

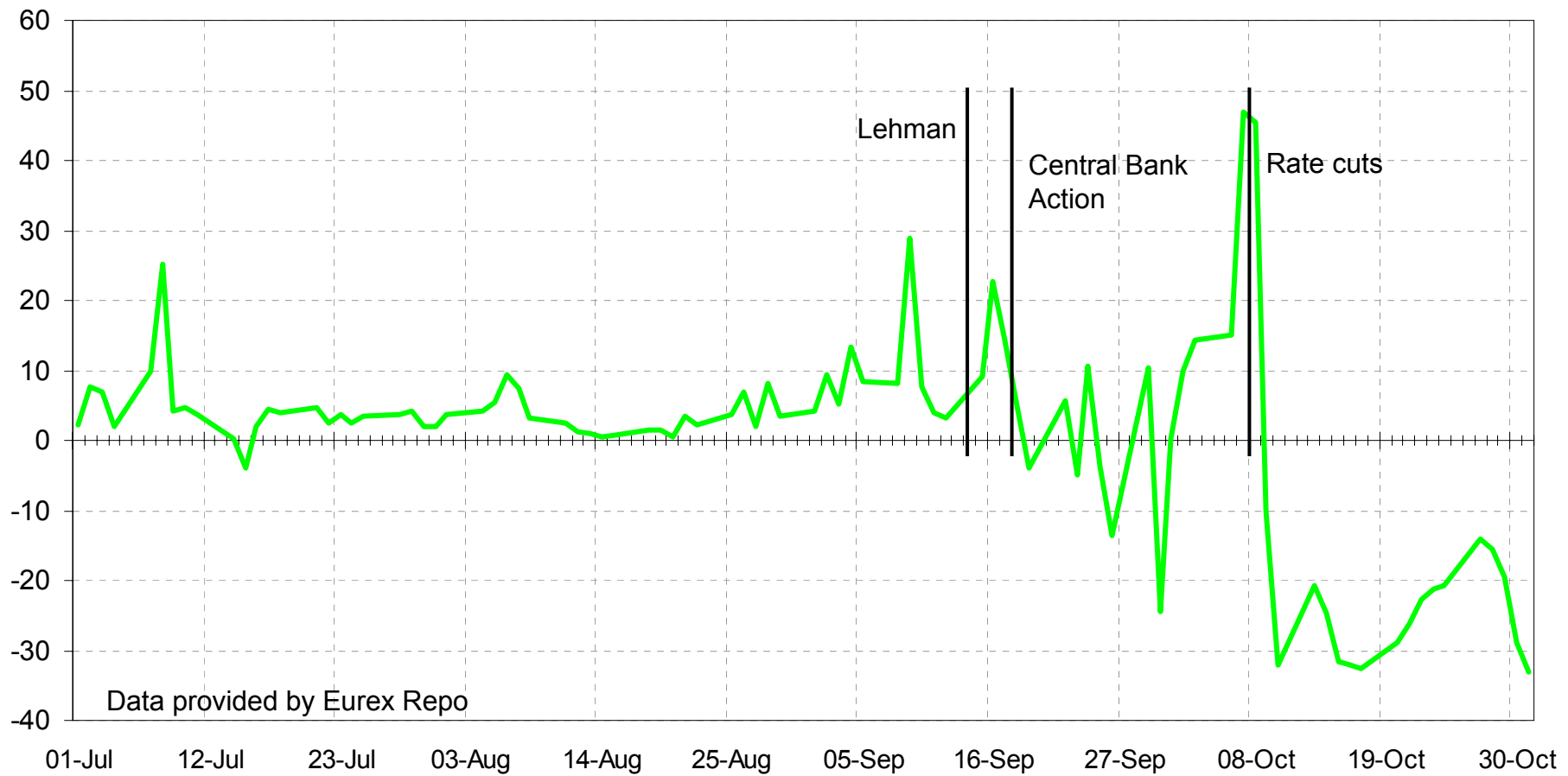
# Market development of the gc repo segment – bilateral trading

Andreas Biewald



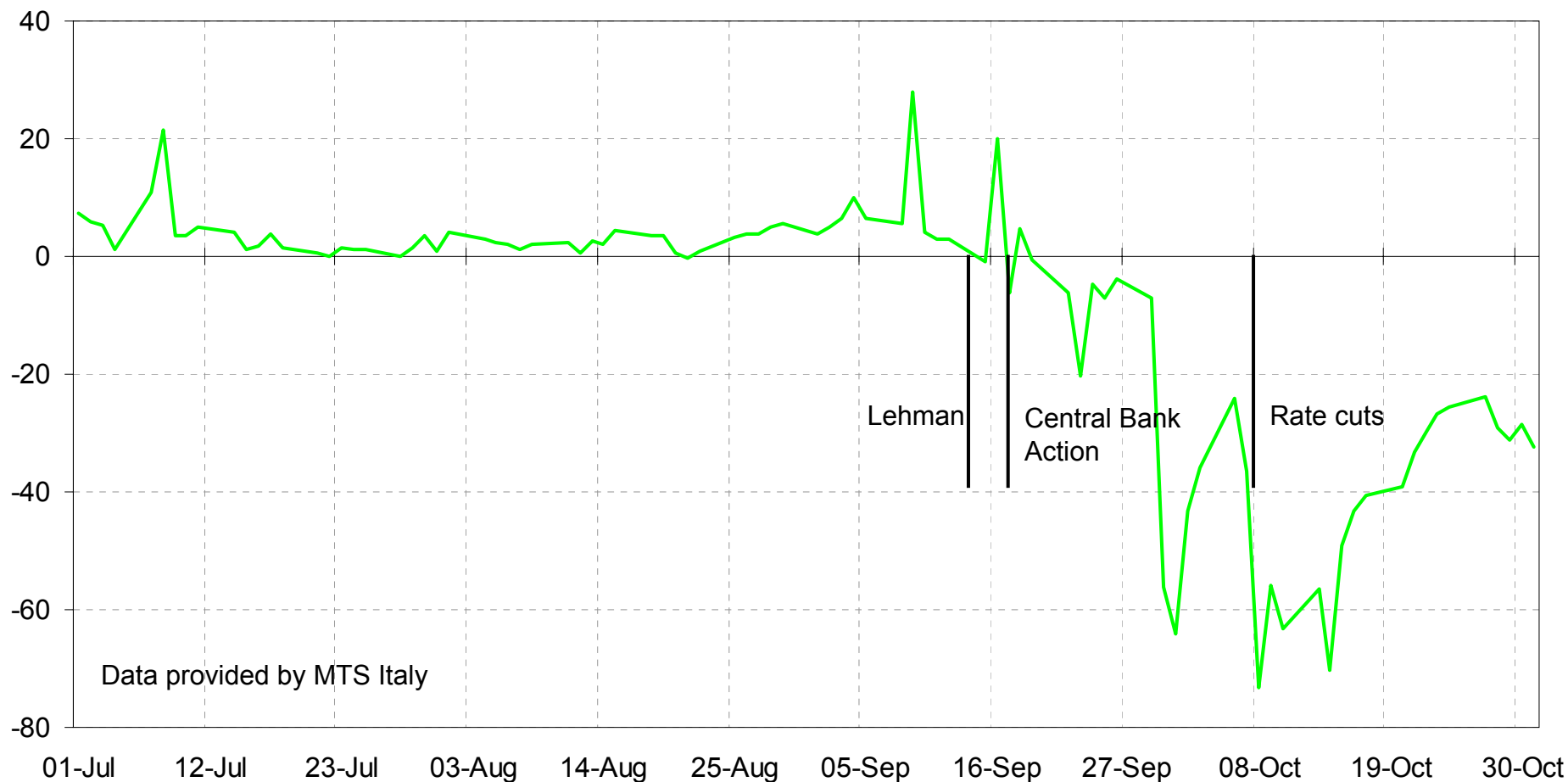
# Development of Interest Rates

## Spread EONIA versus GC Pooling ON (July 01 – October 31, 2008)



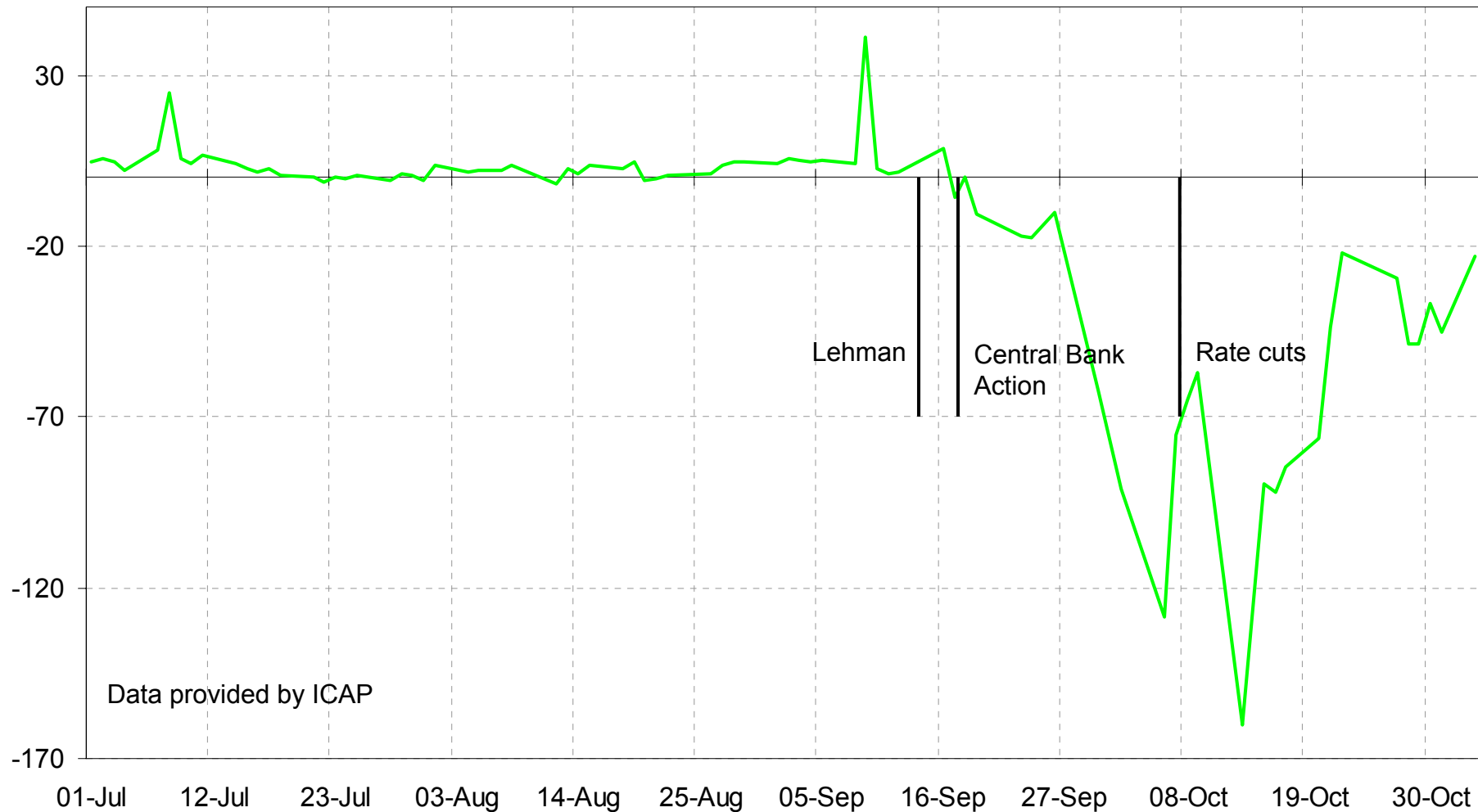
# Development of Interest Rates

## Spread EONIA versus average Italy GC - ON Rates (July 01 – October 31, 2008)



# Development of Interest Rates

Spread EONIA versus average German GC - ON Rates  
(July 01 – October 31, 2008)



Data provided by ICAP

## SOME KEY DATES

- ▶ **September, 14:** Lehman Brothers files for bankruptcy protection
- ▶ **September, 16:** American International Group gets a \$85 billion loan from the FED
- ▶ **September, 18:** Coordinated Central Bank Action to Improve US\$ Liquidity
- ▶ **October, 8:** Rate cuts by several central banks, ECB's announcement of fixed rate MROs with full allotment follows in the evening.
- ▶ **October, 14:** First fixed rate MRO with full allotment
- ▶ **October, 15:** ECB announcement of expansion of list of eligible assets and fixed rate LTROs with full allotment

## **CHANGES IN THE €MONEY MARKET AND REPO AFTER LEHMAN (1/2)**

### **INCREASED DEMAND FOR TOP COLLATERAL**

- ▶ Limited liquidity in the money market - cash providers move into secured funding
- ▶ Central bank actions increase the demand for top collateral by banks

## Observations & Remarks

# CHANGES IN THE €MONEY MARKET AND REPO AFTER LEHMAN (2/2)

## REDUCED SUPPLY OF TOP COLLATERAL

- ▶ Real money accounts increase buying of government paper and do not repo it out
- ▶ Hedge funds and banks accelerate deleveraging
- ▶ Agency lenders reduce / stop their repo activities

## CONSEQUENCE

Huge demand for top collateral meets at a reduced supply : repo rates fall