# The European repo market at 2018 year-end

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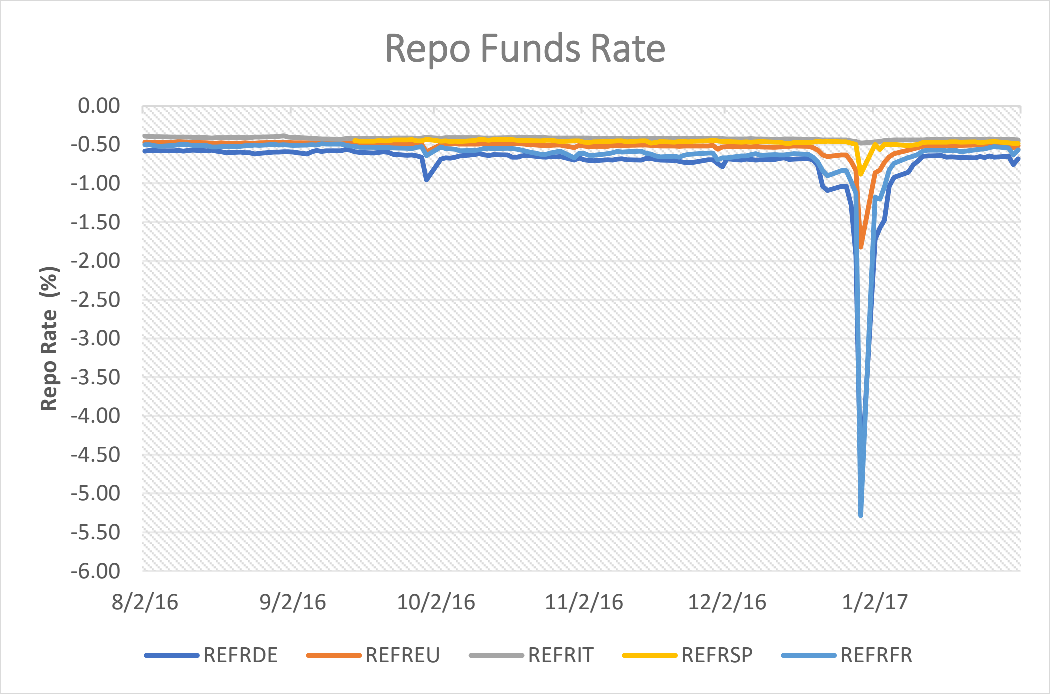
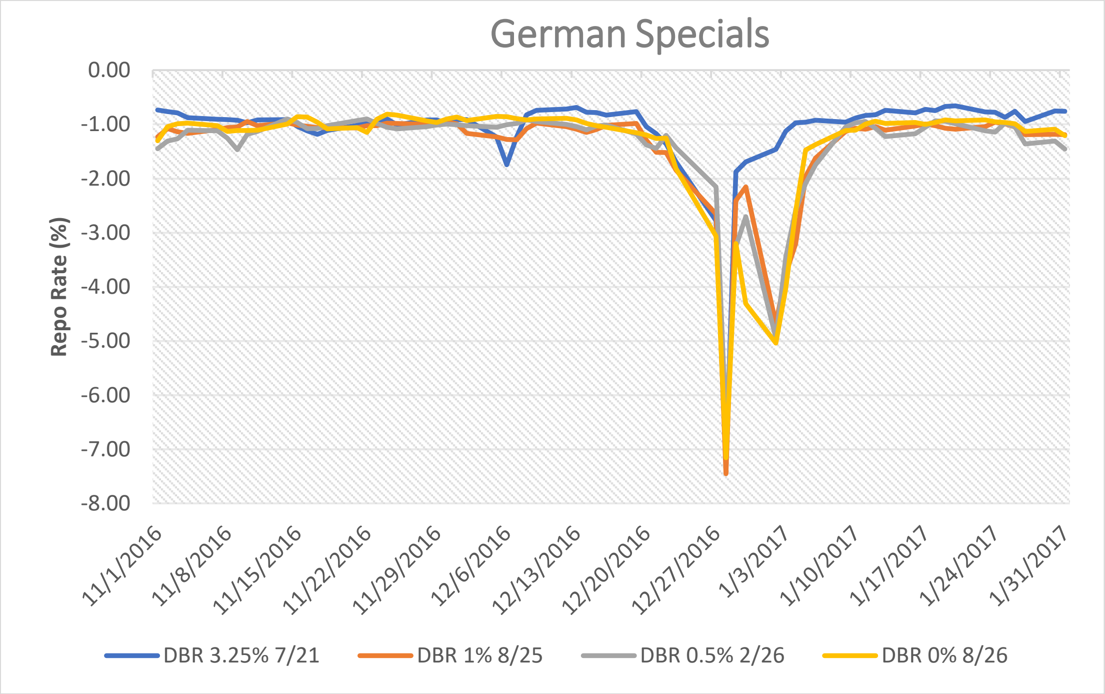
## 2018 year-end in the European repo market

- Compared with the previous two year-ends, 2018 was relatively uneventful.
- As with going into the 2017 turn, firms began managing their financing and collateral requirements early.
- Focus on drivers of year-end illiquidity and volatility remain: regulatory reporting requirements (Leverage Ratio, national bank levies, G-SIB capital surcharge); market positioning; leverage; FX basis; access to PSPP lending programmes.
- Core Euro GC and specials did come at a premium leading up to the turn (-3.50%/-4.50%) but then cheapened significantly into year-end itself.
- Meanwhile, non-core GC saw scarcely an impact, with only some specials becoming difficult to find.
- The short-date Gilt repo market tightened slightly, however term spreads widened notably, seemingly caused by the introduction of UK bank ring-fencing.
- The US treasury repo market was the real surprise, with an unexpected scramble for cash sending rates notably higher.
- While the markets, for the most part, were fairly orderly, it is clear that a number of year-end pressures and risks persist.

# 2016 sets the baseline for measuring year-ends

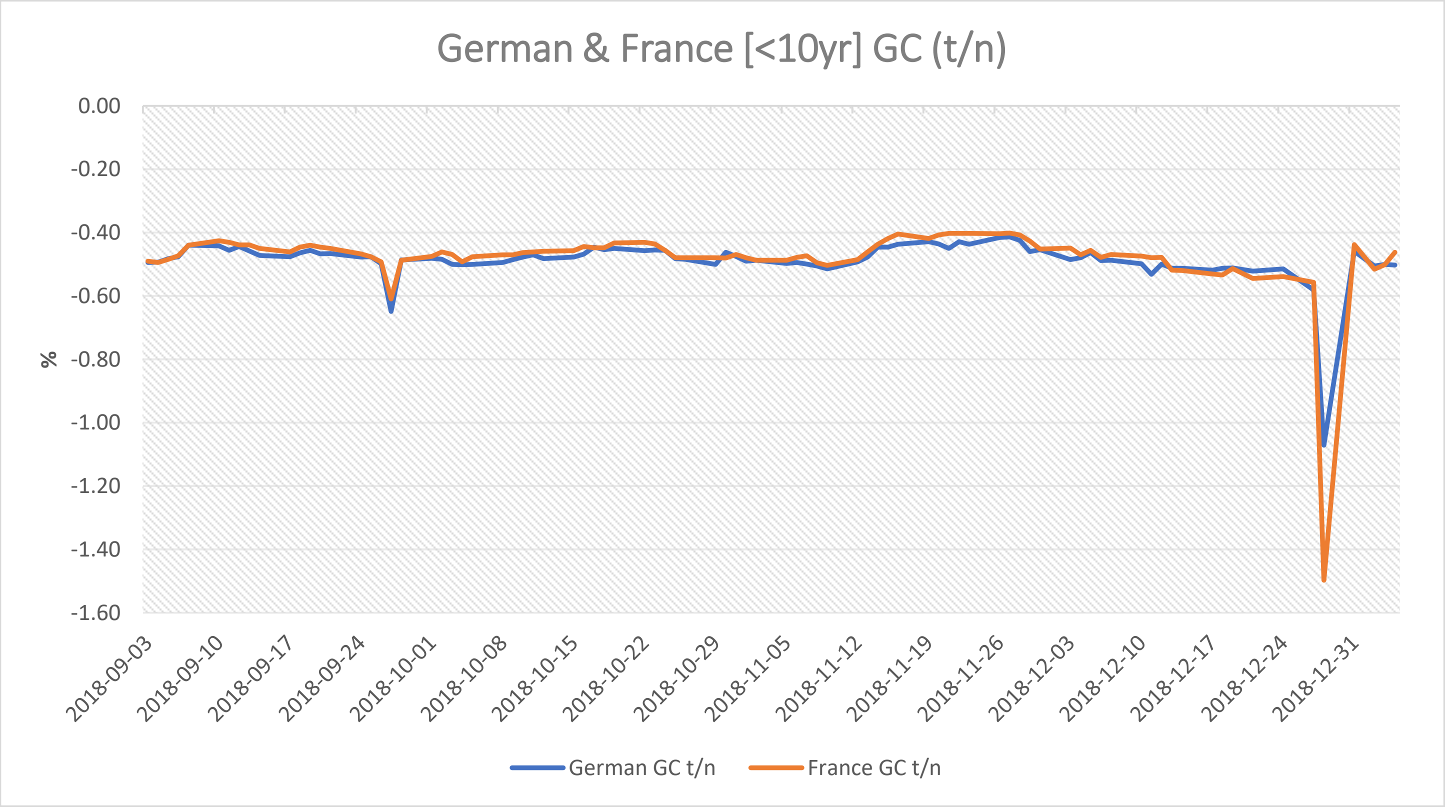



Source: Bloomberg



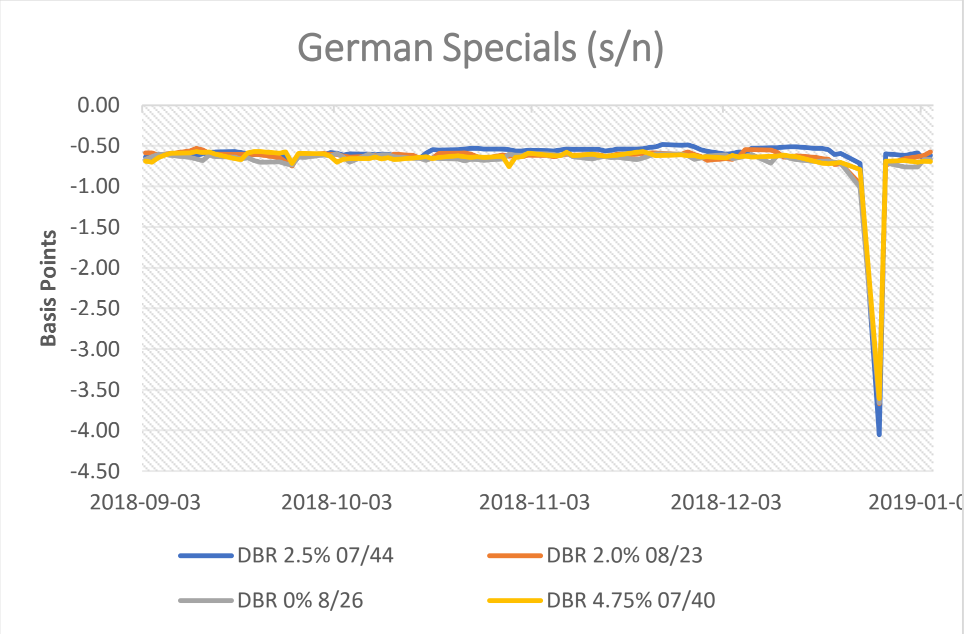

Source: Nex Data Services Limited (Brokertec)

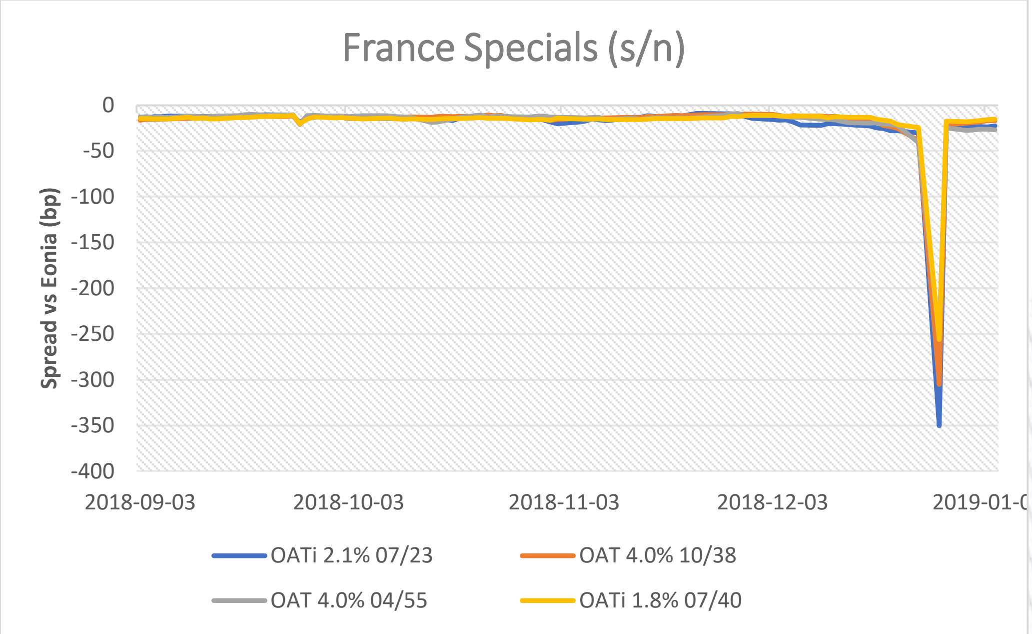
# Germany & France GC




Source: Source: Nex Data Services Ltd (BrokerTec Repo)

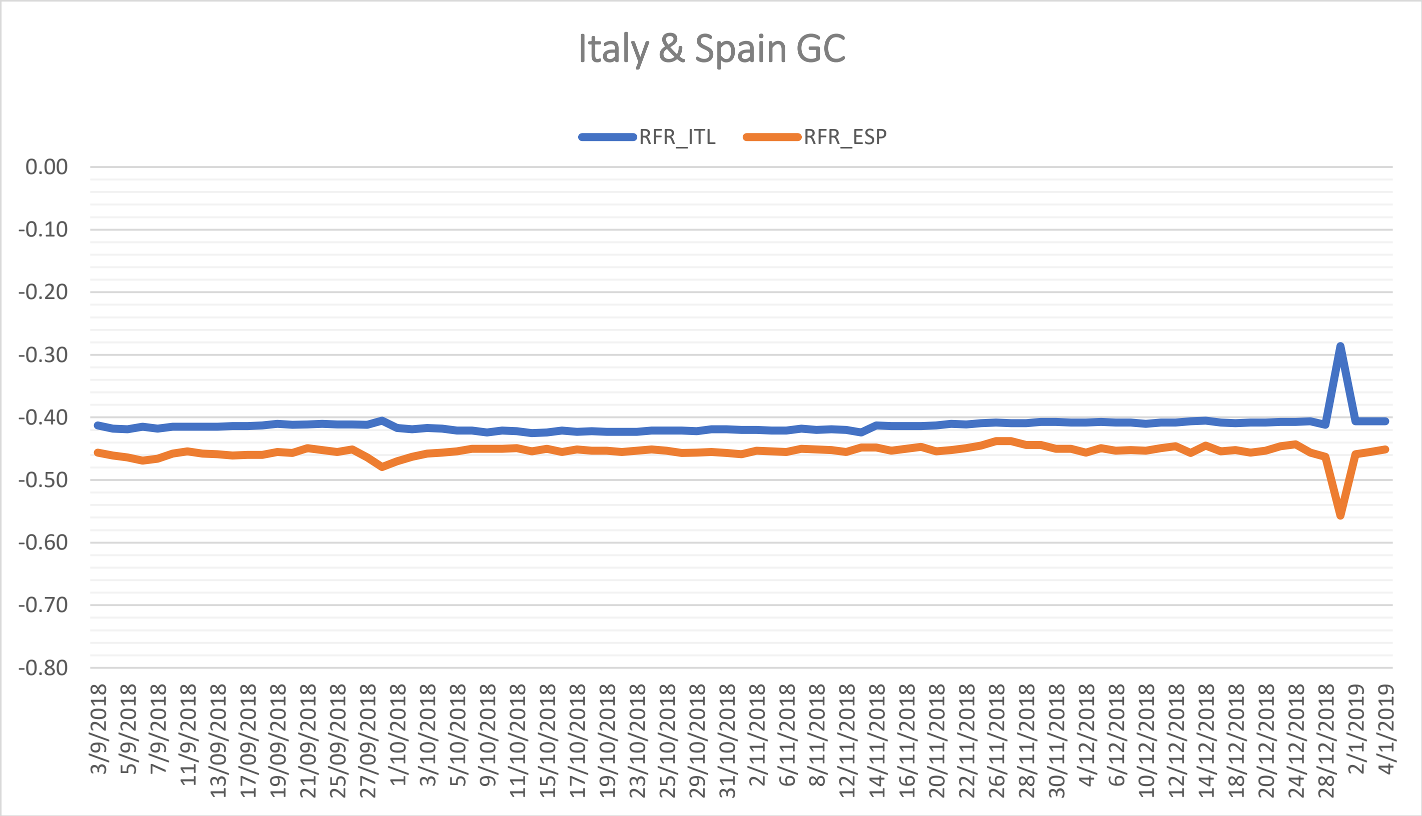
## Germany & France Specials



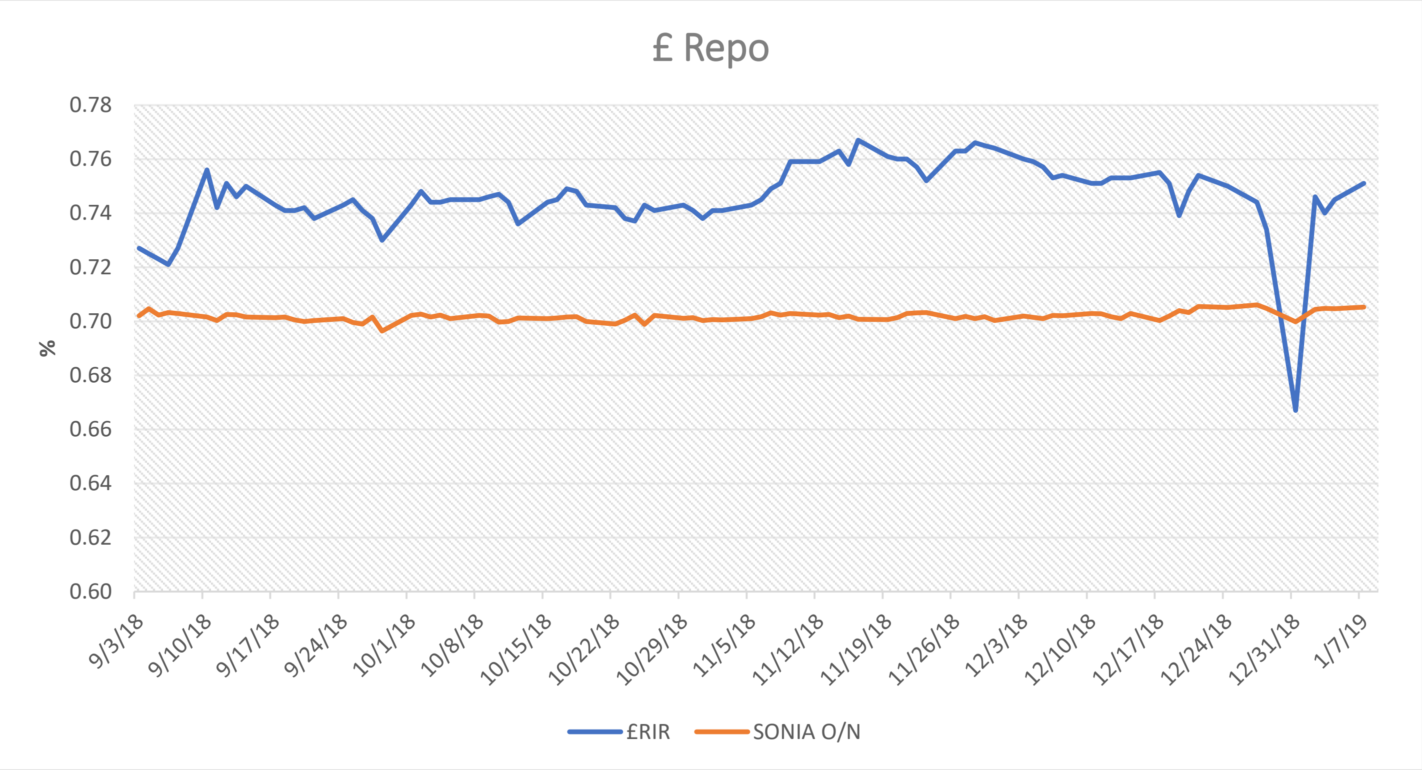

Source: Source: Nex Data Services Ltd (BrokerTec Repo)

# Italy & Spain GC



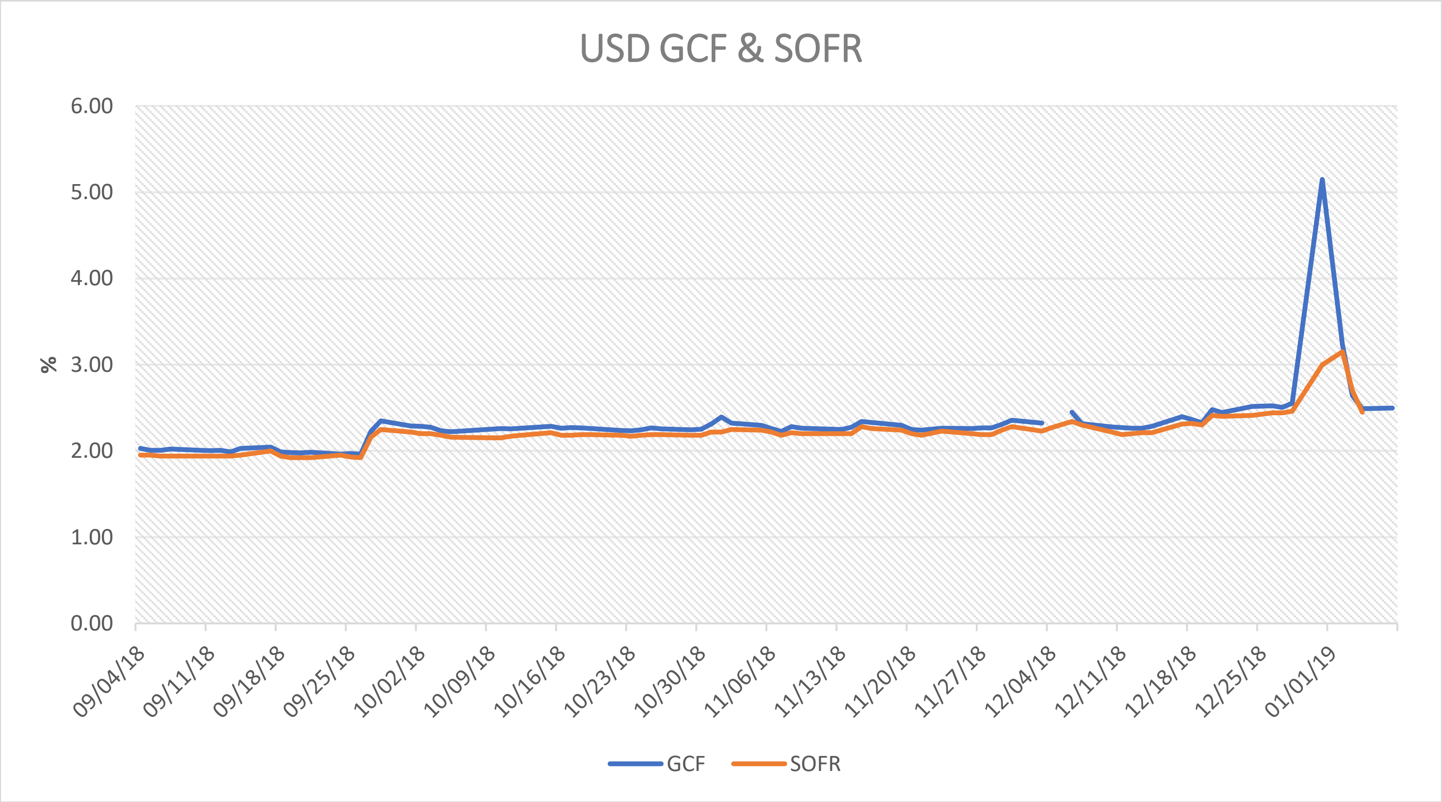

Source: Repo Funds Rate

# Sterling repo




Source: Bloomberg

# USD repo

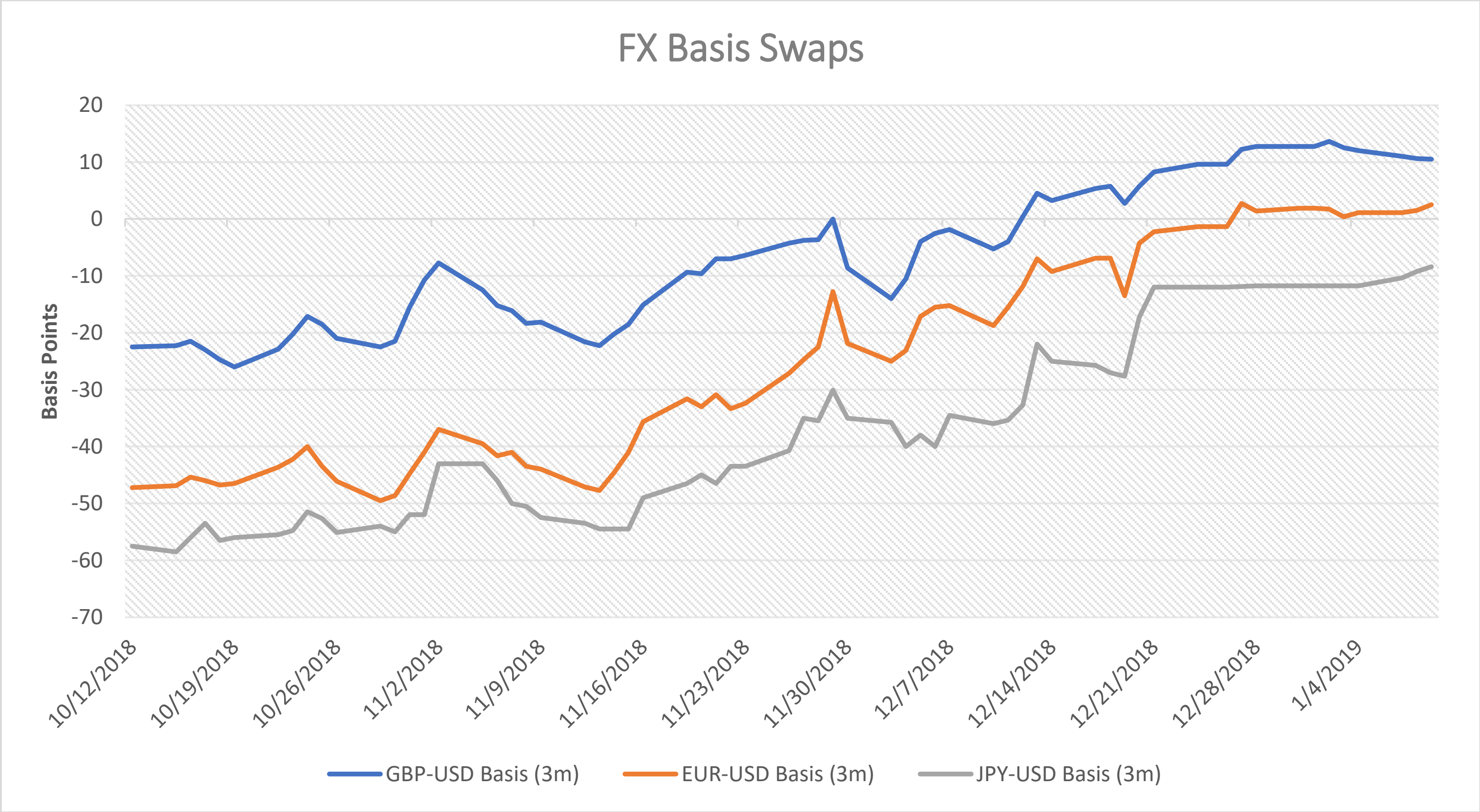



Source: Bloomberg

## Drivers of USD repo rates at 2018 year-end

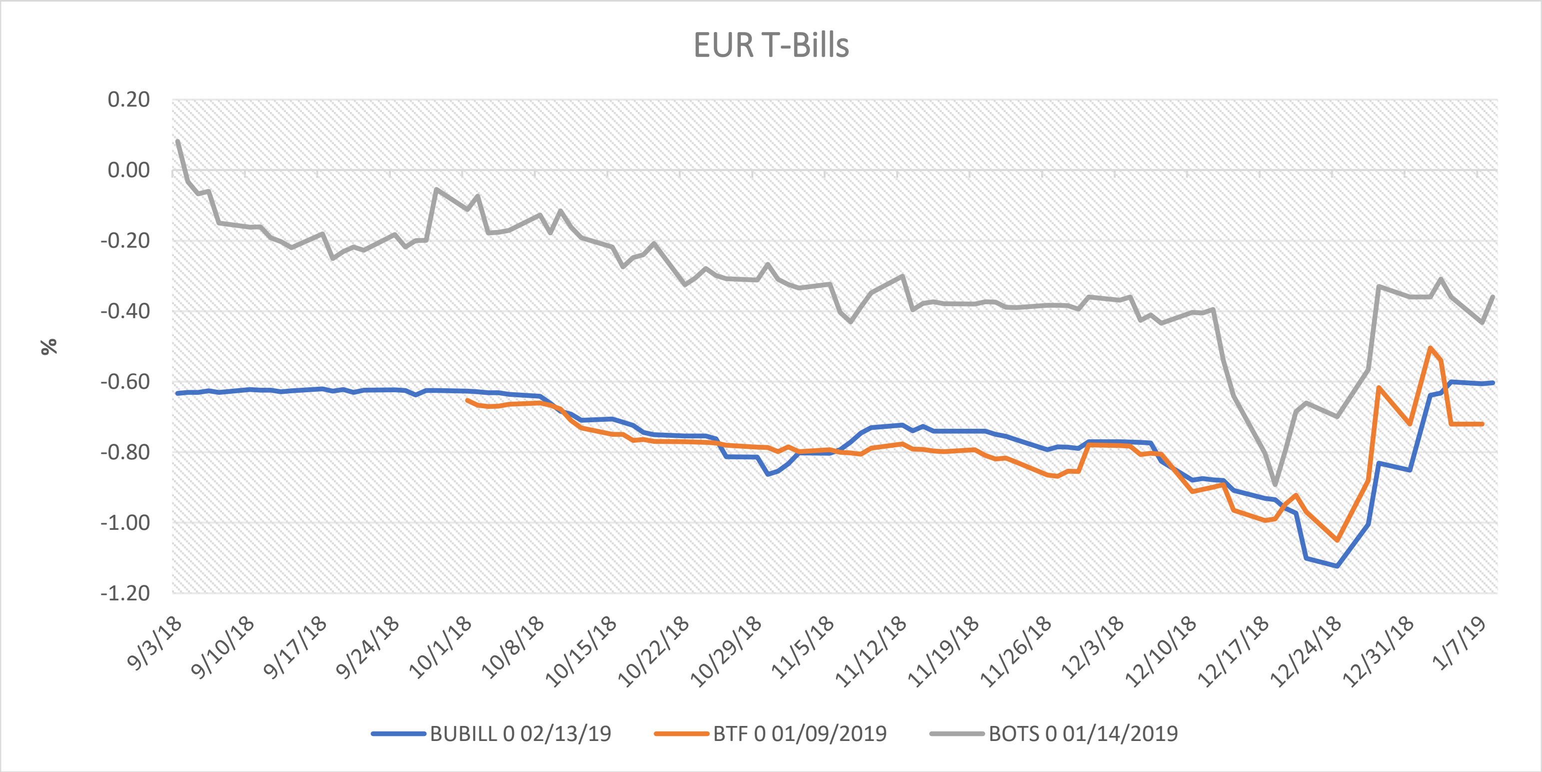
- Market participants cite a general reduction in balance sheet capacity of US banks as they managed their liabilities in light of the G-SIB capital surcharge requirements.
- US banks are reported to have been holding a record amount of US Treasuries following heavy issuance into year-end, putting more pressure on balance sheets. This was further compounded by an increase in relative value trading in the US markets from global leveraged funds.
- It would seem that the market was short dollars, prompting an unexpected scramble for USD funding. This is reflected in the cheapening of the FX basis swap in particular for JPY.

# FX basis swaps (3mths vs 3mths)




Source: Bloomberg

# Euro T-bill yields




Source: Bloomberg

## Conclusion

- Since 2016 it would seem as if the market has become more aware of these risks and better prepared in terms of managing its year-end financing and collateral requirements.
- Locking-in funding early, however, comes at a premium.
- However, while the extreme levels and dislocations of the 2016 turn have not been repeated since, there is still plenty of quantitative and qualitative evidence to suggest that year-end pressures persist, and that access to repo and lending markets for many firms is impaired.
- As the US repo rate spike reminds us, the problems flagged by the 2016 turn have not necessarily gone away, they just manifest themselves in not entirely predictable ways.