



June 14th 2022

ECB Money Market Contact Group

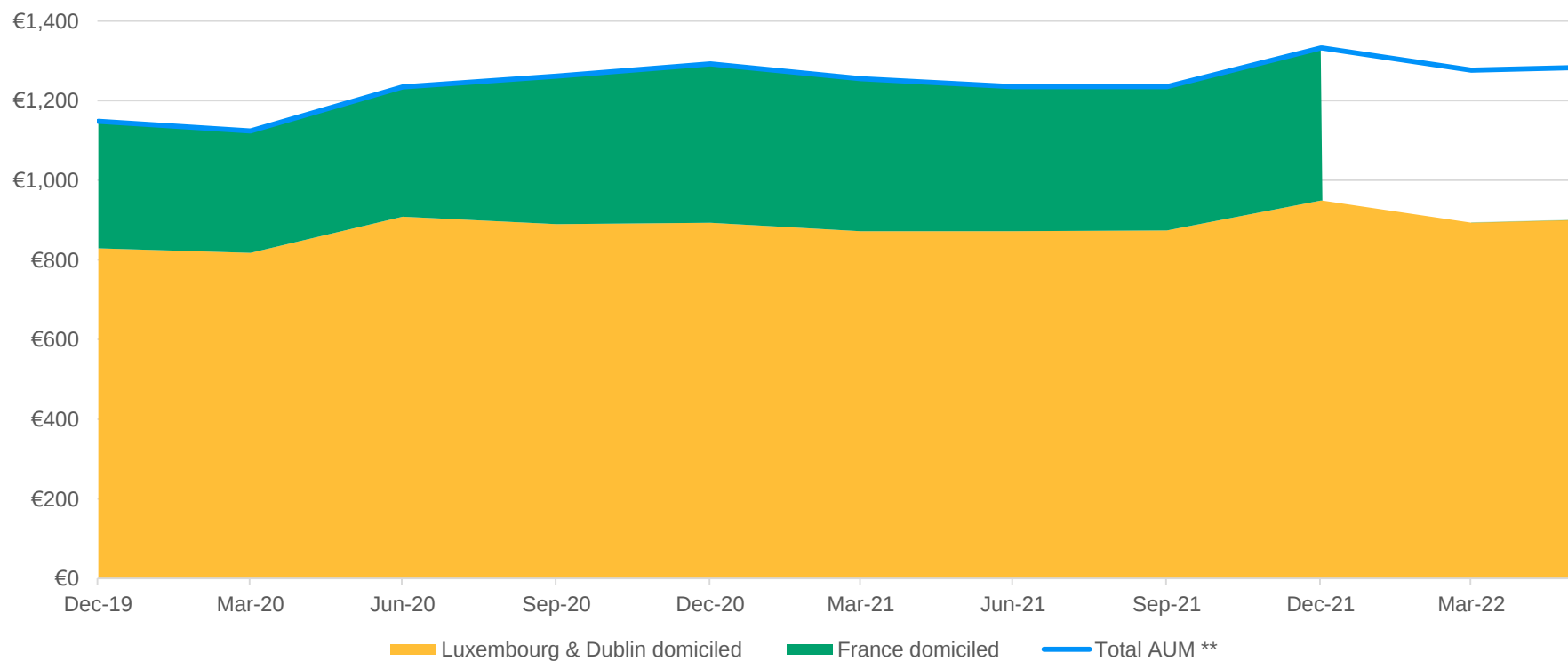
The growing impact of non-bank financial intermediaries (NBFIs) focusing on Money Market Funds (MMFs)

Olivia Maguire, CFA
Global Liquidity Portfolio Manager

Money Market Funds in Europe

Let's start with the size of the market

Figure 1: European domiciled MMF AUM (in billions)



Source: Banque de France (BdF) Webstat, iMoneyNet Fund Analyser, Bloomberg as at June 1st 2022

** BdF data only available until end 31/12/2021 and only includes MMFs included in monetary aggregates. 'Total AUM' for 2022 calculated assuming France domiciled AUM unchanged from 31/12/2021.

Some further breakdown on fund types and currency

Fig 2: EMEA AUM by fund type (in billions)

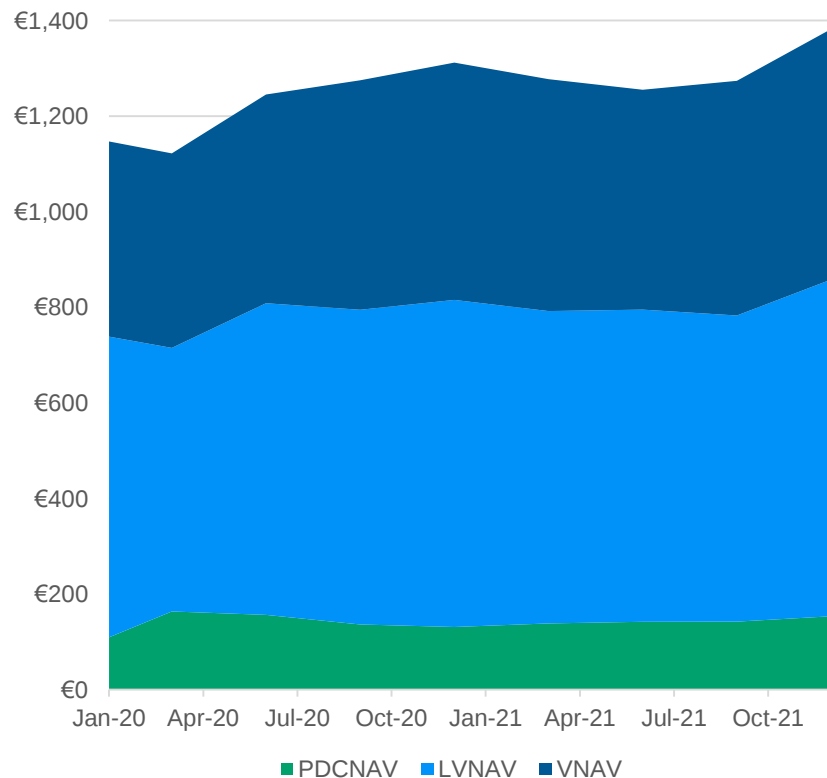
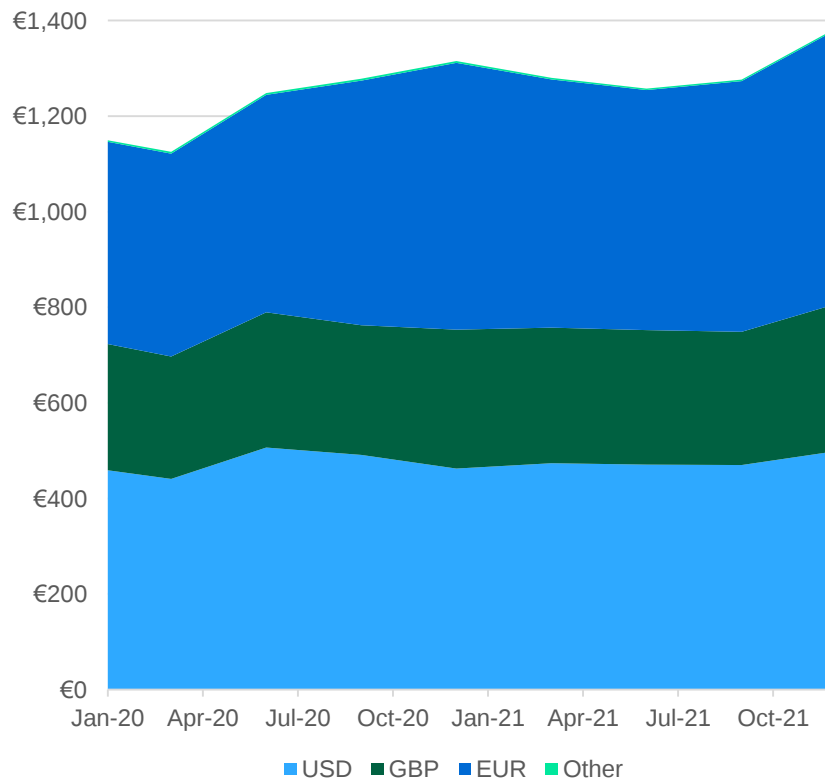


Fig 3: EMEA AUM by currency (in billions)



PDCNAV – Public Debt Constant Net Asset Value; **LVNAV** – Low Volatility Net Asset Value; **VNAV** – Variable Net Asset Value

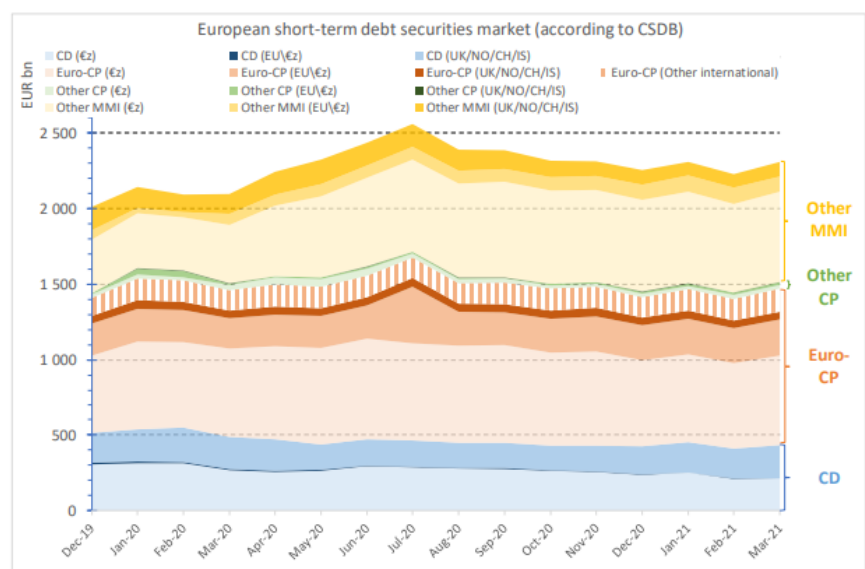
Source: Banque de France (BdF) Webstat, iMoneyNet Fund Analyser, Bloomberg as at December 31st 2021

MMFs are not the only investors in European short-term debt markets

The AMF estimated the short term market debt outstanding to be > €2.3 trillion in Q121

Fig 4: European short-term debt market over 2020

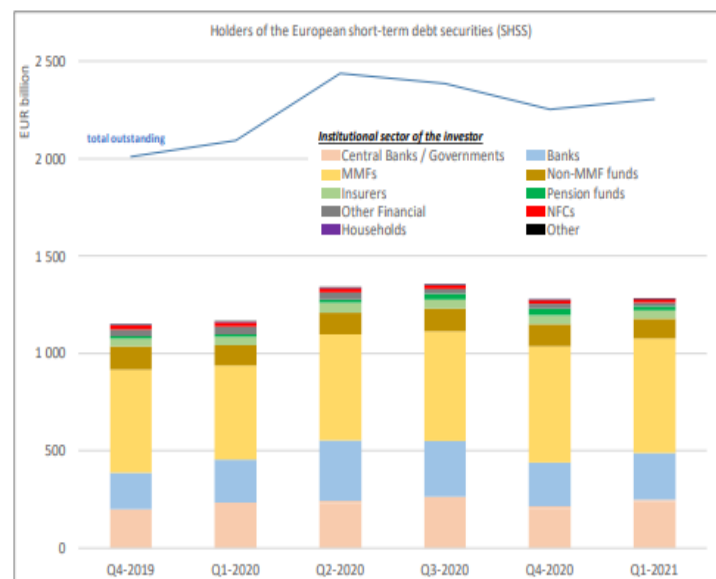
Figure 6: European short-term debt market over 2020, according to CSDB



Source: CSDB

Fig 5: Institutional sector of holders of ST debt

Figure 26: Institutional sector of the holders of European short-term debt securities



Source: SHSS, CSDB

Source: CSDB, SHSS, AMF from Darpeix, P.E. (March 2022) "The market for short-term debt securities in Europe: what we know and what we do not know" www.amf-france.org

Focus on MMFs cash holdings in EUR funds

MMFs hold between 15-40% in very short dated liquidity e.g. time deposits or reverse repo

Fig 6: EUR LVNAV Fund investments

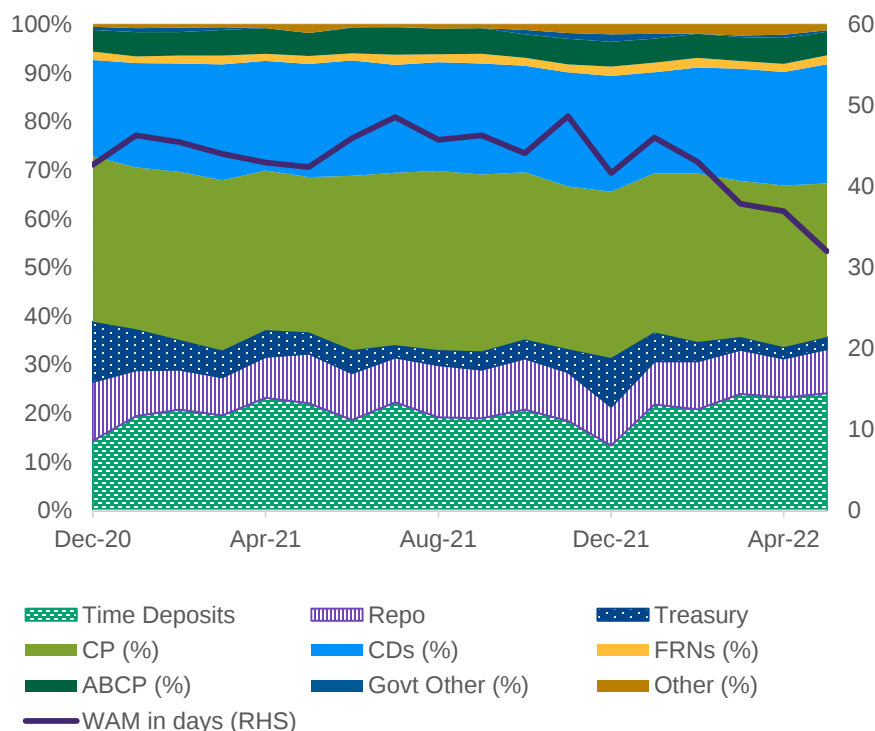
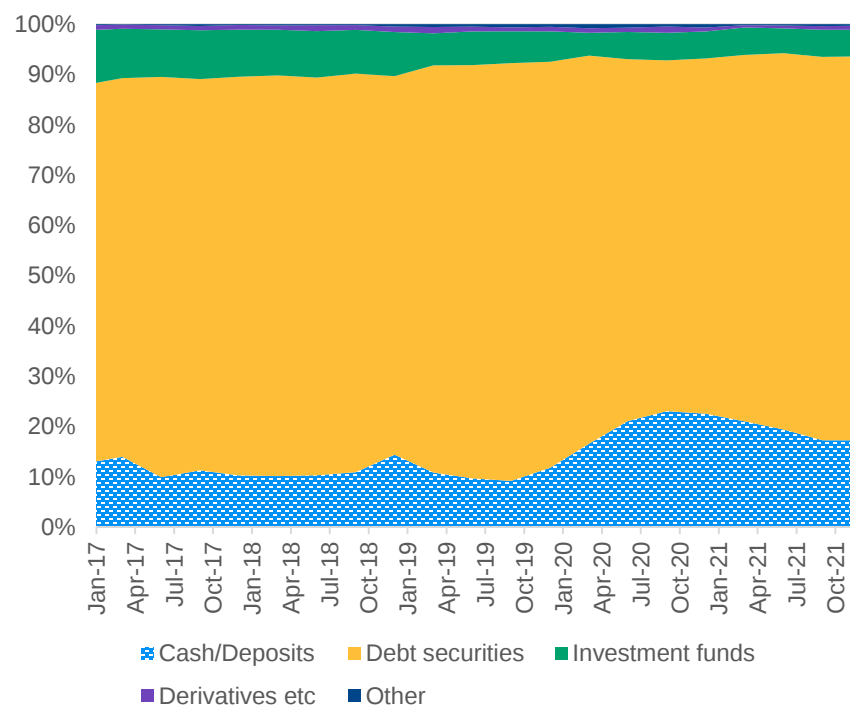


Fig 7: French domiciled MMF investments



Source: Figure 6: iMoneyNet Fund Analyser, Bloomberg as at May 31st 2022. Figure 7: Banque de France (BdF) Webstat as at December 31st 2021

MMFs have increased liquidity and decreased duration

Fig 8: EUR LVNAVs liquidity and duration trend

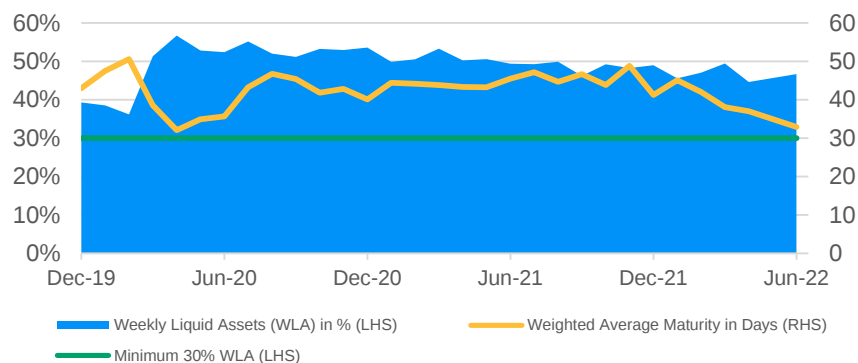


Fig 9: GBP LVNAVs liquidity and duration trend

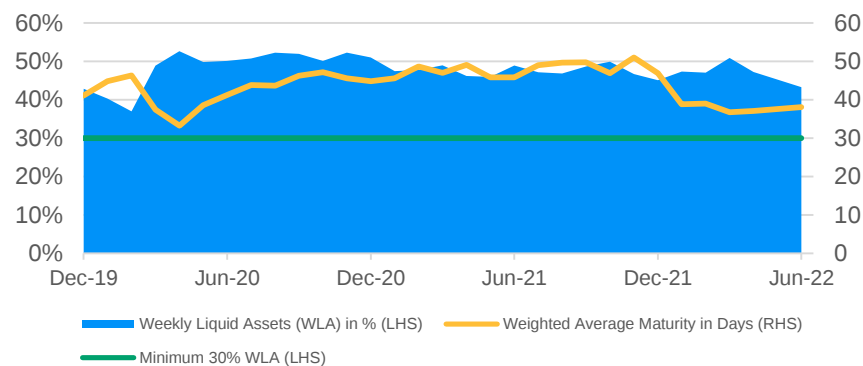


Fig 10: USD LVNAVs liquidity and duration trend

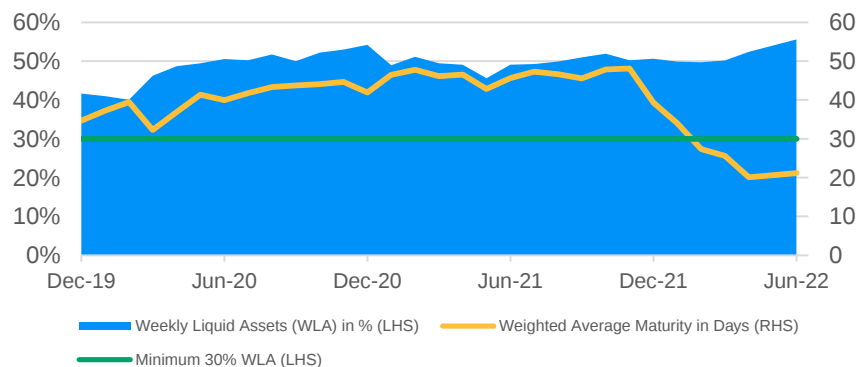
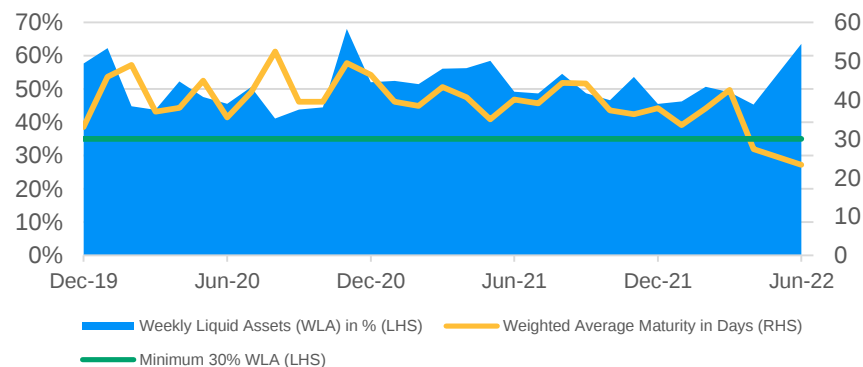


Fig 11: AUD LVNAVs liquidity and duration trend



Source: iMoneyNet Fund Analyser, Bloomberg as at May 31st 2022.

One driver is interest rate expectations..



Fed and BoE pricing starting to soften, while the ECB accelerates

GTM

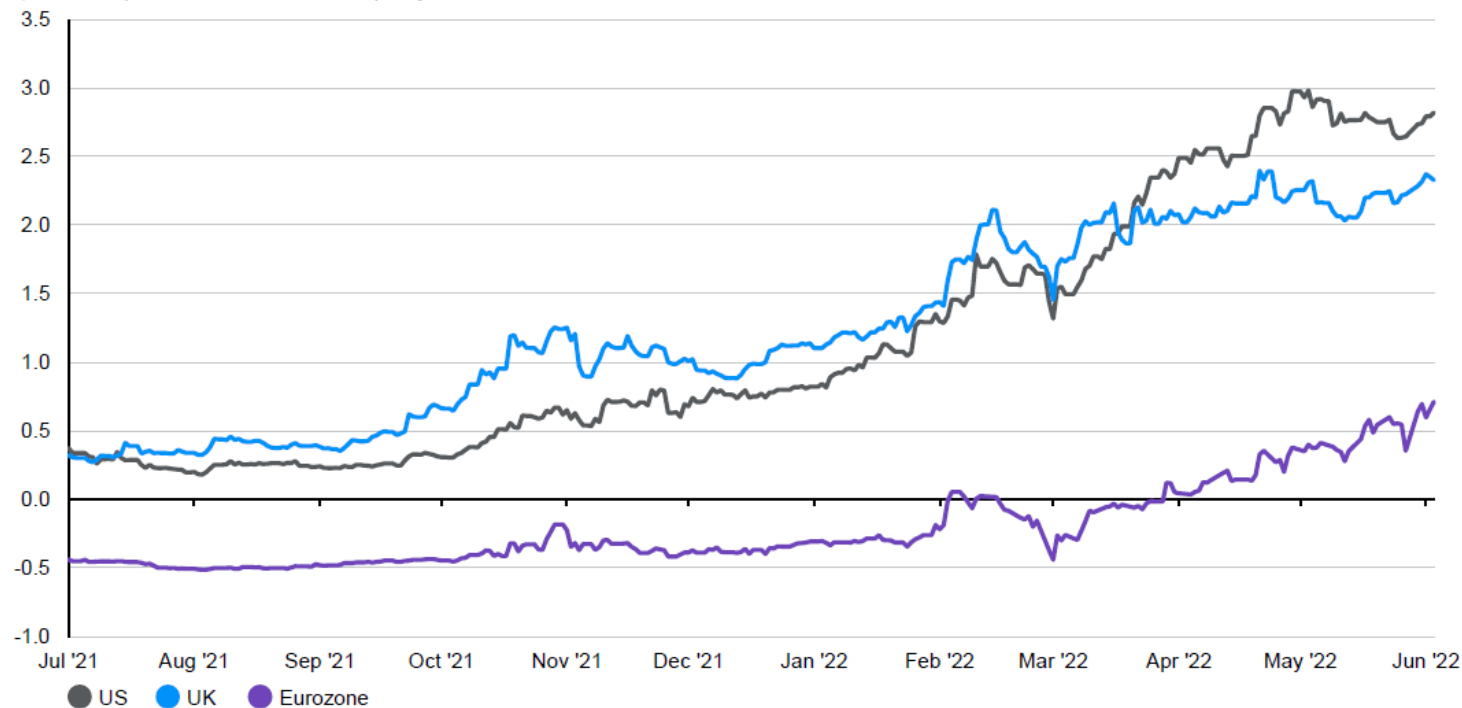
UK

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Global economy

Market pricing for policy rates at the end of 2022

%, market expectations for central bank policy rates



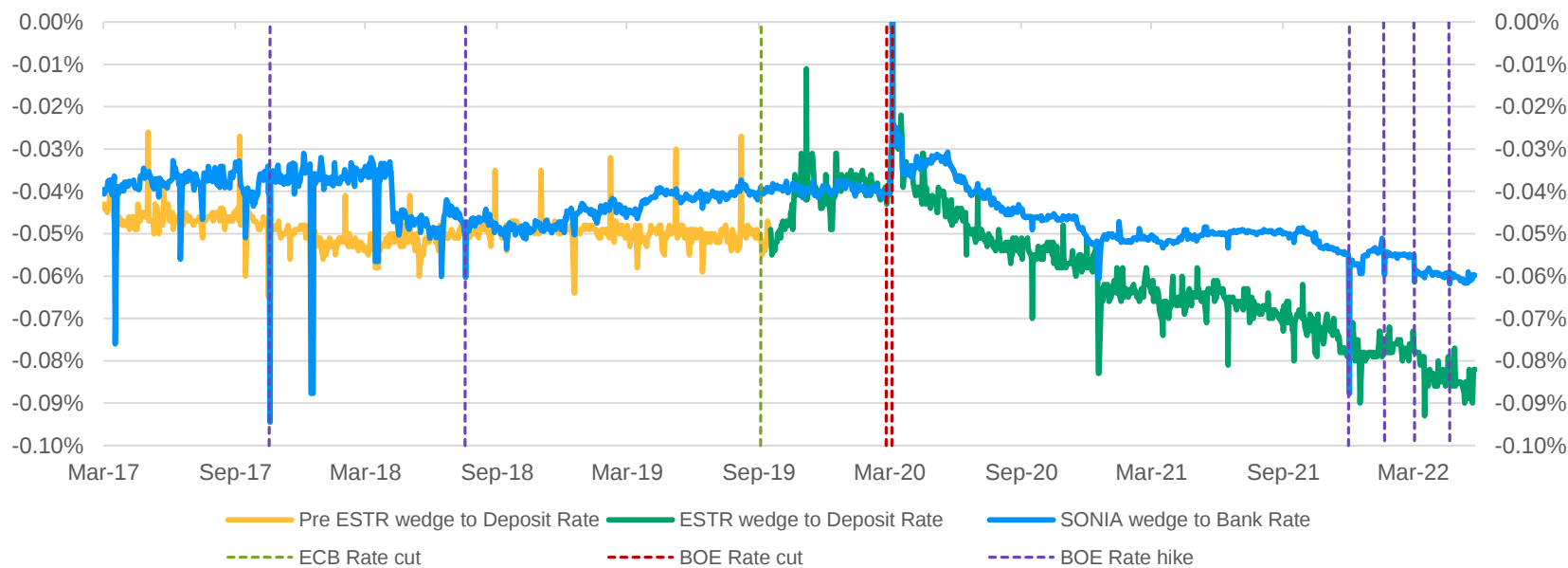
Source: Bloomberg, J.P. Morgan Asset Management. Calculated using OIS forwards. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – UK. Data as of 3 June 2022.

Other factors are at play too:

- **Regulatory requirements for minimum Daily Liquid and Weekly Liquid Assets**
- **Cyclicalities of flows – quarter ends & year ends**
- **Market risk off sentiment with conflict in Ukraine**
- **Uncertainty around inflation expectations and future path of rates**
- **Longer end swap volatility driving flows especially for LDI clients**
- **MMF yields tracking the market rates higher as base rates increase in USD, GBP, AUD etc.**

Impact of NBFIs deposits on overnight rates

Fig 12: Wedge between policy rates and overnight deposits in EUR and GBP



- The wedge between overnight unsecured deposit rates and policy rates has remained fairly stable
- Wedge largely reflects regulatory costs for banks to take these deposits onto balance sheet
- TLTRO repayments shouldn't impact ESTR as this is a reduction of excess liquidity, ESTR could still increase if excess liquidity flows back into deposits
- Pass-through of rate move may depend on % counterparties with access to ECB deposit facility (approx. 3%**)
- Asymmetric reaction to policy move e.g. hike vs cut and depending on retail vs corporate
- Does partial pass-through impact central bank credibility?

Source: Bloomberg, Barclays Research (Giuseppe Maraffino, May 2022 "€ESTR and depo rate hikes: the unknown reaction" <https://live.barcap.com>). Note that the SONIA wedge to Bank Rate does go above zero to +0.1134% on March 19th 2020 but is not shown in figure 12. ECB rate changes are assumed from the start of the subsequent reserve period for ESTR wedge calculations.

** Reference ECB (Benoit Coeure, 2019, "A tale of two money markets: fragmentation or concentration" www.ecb.europa.eu)

MMFs have generally reduced duration & increased spread duration via floating rate notes

Fig 13: EUR LVNAV Duration & Spread Duration

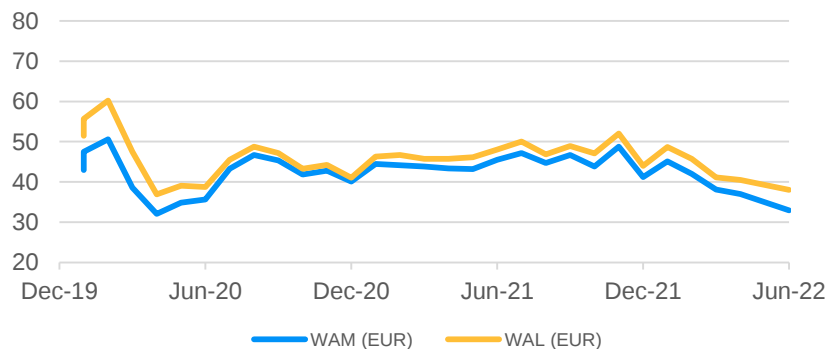


Fig 14: GBP LVNAV Duration & Spread Duration

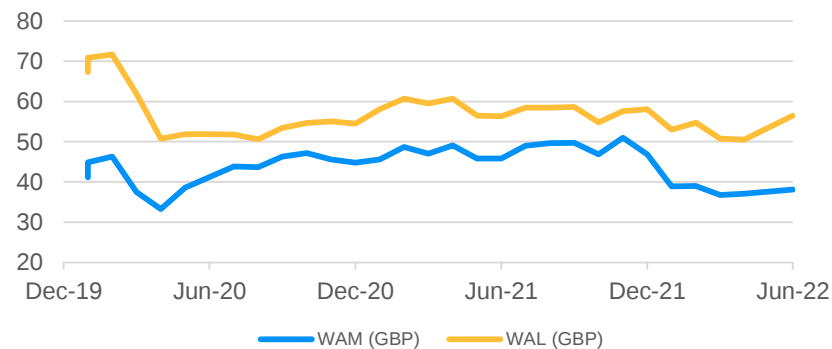


Fig 15: USD LVNAV Duration & Spread Duration

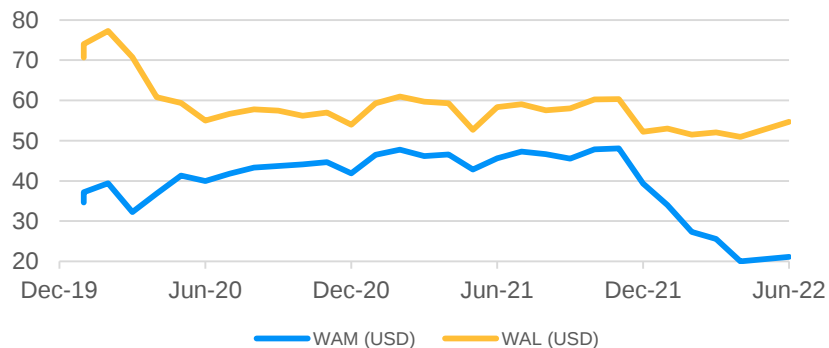
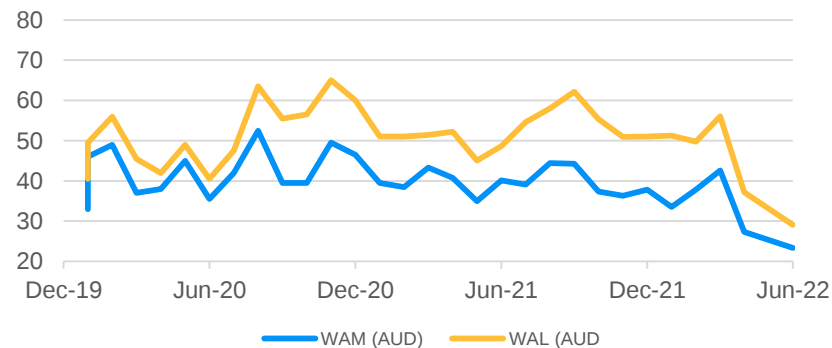


Fig 16: AUD LVNAV Duration & Spread Duration



Source: iMoneyNet Fund Analyser, Bloomberg as at May 31st 2022.

This has put pressure on MM rates – USD FRA OIS and issuing levels

Fig 17: USD FRA-OIS 3mth spread in bps (USFOISC1)

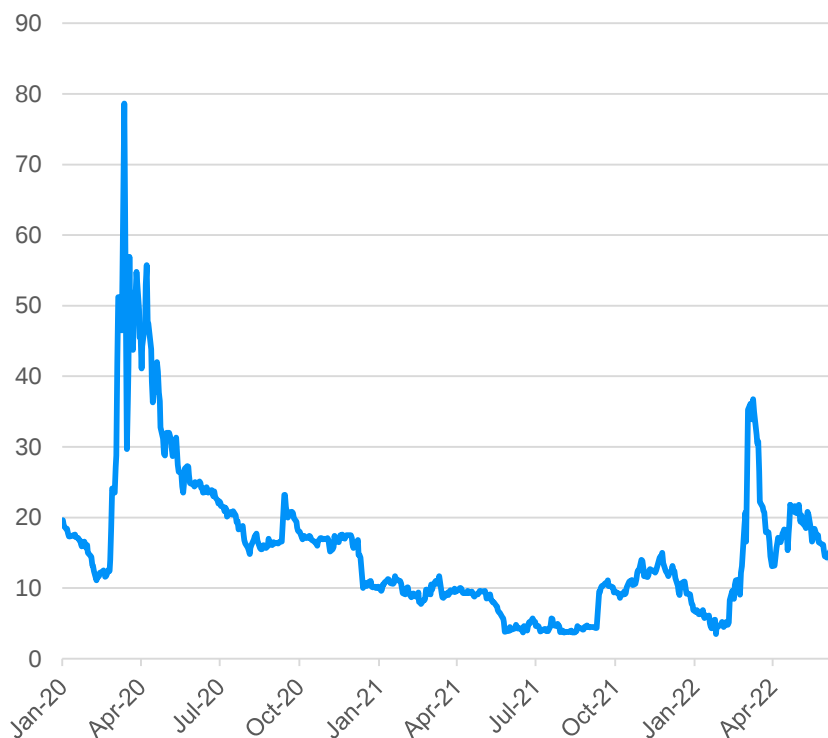
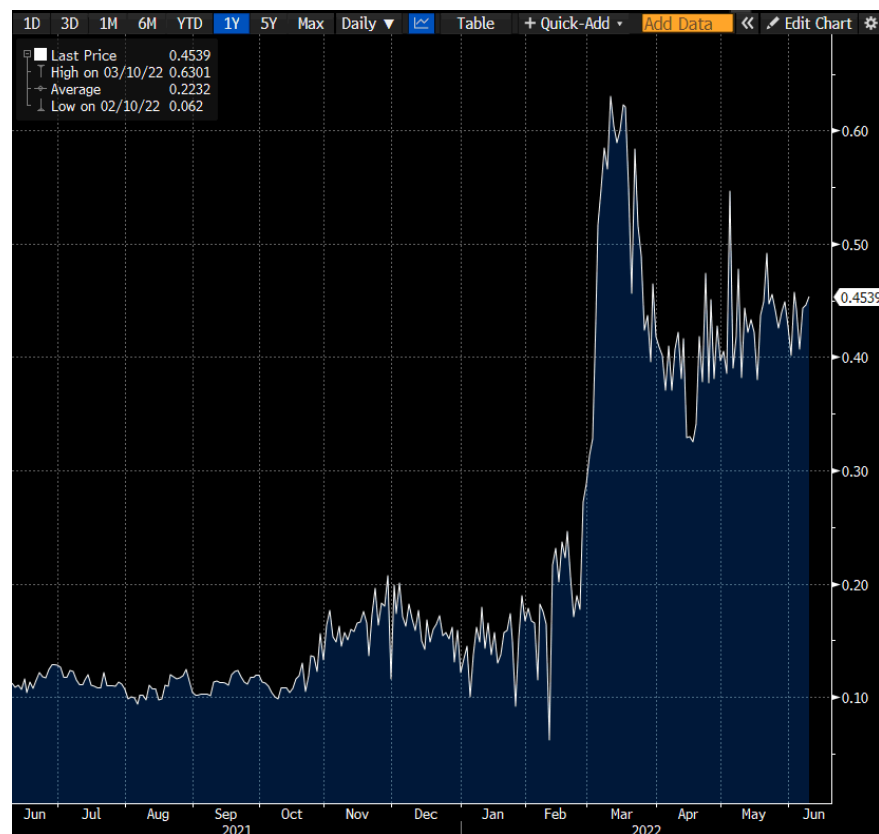


Fig 18: Issuer specific 1yr offer vs OIS in USD



Source: Figure 17 – Bloomberg as at June 9th 2022. Figure 18 – Bloomberg and Toronto Dominion Research as at June 9th 2022. Issuer rated A-1+/P-1

Pressure also evident in other currencies

Fig 19: Issuer specific 1yr offer vs OIS in EUR

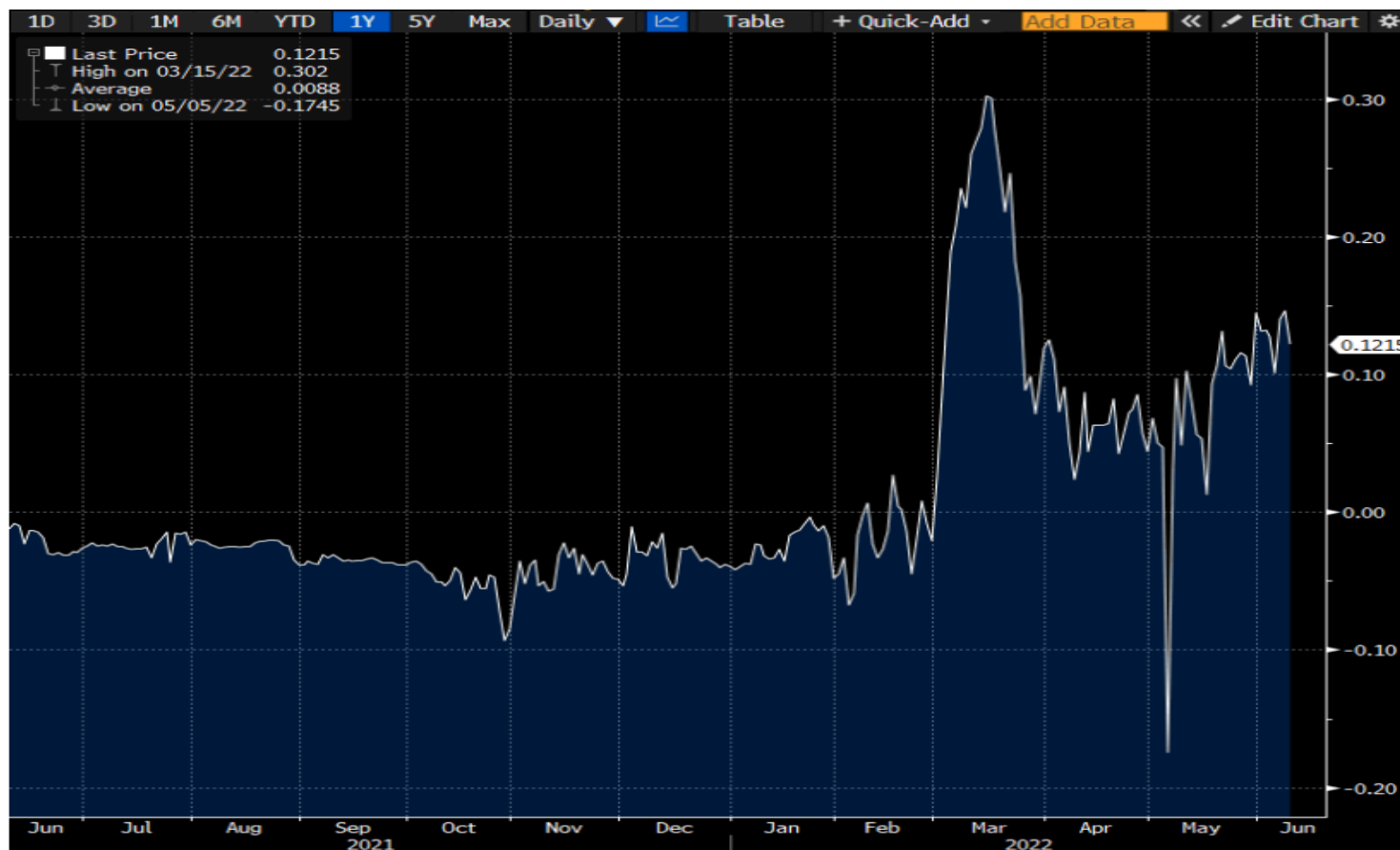
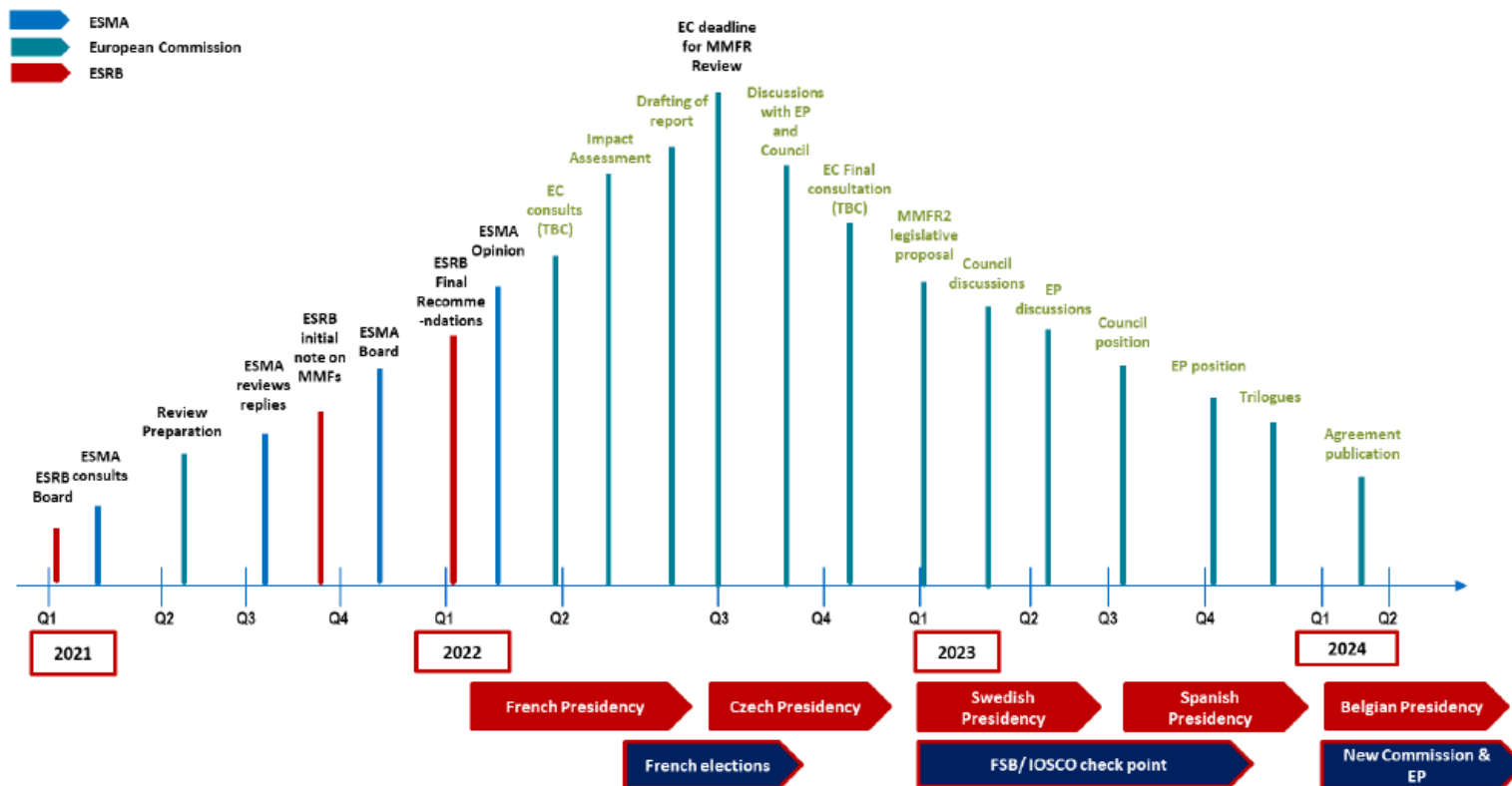


Figure 19 – Bloomberg and Toronto Dominion Research as at June 9th 2022. Issuer rated A-1+/P-1.

Upcoming MMF regulatory change could also impact → estimated timeline

MMFR Review Timeline: Estimated Timelines in Green



Source: KREAB, February 2022

Source: KREAB as at February 2022.

MMF regulatory change - what proposed amendments have been put forward?

Fig 20: ESRB - recommendations

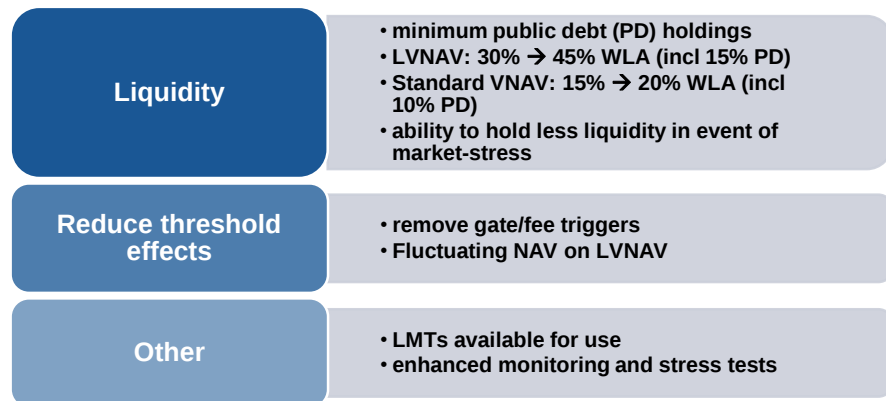


Fig 21: ECB – proposed reforms

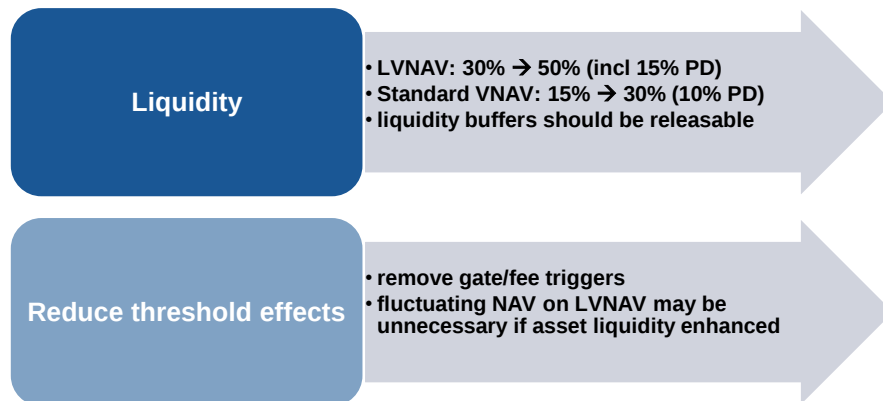


Fig 22: ESMA -proposals

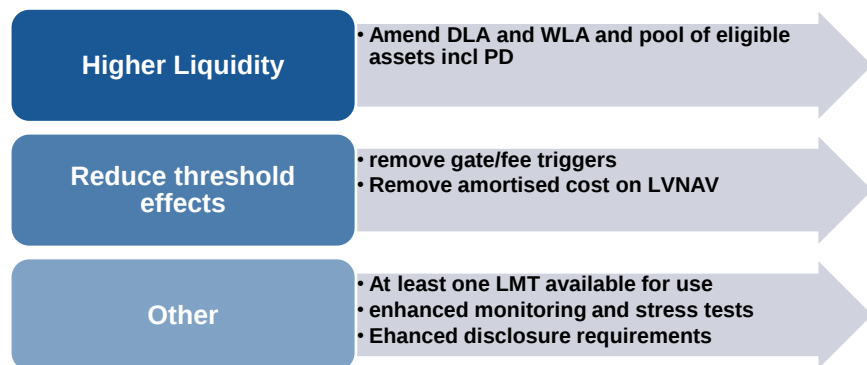
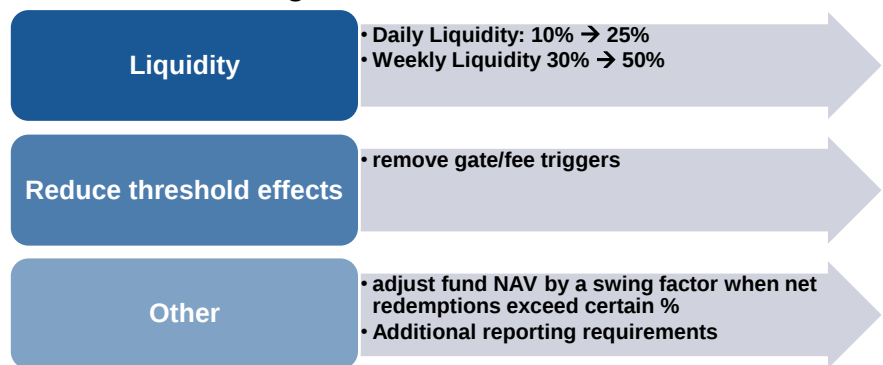


Fig 23: SEC – proposed & responses to public consultation being considered



Sources:

- Figure 20 – ESRB from ESRB/2021/9: “Recommendation of ESRB on reform of 2 December 2021 on money market funds” <https://www.esrb.europa.eu/>
- Figure 21 – ECB from Grill, M., Molestina Vivar, L., Mücke, C., O'Donnell, C., O'Sullivan, S., Wedow, M., Weis, M. and Weistroffer, C. (2022) - “Mind the liquidity gap: a discussion of money market fund reform proposals”. www.ecb.europa.eu
- Figure 22 - ESMA from ESMA34-49-437: “Final Report: ESMA opinion on the review of the Money Market Fund Regulation. www.esma.europa.eu
- Figure 23 - SEC from “Factsheet: Money Market Fund Reforms”. www.sec.gov

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