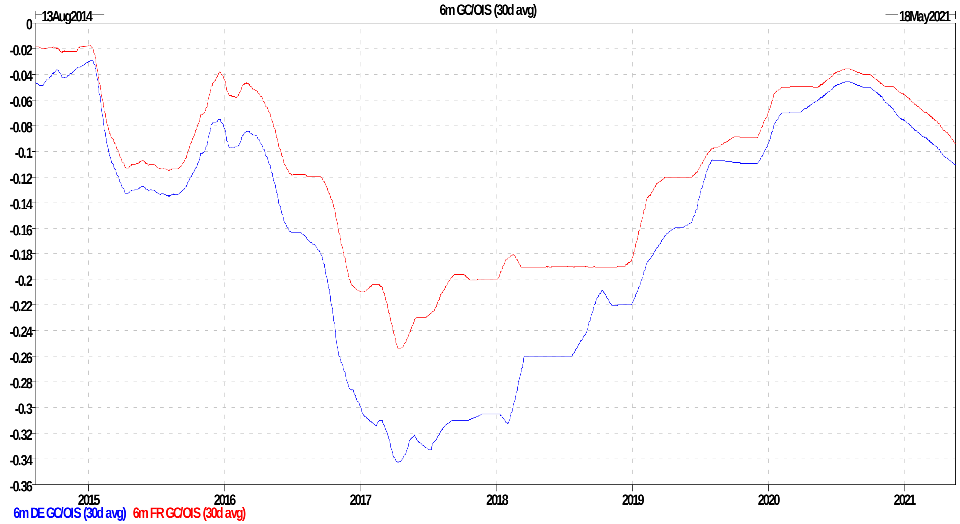
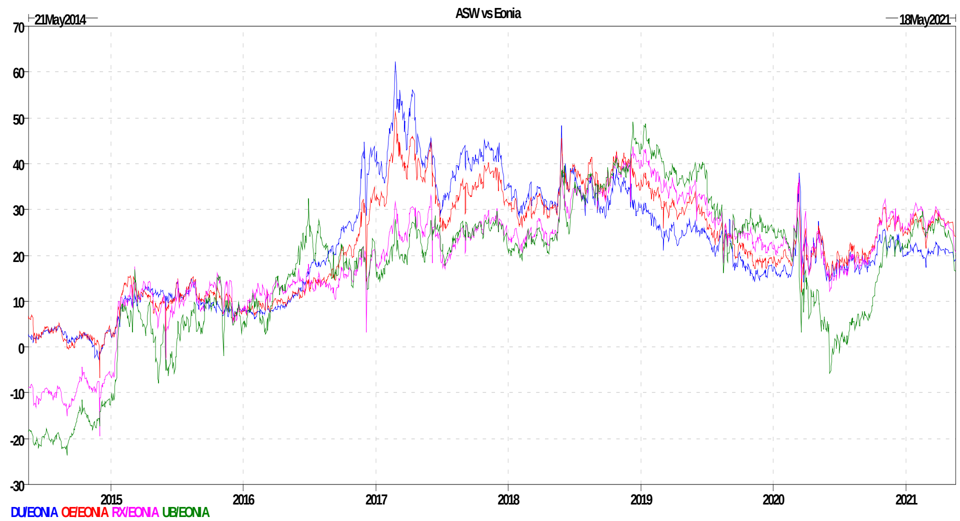
Impact in repo benign vs 2017 and spill over to cash markets has been limited

Term GC/OIS remains 10/20bps tighter to the DFR than the 2017 lows



Similarly ASW spreads have not widened to the same extent as 2017



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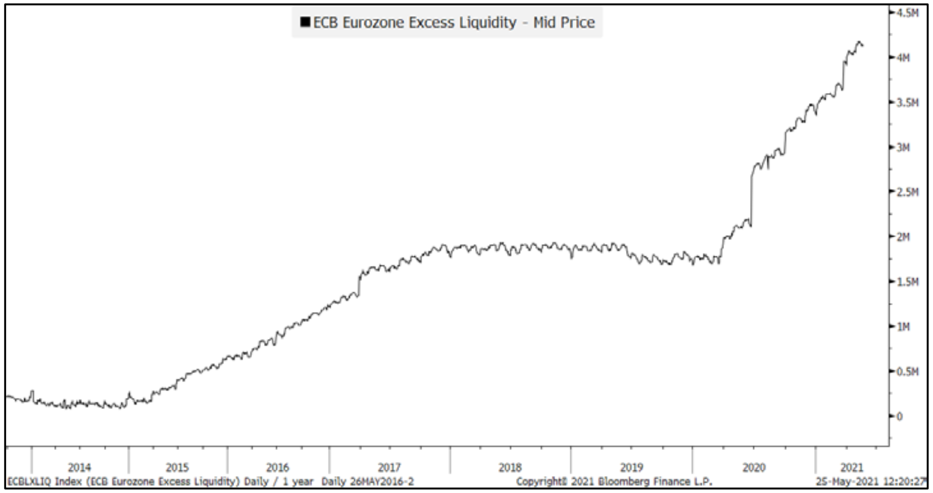
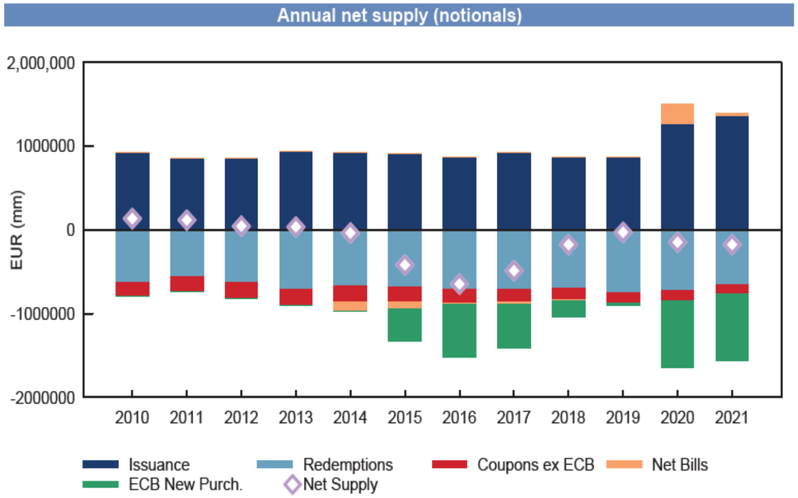
The ultimate crux = Demand versus (market) supply

ECB reserves in the system – and hence demand for EGB collateral – keep growing at a rapid pace…



…when the free float available However remains unchanged



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Points for Discussion

- Do BMCG members expect the market input of ongoing asset purchases to remain relatively benign?
- What other tools/incentives are available to smooth out any spillover from repo markets if it occurs in future?
- Any lessons from other developed bond markets?

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