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# EUROZONE GOVIES REPO MARKET: LIQUIDITY OR FRAGMENTATION ISSUE ?

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## EUROZONE GOVIES REPO MARKET

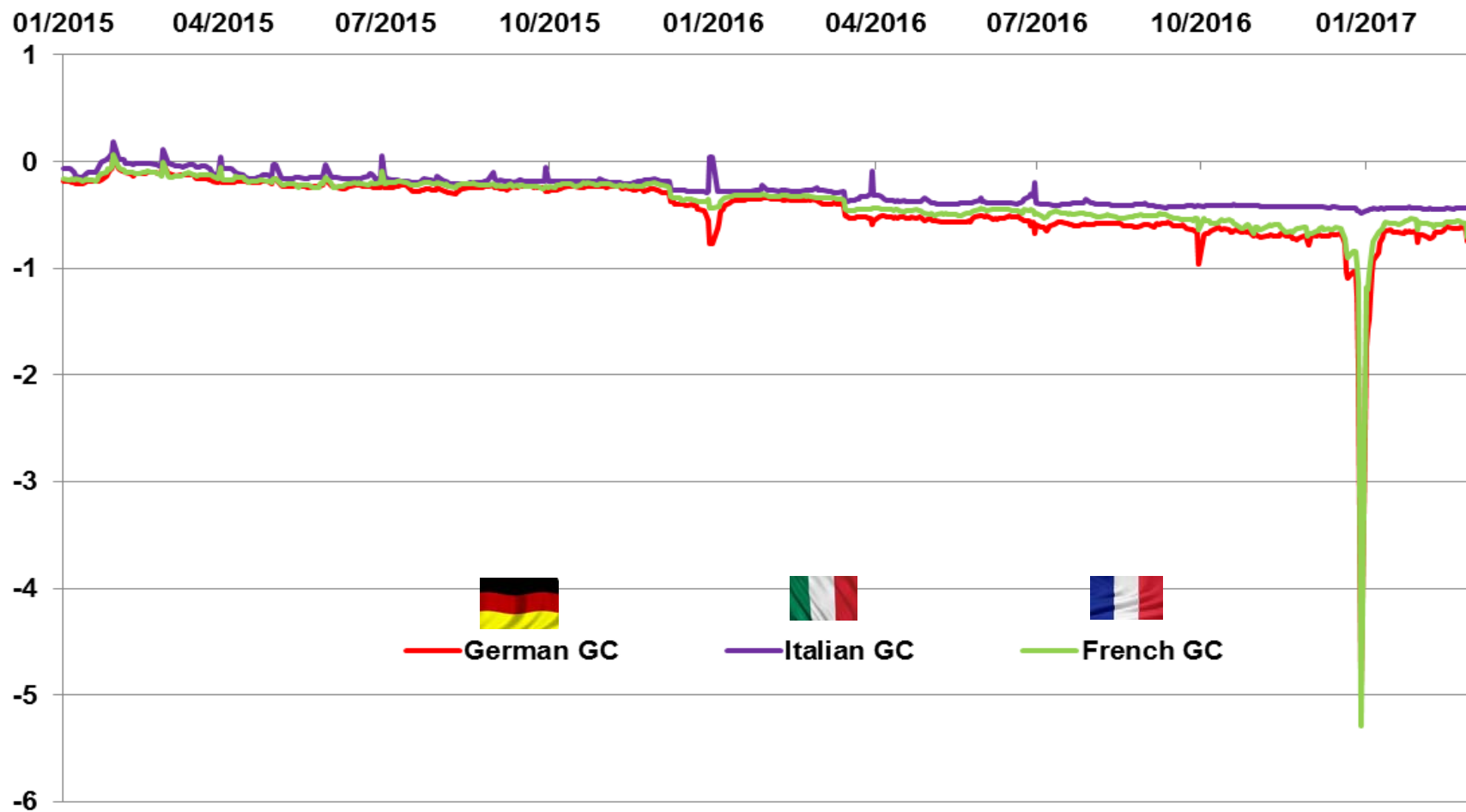
**What is the issue?**

**For several months, when getting closer to quarter end, we have seen some brutal variations in the price of General Collateral and in the price of T-Bills...**



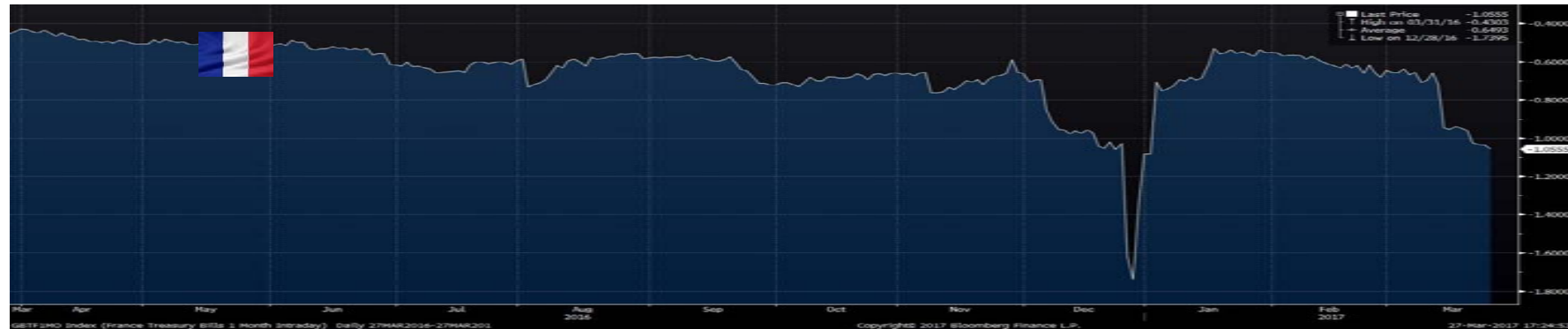
# EUROZONE GOVIES REPO MARKET

## Euro area repo rates (in%)

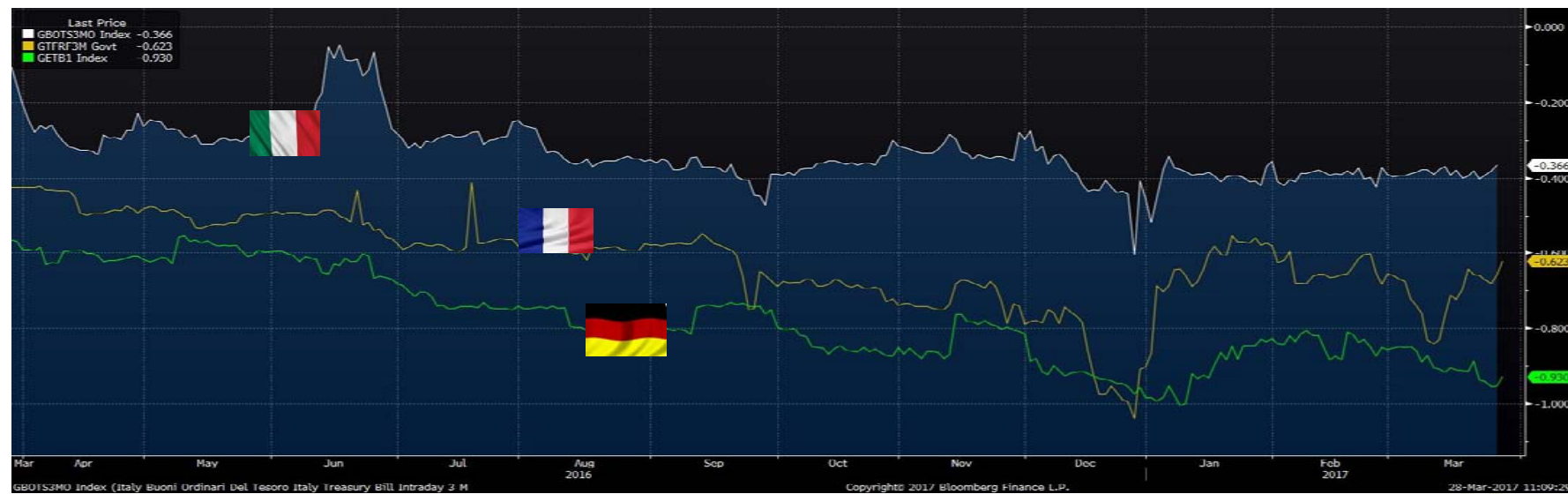


# EURO AREA GOVIES REPO MARKET

## FRENCH T-BILL 1MO



## T-BILL 3MO



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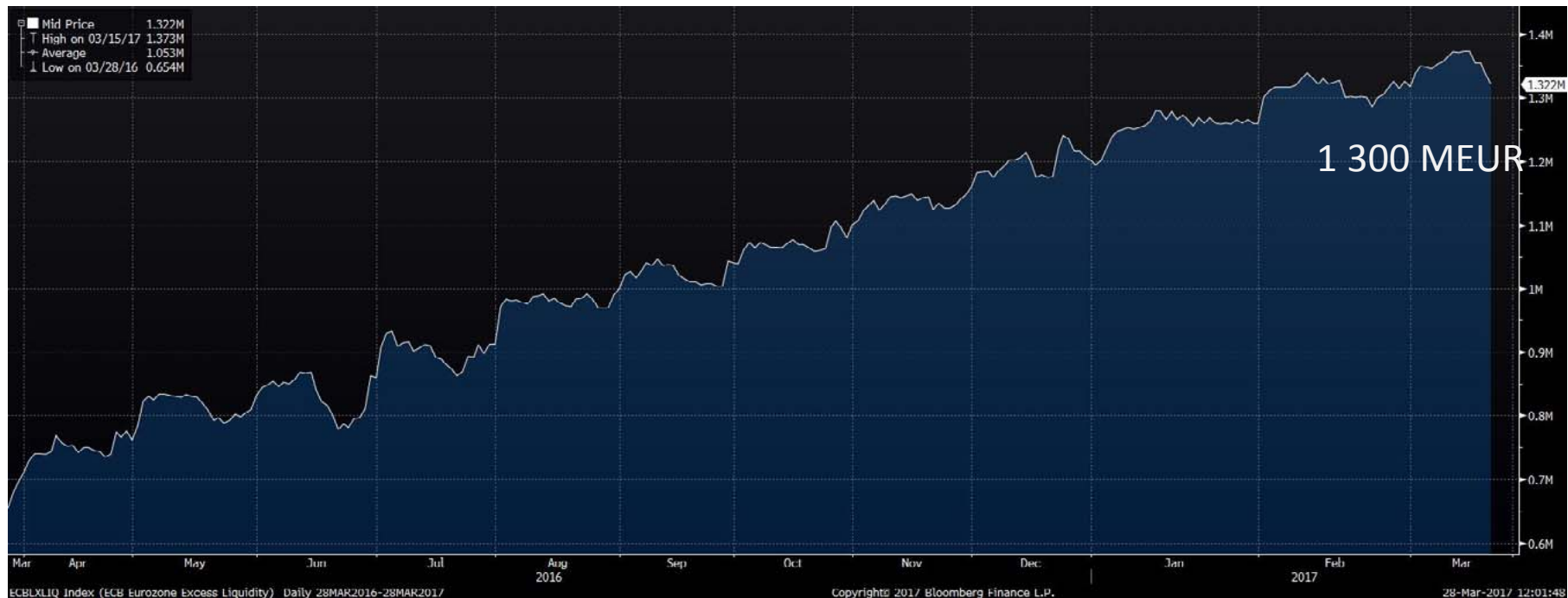


- Some market participants **–Non Banks–** willing to invest their cash at “any price”
- Some markets participants **–Banks–** very reluctant to accept Cash Deposits or Reverse Repos

# EUROZONE GOVIES REPO MARKET

## Possible explanations:

### 1. Significant excess of liquidity in the Eurozone



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- Market impact concentrated over a few days 1 300 MEUR
- Drastic reduction in repo activity

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  - Arbitrage
3. Buy Side investors very long in cash

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2. Quarter end Leverage Ratio “picture”:
  - Market impact concentrated over a few days
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3. Buy Side investors very long in cash
4. Access to the ECB Deposit Facility (-40 bps) open exclusively to commercial banks

1 300 MEUR

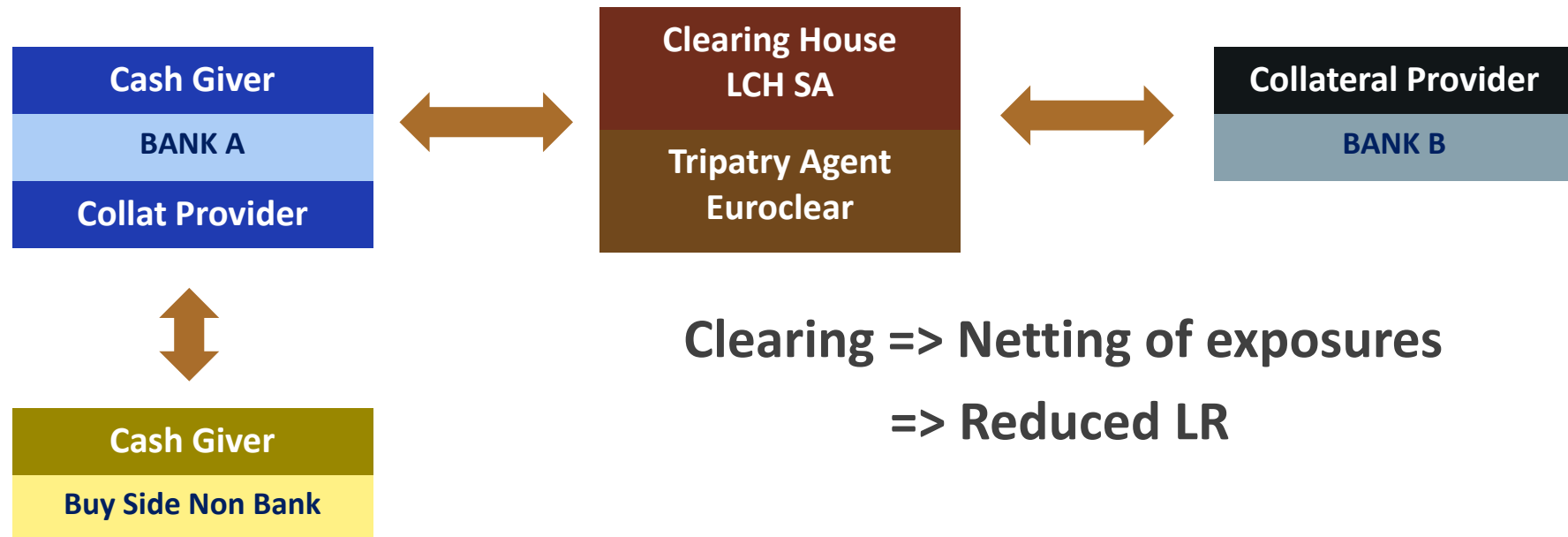
### What do to?

1. Widening access to the ECB DF is a very complex issue
2. Modifying the calculation of the LR is a controversial issue for regulators and supervisors
3. Increasing availability of collateral: repo + Sec Lending
4. Reducing fragmentation between commercial banks and “buy-side” is a promising avenue

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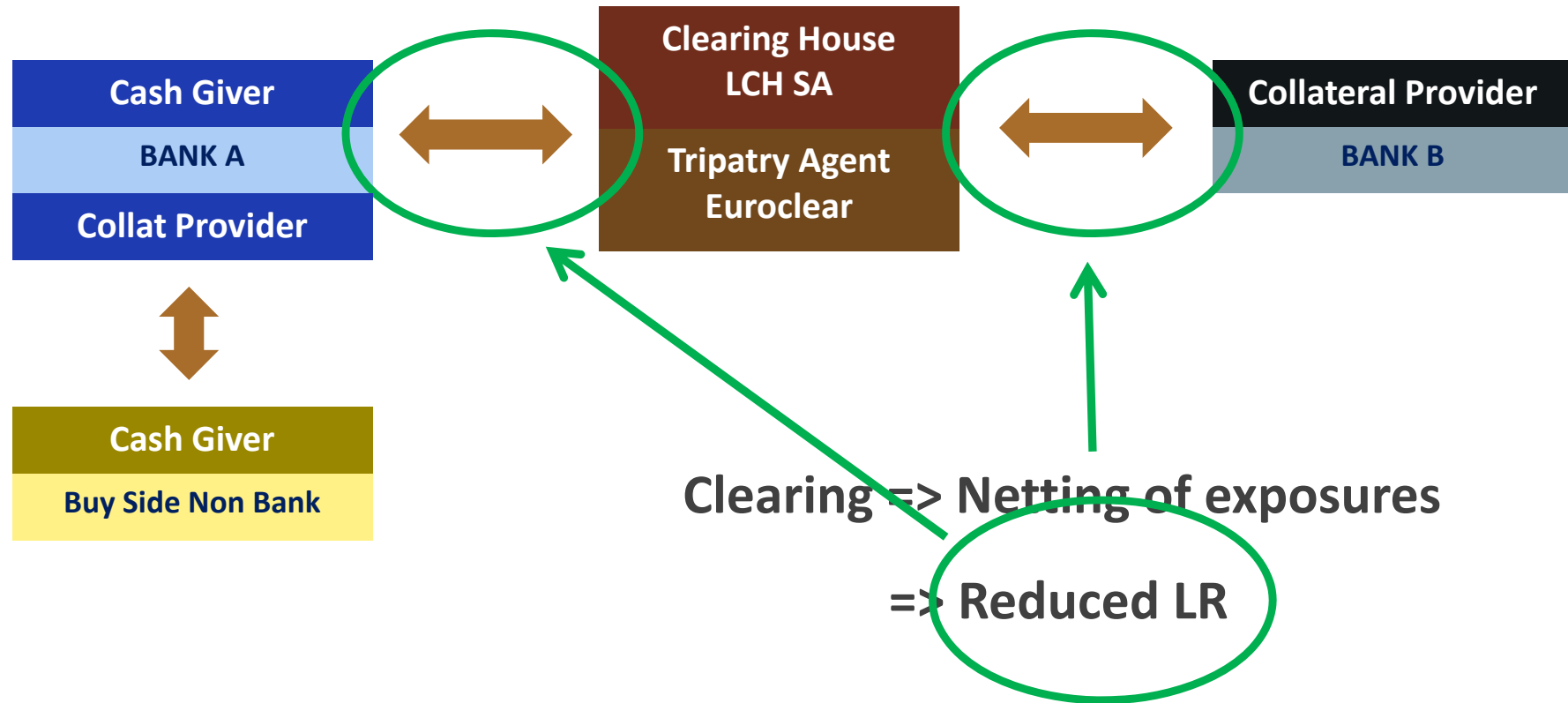
### 4. Reducing fragmentation between commercial banks and “buy-side” is a promising avenue:

- Development of **Triparty Repo** transactions with **clearing**



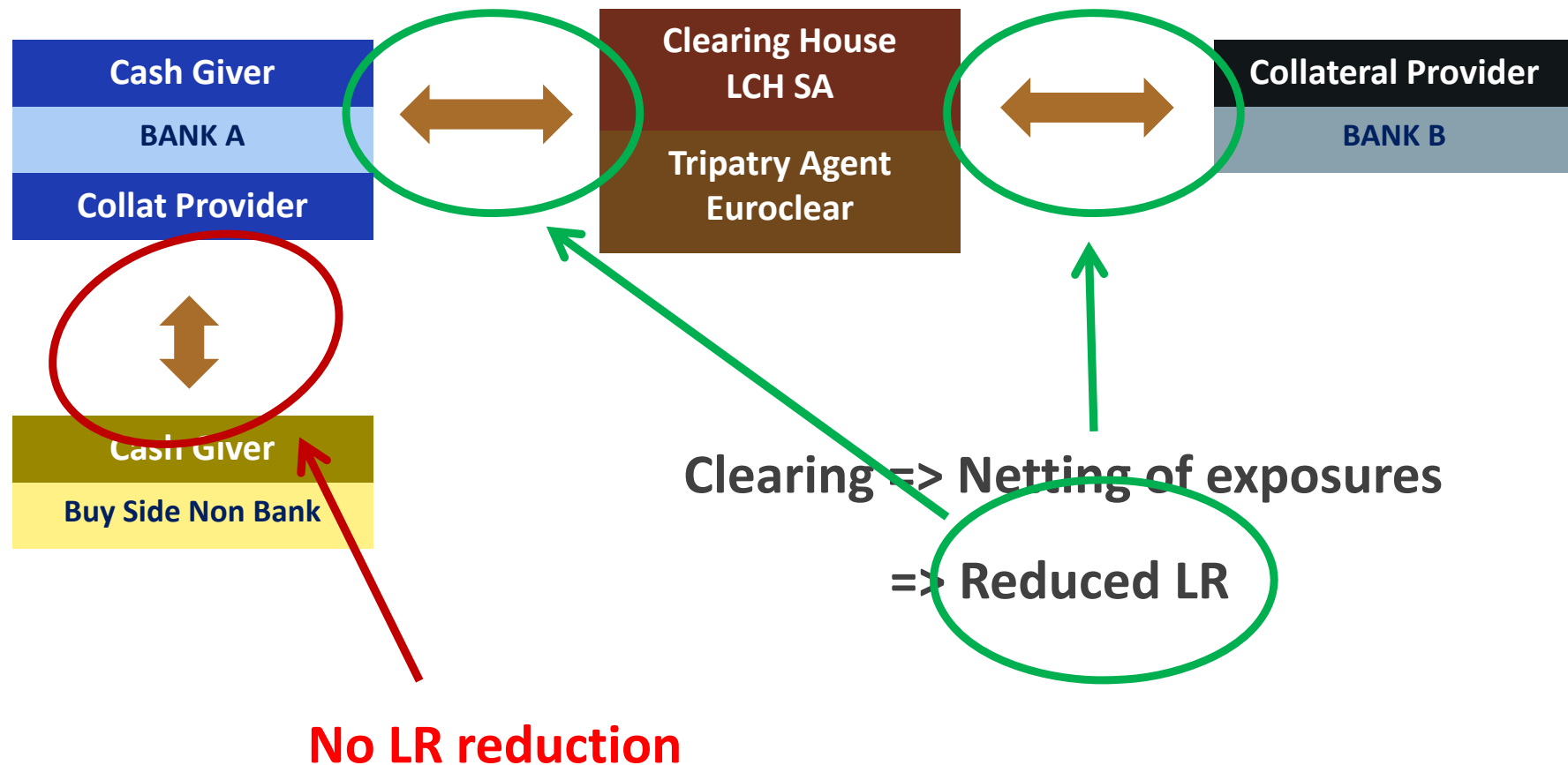
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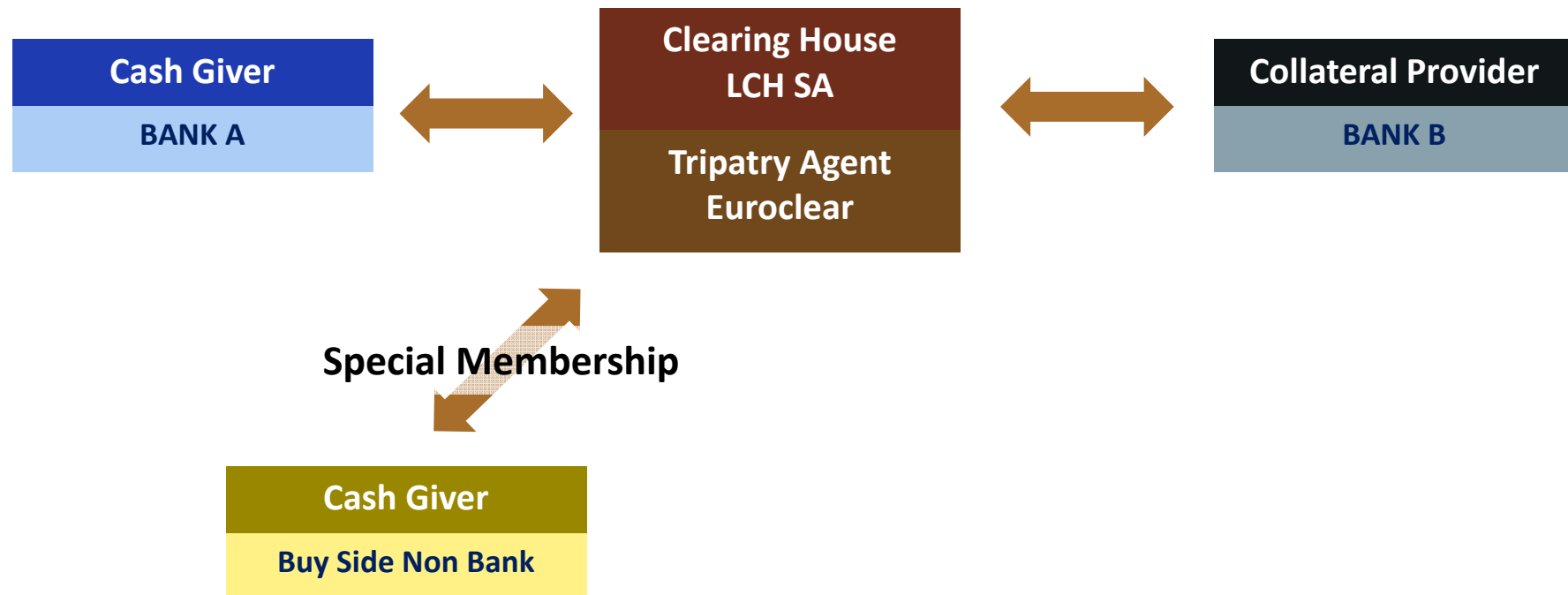
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## EUROZONE GOVIES REPO MARKET

### Conclusion:

- **Combination of factors explain current situation of Eurozone quarter end GC Repo Market**
- **Issue of fragmentation between some market participants: banks and non-banks**
- **Innovation and development of market infrastructures can provide adequate solutions**
- **Centrals Bank to foster this type of initiative**