

Box 6

STRUCTURAL TRENDS IN THE EURO MONEY MARKET

On 26 September 2008, the ECB published the preliminary results of the Euro Money Market Survey 2008. Similar to earlier surveys, the 2008 survey was based on data collected from banks, and it covered the second quarters of 2007 and 2008. This box reports on some of the main findings of this survey.

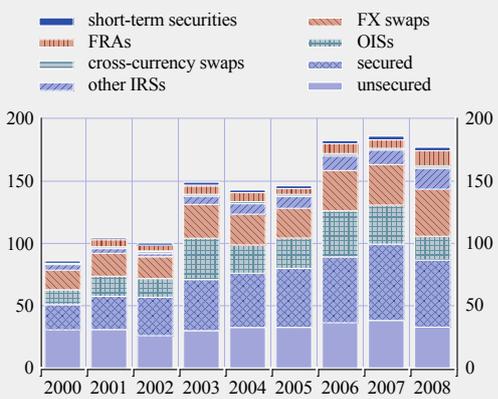
First, the aggregated turnover of the euro money market decreased in the year to the second quarter of 2008 (see Chart A). Activity decreased in the unsecured, secured and overnight index swap (OIS) segments of the market, as banks were focusing more on daily liquidity management rather than committing to strategic decisions. They also became unable to rely entirely on the interbank market for their funding needs and participated more actively in the refinancing operations conducted by the ECB.

Second, despite heightened concerns about the creditworthiness of counterparties in the interbank market, there was no obvious substitution of secured for unsecured transactions. However, the survey shows that credit concerns may have led to a shortening of the maturities in unsecured lending transactions and to a higher turnover in secured overnight transactions. In addition, banks

showed a greater preference to lend to their national counterparties, possibly because they were, or felt, better informed about their financial condition. In most segments, the share of electronic trade declined, as banks gravitated towards more discreet methods such as direct trading and voice-brokered transactions. Nevertheless, the proportion of electronic trading in the secured market remained the highest in comparison with all other segments.

Chart A Aggregated average daily turnover by euro money market segment

(Q2 in period 2000 – 2008; index: aggregated average daily turnover volume in 2002 = 100)



Source: ECB.

Third, activity in over-the-counter (OTC) money market derivatives increased slightly in the year to the second quarter of 2008. Nevertheless, the turnover in OISs declined, as the focus for banks' treasurers changed from ECB interest rate moves (in the second quarter of 2007) to liquidity management (in the second quarter of 2008): while OISs were

very popular for trading and hedging purposes in the second quarter of 2007, their use was reduced in the first quarter of 2008 as treasurers focused on securing liquidity. By contrast, the turnover in other interest rate swaps (IRSs) and in forward rate agreements (FRAs) increased markedly, as volatile EURIBOR fixings made it necessary for treasurers and long-term swap traders to use these instruments to hedge their positions.

Fourth, the unsecured market remained the least concentrated, in stark contrast to the high degree of concentration in the OTC derivatives markets. The secured market was in an intermediate situation in the second quarter of 2008 as far as concentration was concerned.