

37th STEP MARKET COMMITTEE MEETING - Remote, 28 February, 14:30 – 17:30 CET -

OPENING AND WELCOME

Mr J.-L. SCHIRMANN opened the meeting by thanking the participants for their availabilities.

Mr J.-L. SCHIRMANN welcomed new participants in the meeting:

- Mr G. DILLEN, Senior Benchmarks Officer at The European Money Markets Institute
- Mr G. CAVARERO from Mediobanca SPA – new member of the STEP Market Committee
- Mr M. GRAZIUSO from European Investment Bank – new member of the STEP Market Committee
- Ms ALGOT-SAME and Mr S. MARCODINI from Banque de France – new observers of the STEP Market Committee

1. SECRETARIAT REPORT ON STEP LABELLING OPERATION

Ms A. MAES gave a presentation on the evolution of the number of STEP labelled programmes.

She explained that the total number of STEP labelled programmes was 214.

In 2022, 14 programmes were STEP labelled. Since the beginning of the year, 1 programme was STEP labelled. In 2022, 8 STEP labels were withdrawn. Since the beginning of the year, 2 STEP labels were withdrawn.

Ms A. MAES also explained that there were 2 programmes beyond the three years and three months limit established for renewals.

There were 2 open requests for which the STEP Secretariat was in discussion with the issuers.

Following a question by Mr F. HEBEISEN, Ms A. MAES explained that the STEP Secretariat did not receive unusual questions for recent applications.

Mr J.-L. SINNIGER inquired about the reasons behind the label withdrawals. Ms A. MAES confirmed that the STEP Secretariat always asks issuers to provide the reasons for withdrawing a STEP label. She added that most of the time, withdrawals were due to a change in the funding strategy.

Mr F. HEBEISEN mentioned that he was recently contacted by an issuer that wanted to convert its programme to a STEP compliant ECP programme. He explained that the issuer could not find any arrangers. In addition, the issuer highlighted that the process to convert an ECP programme was complicated, and the costs were high. Mr J.-L. SINNIGER explained that there was a shifting trend going on within the dealer community. He pointed out that dealers were being more and more selective. In this sense, the issuer that contacted Mr F. HEBEISEN might be deemed not significant enough to warrant the time and effort. Most dealers were currently recalibrating their business. This could impact smaller issuers. He added that, fortunately, there were new participants that were getting ready to enter the dealer market. This could create some oxygen for smaller issuers.

Mr J.-L. SCHIRMANN asked whether Mr F. HEBEISEN heard more about the reasons why the issuer could not find any arrangers. Mr F. HEBEISEN commented that arrangers wanted that the effort put on the table bring additional business or higher margins. However, in Europe, margins were quite low in the ECP or NEU CP business. Mr F. HEBEISEN also added that legal costs were extremely high. Mr J.-L. SINNIGER explained that the commercial paper business was high maintenance. Indeed, compared to other products, it did not provide much in terms of incomes. In this sense, investment banks tend to stick with programmes with high volumes.

2. REPORT ON STEP STATISTICS

Mr J.-L. SCHIRMANN explained that the ECP Statistics Team could not attend the meeting. In their absence, Mr J. FELDKAMP presented the ECB slides.

Mr J. FELDKAMP began by showcasing the overall STEP outstanding amounts. He noted that since September 2022, the overall STEP outstanding amounts gained 12,85%.

Mr J. FELDKAMP highlighted that a slight rebound could be observed in the daily outstanding amounts. He then looked at the yield developments. The presentation focused on the difference between the shortest maturities (0-7 days) and the longest ones (275-366 days). He highlighted that there was a big increase in the yields levels where the key rates were increased.

Mr J. FELDKAMP continued the presentation by providing a breakdown of the STEP outstanding amounts per sector of the issuer. He noted that the trend for the Monetary and Financial Institutions (MFI) and the General Governments (GG) sectors slightly increased.

Mr J. FELDKAMP then looked at the difference in the sector shares compared to the last STEP Market Committee meeting. He noted that shares of the MFI sector rose. He finished the presentation by

focusing on currencies and more specifically on EUR and USD. He pointed out that a rebound could be observed in the trend of EUR denominated outstanding amounts. On the other side, the shares of the USD denominated outstanding amounts had dropped.

Mr H. ENDRES commented that, in the German market, some corporate companies that applied to the PEPP did not have any open issues at the moment. He added that corporate companies were not in need of cash. This could explain the decrease in the NFC sector.

3. VIEWS ON THE MARKETS

Mr J.-L. SCHIRMANN invited the members of the STEP Market Committee to share their impressions on the latest developments of the market.

Mr F. HEBEISEN started by sharing some observations made by ACI-France. He explained that the market was very liquid at the moment. He added that cash could still be raised at decent levels. He also noted that Money Markets Funds were increasing. He commented that, in markets that were not used to direct variable issues (USA and England), investors were asking to buy floating papers at a premium.

Mr R. CALVIN GARCIA highlighted that some kind of recovery could be observed in the market for the past three to four months in terms of volume and maturities. He explained that investors were only starting to consider again longer maturities (3, 6 months). He added that there were now deals with maturities of 9 to 12 months – which were impossible to observe in the previous 6 months. He nevertheless pointed out that the end of rate hikes was not over yet. He also explained that there were some issuers still not ready to pay high deals. Moreover, he also noted that some issuers that were used to finance themselves at cheap levels disappeared as they found other sources of funding. Mr R. CALVIN GARCIA finished by pointing out that 3 months Euribor® level was at 2.744 – which was the highest level since 2009.

Mr G. CAVARERO noted that we were at the middle of TLTRO repayment period – this could affect how treasuries were looking for liquidity. He continued by explaining that, as treasuries probably prefunded prepayment, they were not looking for liquidity in the short term. He also confirmed that the market was quite open at the moment and that longer tenors could be observed compared to the previous semester. He finally highlighted that Mediobanca SPA issued their first domestic paper (Programma di Cambiali Finanziarie).

Mr G. MARIN confirmed that from an issuer perspective, the beginning of the year was positive. This could be the result of lower volatility. However, he noted that there would be bumpy movements in volatility. He added that the stabilization of market expectations helped a lot both issuers and investors in finding a balance. Mr G. MARIN highlighted that market participants' readiness to adapt was much improved in comparison with the past. He also commented that there were less participants trying to chase issuance in US currency.

Mr M. GRAZIUSO explained that there was still a lot of appetite for US dollar CP. However, he noted that there was a dichotomy between issuances in EUR and in US. In fact, maturities for issuances in EUR were longer. On the other hand, for US, there were more issues of short-dated papers. He continued by pointing out that Central Banks would adapt monetary policies. In this sense, there were already discussions in the US rate cut to come at the end of the year or beginning of next year. He concluded by underlying that in the US, there was a sentiment to stay short.

Mr H. ENDRES commented that issuances were big in the capital markets at the beginning of the year. However, he pointed out that most issuances were short up to mid-term. In addition, he explained that there was less volume on tenors longer than 10 years issues. He confirmed that commercial paper was still a good part of the funding mix. He also mentioned that there was a limit of 1 billion for Green CPs. Finally, he confirmed that tenors were a bit longer than half a year ago.

Mr P. BILLOT confirmed that there was a lot of interest in short-term instruments. He highlighted that there was a big incentive for investors to come back in Money Market Funds. He added that flows were positive. He also commented that supply was more centred on banks. On the other hand, supply of commercial papers issued by corporates issuers was a bit subdued. He concluded by mentioning that there were expectations that TLTRO repayment would fuel issuances of European banks.

Mr P. SIMEON confirmed that the rates hike was not over. He also explained that the strategy put in place in May/June 2022 to systematically hedge the interest rate risk in the money markets portfolio gave the possibility to mechanically transmit the evolution of ECB official rates. He confirmed that Money Markets Funds were again an attractive asset class. However, that there would be redemption in a couple of months because the dividends payment.

Mr J.-L. SINNIGER confirmed that, despite inflation and increasing rates, the environment was quite positive for the industry.

Mr M. GRAZIUSO asked whether members of the STEP Market Committee observed pickups in CPs settled via blockchain. Mr J.-L. SINNIGER commented that there was a lot of conversation going out with fintech. he confirmed that few participants dealt some blockchain trades. However, there were no major pickups at the moment. He explained that there were very few incentives on the dealer side to work on blockchain developments. He added that as long as the dealer community was not embracing the project, it would be hard. Mr P. SIMEON confirmed that the market was fragmented and not willing to move to these platforms. Mr F. HEBEISEN confirmed that the added value of blockchain was limited at the moment.

4. TRANSFER OF RIGHTS AND OBLIGATIONS FROM EURIBOR ACI TO ACI FMA UNDER THE STEP MARKET CONVENTION

Mr F. HEBEISEN updated the members on the status of the transfer of all rights and obligations from Euribor-ACI to ACI-FMA.

He explained that ACI FMA has taken over the rights and obligations of Euribor ACI under the STEP Market Convention as of 1 January 2023. ACI FMA became the new partner of The European Money Markets Institute regarding STEP. He confirmed that this transfer will not impact the conditions to obtain or keep the STEP Label.

5. ANY OTHER BUSINESS

Mr J.-L. SCHIRMANN thanked the participants in the call and closed the meeting.

List of participants

Chairman

Mr	Jean-Louis Schirmann	The European Money Markets Institute
----	----------------------	--------------------------------------

Members

Mr	Philippe BILLOT	Pictet Gestion
Mr	Rodrigo CALVIN GARCIA	Santander
Mr	Giorgio CAVARERO	Mediobanca SPA
Mr	Harald ENDRES	DKB
Mr	Marcello GRAZIUSO	EIB

Mr Franck HEBEISEN
Mr Gianfranco MARIN
Mr Patrick SIMEON
Mr Jean-Luc SINNIGER

ACI-FMA
Intesa Sanpaolo
Amundi
/

Observers

Ms Alice ALGOT-SAME
Mr Sylvain MARCODINI

Banque de France
Banque de France

STEP Secretariat

Ms Petra DE DEYNE
Mr Giuseppe DELLE FAVE
Mr Gerard DILLEN
Mr Jakobus FELDKAMP
Ms Amandine MAES
Ms Pauline RONVAUX

STEP Secretariat
STEP Secretariat
The European Money Markets Institute
STEP Secretariat
STEP Secretariat
STEP Secretariat

Apologies

Mr Marnix BRUNING
Mr Dennis GEPP

ING Bank
Federated Hermes