



EUROPEAN CENTRAL BANK

EUROSYSTEM

Expanding clearing in the US Treasury market

Future-proofing the
world's safe asset?



SUERF-BAFFI Bocconi Webinar
27 May 2024

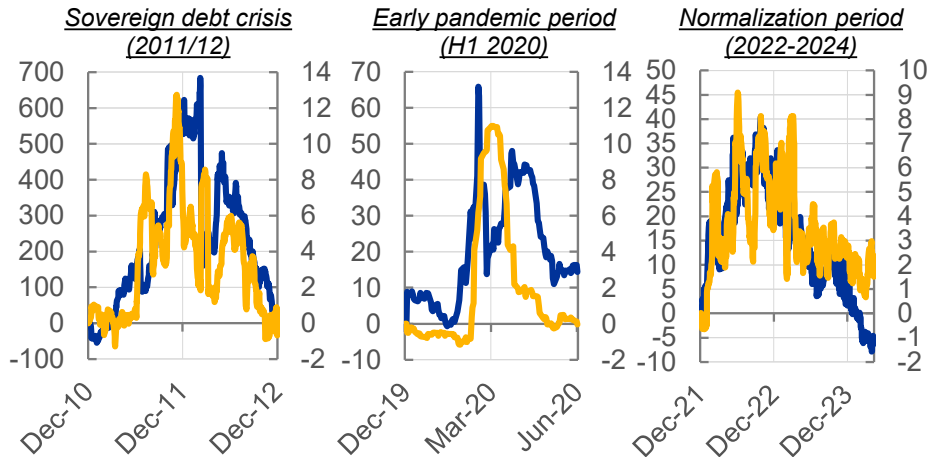
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Euro area government bond market functioning in a historical perspective

Changes in euro area government bond market conditions

(bps)

- EA sovereign bond market fragmentation (LHS axis)
- EA sovereign bond market volatility (RHS axis)

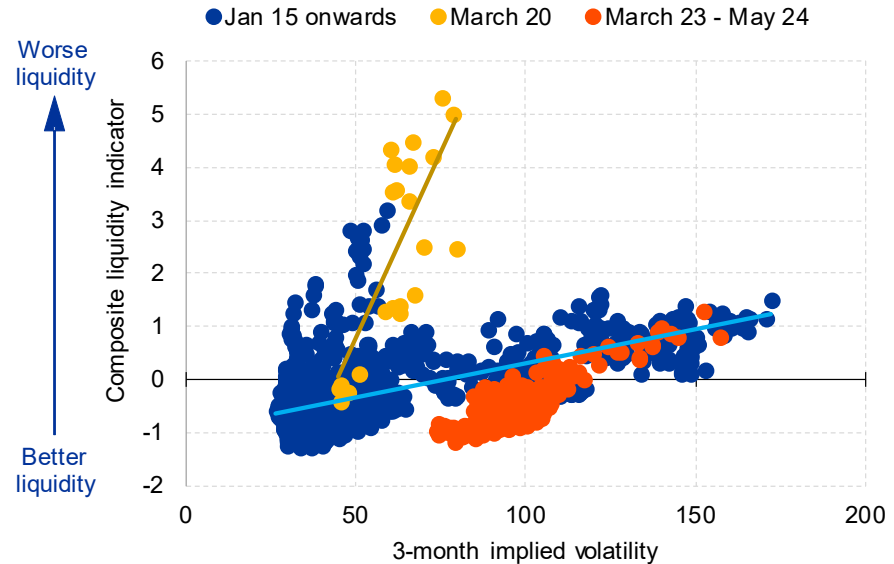


Sources: Refinitiv, Bloomberg, and ECB calculations.

Notes: Fragmentation risk is calculated based on the standard deviation of all 10-year euro area government bond yields, then normalised and cumulated with respect to the period considered. The volatility measure is based on the GDP-weighted average of 20-day standard deviations of daily changes in 10-year government bond yields.

Last observations: 31 Dec 2012 (lhs panel), 30 Jun 2020 (middle panel), 10 May 2024 (rhs panel).

Relationship between liquidity and volatility in 10Y euro area government bond market

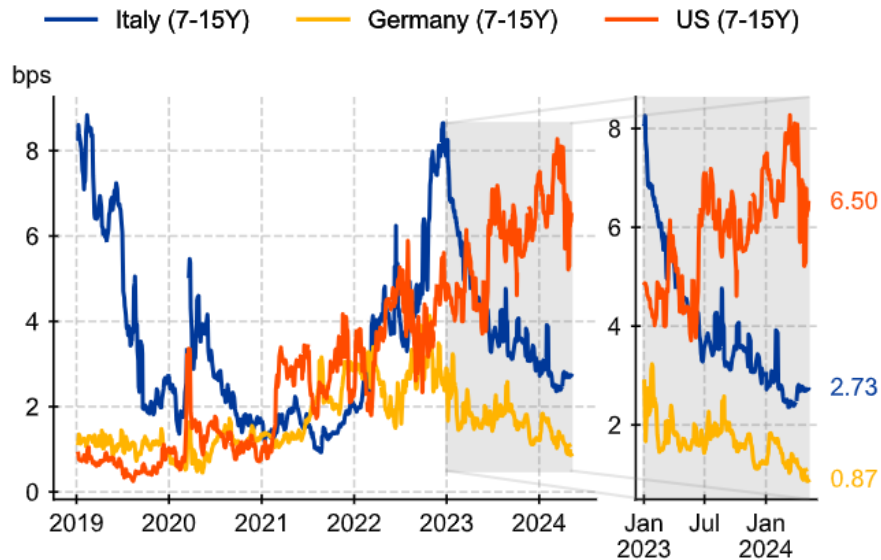


Source: Bloomberg, ECB calculations ([ECB Blog post](#)).

Notes: Liquidity conditions proxied by a euro area weighted average composite indicator of liquidity in 10-year government bond markets and implied volatility based on euro-denominated 3-month Swaptions. Blue dots indicate observations starting in January 2015. Yellow dots indicate observations from March 2020. Red dots indicate observations from March 2023 to May 2024. Last observation: 9 May 2024.

A different picture of bond market liquidity across the Atlantic?

Liquidity spreads for Germany, Italy and US (7–15-year splines)

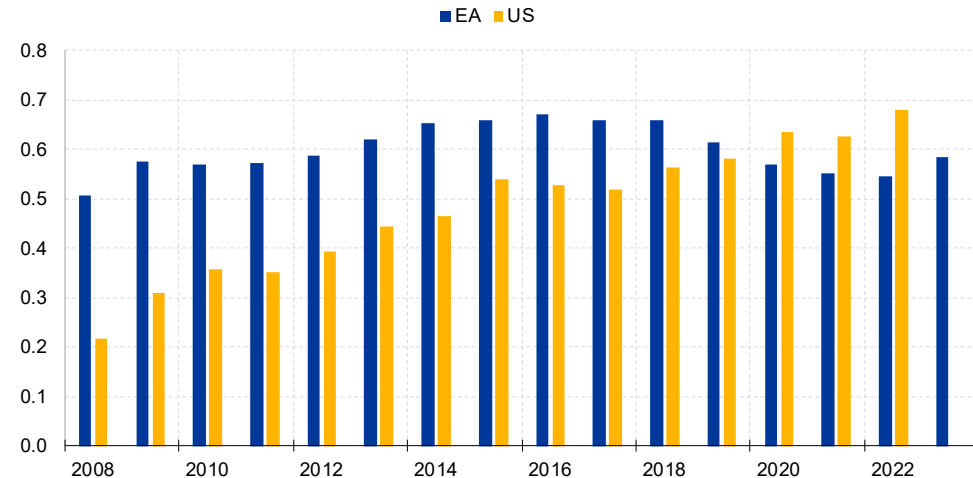


Sources: Bloomberg, ECB calculations.

Note: Spline spreads are the spreads of government bonds in the 10-year area to a Nelson Siegel spline fitted to the yield curve. An increase in the measure corresponds to worse liquidity conditions.

Last observation: 7 May 2024.

US treasuries and euro area big-4 government debt outstanding over primary dealers' total assets (ratio)



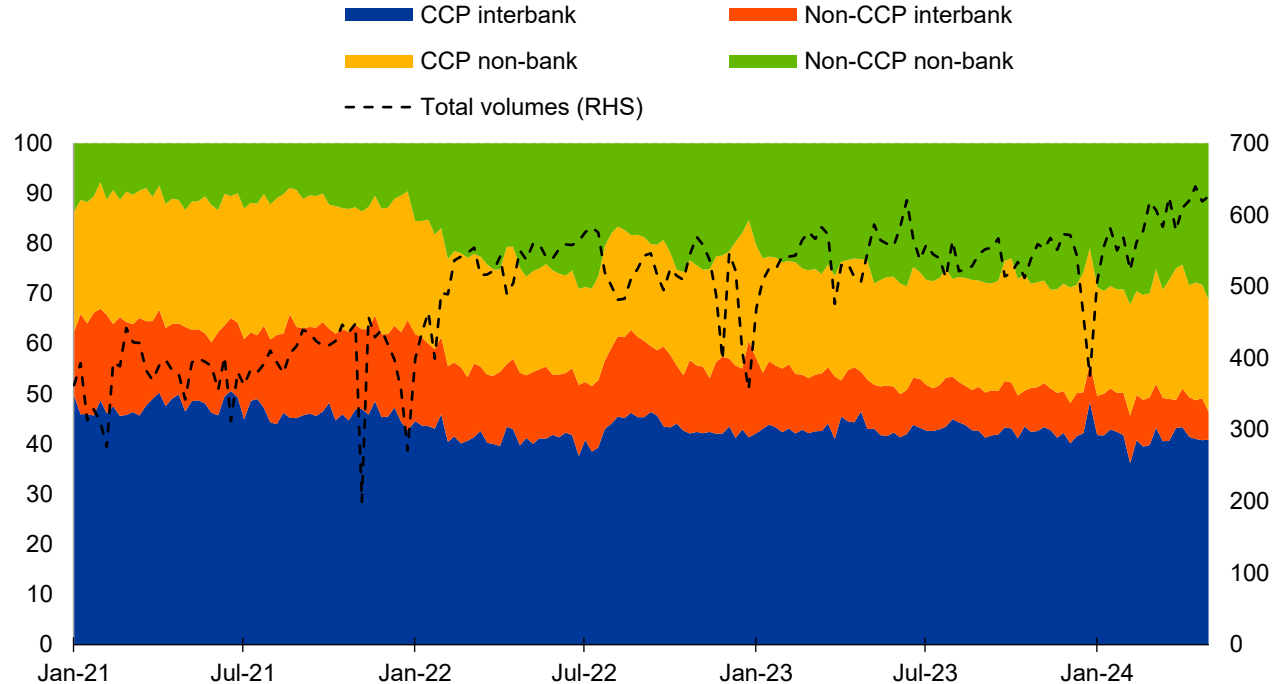
Source: For the US, Duffie (2023), based on data from Federal Reserve and company filings. For the Euro area: IBSI, EADB, MOPDB, ESMA, DFA, AFT, MEF, Tesoro Público, ECB calculations.

Notes: US Treasury securities outstanding to primary dealer assets over the period 1998-2022. EA big-4 Primary Dealers list based on ESMA and German, French, Italian and Spanish debt management offices. Primary dealers list vary across jurisdiction. Assets measured at the banking group level, based on primary dealer's LEI codes. Last observation: 2022 (US), 2023 (EA).

Central clearing in euro area repo markets: interbank vs non-bank volumes

Cleared and non-cleared repo volumes, interbank vs non-bank transactions

(LHS: percentages; RHS: EUR bn)



Sources: SFTDS.

Note: The chart shows the share of repo transaction volumes using German, French, Italian and Spanish government bond collateral for the following four categories: centrally cleared interbank repo transactions (blue area); non-centrally cleared interbank repo transactions (red area); centrally cleared transactions involving a non-bank financial institution (yellow area); non-centrally cleared transactions involving a non-bank financial institution (green area). The dotted line corresponds to the total weekly volumes of repo transactions involving German, French, Spanish and Italian government bond collateral.

Last observation: 30 April 2024.

When should market dysfunction trigger central bank purchases?



- Within its mandate, the ECB has a **dual view on the case to intervene** to preserve the transmission of monetary policy
 - **Stabilising core market segments** in the presence of severe financial market dislocations and illiquidity
 - **Safeguarding the integrity of the currency union** and **removing unwarranted self-fulfilling market dynamics**



- The history of ECB interventions includes **both lending operations and asset purchases**



- **Several safeguards pose limits** to central bank interventions in the euro area
 - Monetary financing prohibition
 - Proportionality requirement