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Press release

News from the International Capital Market Association (ICMA)

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European repo market recovers as banks return to the market for funding

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 25th semi-annual survey of the European repo market. The survey, which computes the amount of repo business outstanding on 12 June 2013, sets the baseline figure for market size at EUR 6,076 billion. This represents an increase of 8.6% in the size of the market since the last survey in December 2012, (measured using a constant sample of survey respondents).

This recovery in the European repo market is in marked contrast to the contraction in the US repo market which was widely reported in July. The revival in repo activity in Europe appears to be driven by banks in the eurozone returning to the market for funding as they start to repay the exceptional assistance of over 1 trillion euros, provided to the market via the European Central Bank through the Long Term Refinancing Operations (LTRO) liquidity of December 2011 and February 2012. The LTRO repayments have contributed to tighter market conditions and a steepening money market yield curve. The higher rates and greater market confidence have attracted lenders away from the ECB deposit facility (which pays zero percent) and back into the market.

The survey also revealed that the market share of euro-denominated repo has recovered over the same 6 month period since December 2012, now comprising 64.8% of the survey total, providing further evidence for the role of the LTRO repayments in promoting recovery in the European repo market.

Godfried De Vidts, Chairman of ICMA's European Repo Council said: "The long running ICMA-ERC semi-annual survey has proven to be highly valuable as arguments around the repo markets have flared up in regulatory discussions of late. The ERC will publish shortly a view on how a more comprehensive gathering of data may be accomplished. Today's survey shows a healthy market that provides cash/collateral liquidity between interbank market participants in a secured way as mandated by Basel. This in itself provides a much safer way of distributing liquidity, in contrast to unsecured lending where counterparties are 100% exposed to each other. I hope the value of the repo product continues to be recognised while we engage with policy makers on the new framework as highlighted in the recent FSB report."

Other key findings of the survey:

- Short-dated repos (one month or less to maturity) increased their share of business to 57.25 (from 50.5% in the last survey). This was mainly driven by terms between one week and one month, suggesting that the attraction was higher repo rates due to the steepening money market yield curve at maturities without too much risk.
- Domestic business recovered market share (up to 30.7%) at the expense of cross-border transactions with a counterparty outside the eurozone (down to 29.3%), another possible indicator of a return towards normality. In periods of market tension, many domestically-focussed banks have switched to central bank facilities, whereas internationally-active banks have tended to retreat less from the market.
- There was modest growth in electronic trading to 33.1% of the surveyed repo business, but anonymous (CCP-cleared) electronic trading has increased to 94.1% of this total. Two trends appear to have been at work: some banks (eg Spanish banks) have been able to return to the non-electronic non-CCP market, where haircuts are lower; while others (eg Italian banks) have been forced to rely more on CCP-cleared, largely electronic, repos.
- Directly-negotiated repos continued to recover market share to 52.3% of the surveyed amount, while voice –brokered business declined to 14.6%, an all time low for the survey. Tri-party repos retained a consistent market share of 9.6%. The larger directly-negotiated business may reflect the ability of some banks to return to the non-electronic non-CCP market.
- The repo books of 39 out of the survey sample of 65 institutions expanded in the current survey.

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Notes for editors

1. ICMA ERC European repo market survey

The survey is based on returns received from 65 financial institutions in Europe, and is a snapshot of the volume of repo trades outstanding on a single day in June 2013. It is conducted by the ICMA Centre at the University of Reading

A copy of the 25th ICMA ERC European Repo Survey can be downloaded from ICMA's website at: www.icmagroup.org

2. International Capital Market Association (ICMA) and European Repo Council

ICMA represents financial institutions active in the international capital market and has members located in 53 countries. ICMA's market conventions and standards have been the pillars of the international debt market for over 40 years, providing the framework of rules governing market practice which facilitate the orderly functioning of the market. ICMA actively promotes the efficiency and cost effectiveness of the capital markets by bringing together market participants including regulatory authorities and governments.

The ICMA European Repo Council is a special interest group established under the auspices of ICMA to represent the major banks active in Europe's cross-border repo markets.