35th STEP MARKET COMMITTEE MEETING
- Remote, 9 June, 14:30 – 17:30 CET -

OPENING AND WELCOME

Mr J.-L. SCHIRMANN opened the meeting by thanking the participants for their availabilities. He also welcomed Mr Rodrigo CALVIN GARCIA, Head of Global Funding Platform (GFP) at Santander, as a new member of the STEP Market Committee. Mr J.-L. SCHIRMANN also informed the STEP Market Committee members that Mr J.-L SINNIGER left his position at Citi. Mr J.-L SINNIGER will remain an active member 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 209. Since the beginning of the year, 6 programmes were STEP labelled and 6 STEP labels were withdrawn. The STEP Secretariat kept on receiving annual/exceptional updates (several per week). There were no open requests for which the STEP Secretariat was in negotiations with. Ms A. MAES also explained that there were 5 programmes beyond the three years and three months limit established for renewals. The STEP Secretariat sent reminders and was following up with the issuers.

Mr F. HEBEISEN inquired about the reasons behind the label withdrawals. Mrs A. MAES explained that the withdrawals were due to mergers, a change in the legal name of the issuer and a change in the funding strategy. She also added that one issuer withdrew their STEP label for their NEU CP because the ECB eligibility criteria did not require it any longer.

2. REPORT ON STEP STATISTICS

Mr M. BELLU gave a presentation on STEP statistics.

He began by showcasing the overall STEP outstanding amounts. He noted that, after a spike in September 2021, the STEP outstanding amounts trend was rather negative for the past period. He added that since December 2021, the outstanding amounts have never reached again the 400 bn. threshold. The same negative trend could also be observed for the daily outstanding amounts. As far as gross issues were concerned, Mr M. BELLU explained that the trend was stable. He noted that there was a spike in new issuances on January 12th. This spike consisted in the highest value since April 2020.

Mr M. BELLU 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). Mr M. BELLU pointed out that the shortest maturities kept having a negative trend for the past two years. He noted that there was however more volatility during the pandemic. On the other hand, he noted that there had been an important increase in the longest maturities since the beginning of the year. The STEP yields on 19th May 2022 (0,43%) had been at their highest level since December 2014.

Mr M. BELLU continued his presentation by providing a breakdown of the STEP outstanding amounts per sector of the issuer. The presentation focused on the developments of the outstanding amounts over the past two years. He explained that the trend for the Monetary and Financial Institutions (MFI) had been rather negative. He however pointed that there was a rebound in the last months. He continued by noting that the outstanding amounts of the General Governments (GG) sector grew until end of September 2021 before decreasing in the past months. As far as the outstanding amounts of the Non-Financial Corporation (NFC) sector was concerned, the trend was increasing. Mr M. BELLLU then looked at the difference in the sector shares compared to the last STEP Market Committee meeting. He noted that while the Monetary and Financial Institutions sector lost 0,6% of their shares, the General Government (GG) and Non-Financial Corporations (NFC) slightly increased theirs.

Mr M. BELLU finished his presentation by focusing on currencies and more specifically on EUR and USD. He observed that the trend of EUR denominated outstanding amounts was negative during the past years, although a rebound could be observed since the beginning of the year. On the other side, shares of the USD denominated outstanding grew a lot during the pandemic.

Mr H. ENDRES asked whether it would be possible to show a breakdown of the yield developments per sector. Mr M. BELLU answered that unfortunately this kind of statistics were not available.

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 R. CALVIN GARCIA started by pointing out that context was difficult for the markets. There was a significant repricing in all the curves, especially in the middle and long-end of the short-term market.

He explained that the demand was focusing on the short end. He added that deals with a maturity of 2-3 weeks could now be observed. This kind of very short maturities had not been observed for months and were only seen in April/May 2020, when the markets reopened after the Covid crisis. Mr R. CALVIN GARCIA continued by noting that a significant steepening of the curve could be observed. He also added that investors were becoming more and more selective when placing their money in papers. Following a question by Mr J.-L. SCHIRMANN, he explained that there was a higher demand for defensive sectors and highest rated papers. Mr R. CALVIN GARCIA also noted that asset managers were expecting that some products such as bank deposits would reappear and would generate some extra competition. As a result, there would be some outflows in the following weeks or months. He pointed out that the one-year mid swap level was at 0,75, which was probably the highest level for ten years. Finally, he remarked that it will be important to see how the market would tackle the development of inflation and would react after the ECB announcement.

Mr P. SIMEON confirmed the comments made by Mr R. CALVIN GARCIA. In his opinion, the market was prepared to see an increase in rates. He added that the rates increase was welcomed after at least 7 years of negative rates. He also remarked that it was more difficult to monitor the evolution of credit spreads. He explained that hedging credit spreads was impossible given the short-term tenors in which investments were made. This explained why the investment maturities were shortened. Mr P. SIMEON also commented that the liquidity on the secondary market was light. This could explain why investors were selective with papers and were focused on short-term maturities (between 3 and 6 months). He highlighted that the market remained very cautious. He also confirmed that the competition would be tough with the introduction of other products mainly offered by banks. He added that there outflows due to dividend payments. However, this situation seemed over now. Mr P. SIMEON commented that, by the end of the year, customers - mostly corporates - would burn cash. In that context, outflows would be expected. Moreover, with the level of inflation, commodities would continue to be expensive. The possibility to issue longer term tenors on the bond market would be lower. Customers would try to issue on the short-term end of the curve rather than to issue on the bond market.

Mr G. MARIN confirmed that credit spreads were compressed. In that situation, CPs were limited to the shortest tenors (3 to 4 months). He added that the current context brought some volatility in the market. The futures and swaps markets moved from 5 to 15 basis points day by day. Therefore, it was difficult to find a stable environment for investors to negotiate issuances. In his opinion, it would take some months to return to a more stable environment. Mr G. MARIN highlighted that the inflation data was the most relevant one at the moment. He also pointed out that it would be important to keep an eye on the U.S market in the coming months.

Mr H. ENDRES pointed out that the ECB announced that they would stop programmes. He also noted that banks needed more liquidity. These factors combined with TLTRO created an asymmetry in interest rates. As a result, there would be less repayments than expected 3 months ago. Mr H. ENDRES also confirmed that there was an increasing interest in shortest maturities. On the other hand, he explained that some banks were looking for liquidity on the unsecured (non-CP) market. He concluded by explaining that, with the repayments from TLTRO and the ECB decision to stop programmes, there will be more liquidity in the CP market in the next few months.

Mr F. HEBEISEN confirmed that there was a concern on the way TLTRO would be managed by banks. It would be an arbitrage opportunity between TLTRO rates and effective rates. On the other hand, banks had ratios to manage. In addition, they would also have to anticipate a lot the end of TLTRO. The question was also raised whether banks there would be a stigma effect on the banks that would not go further for TLTRO. However, it was believed TLTRO sooner than end of the operation could make sense in terms of ratio management opportunities. Mr F. HEBEISEN also pointed that a few ESG CP programmes were launched on the NEU CP market. Mr P. FAURE confirmed that two issuers have launched ESG programmes: ACOSS and Credit Mutuel Arkea. He indicated that there were other issuers in the pipeline.

Mr M. BRUNING confirmed that issuers are interested in ESG CP programmes. He added that France was leading the way, but the subject was also high in the agenda of other countries. He noted that there were still some debates on what “ESG” was. For instance, the ACOSS programme focused more on “Social”. He also pointed out that ICMA established an ESG working group. Mr M. BRUNING also confirmed that some repayments on TLTRO were expected as a result in more funding appetite from the banks. Mr M. BRUNNING also explained that the extension of tenors that could be observed in EUR happened in the U.S market at the beginning of the year. He also commented that markets seemed to digest the Ukraine war quite well. In this sense, investors had relatively high liquidity and issuers were well funded. He also noted that there was an increased funding appetite from utility companies. This could be attributed to higher commodity prices. He added that large banks active in the US funding market were prefunding quite significant amount which led to distortion in pricing that market.

Mr P. BILLOT confirmed that investors had the ability to hedger the interest rate risk. He also noted that some of the banks that had not access to TLTRO, such as Nordics, Canadian and US banks., were aggressive in terms of funding levels on longer maturities (mainly 6, 9 months and 1 year). In this sense, TLTRO could be a game changer. On the other hand, considering the level of access of liquidity in EUR, which was about 4.5 trillion, there would need to have massive redemptions to observe market moves. Mr P. BILLOT added that there were good supplies on the corporates side. In terms of pricing, he highlighted that there were more power from investors, which is relatively new. He also confirmed the interest in short investments. However, he explained that there were issuers interested in going to the longest end of the curve. He agreed that the level of liquidity was not great. On the contrary of the covid crisis, they saw less outflows from corporates treasurers.

Mr A. PONTUS confirmed that the statistics of the yields were in line with the interest rates expectations and with the implications on instruments and investments.

4. ANY OTHER BUSINESS

Mr J.L. SCHIRMANN announced that the next STEP Market Committee meeting will take place on October 11th, 2022. He also suggested that some members present a subject during the meeting.

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	Marnix BRUNING	ING Bank
Mr	Rodrigo CALVIN GARCIA	Santander
Mr	Richard CORDERO	EACT
Mr	Franck HEBEISEN	Independent Expert
Mr	Harald ENDRES	DKB
Mr	Gianfranco MARIN	Intesa Sanpaolo
Mr	Patrick SIMEON	Amundi

Observers

Mr	Philipe FAURE	Banque de France
Mr	Alain PREDOUR	Banque de France
Ms	Corrine LETRAY	Banque de France
Ms	Ana BAIRRAO	ECB
Mr	Mirko BELLU	ECB
Mr	Antonio MORENO	ECB
Ms	Aberg PONTUS	ECB

STEP Secretariat

Ms	Petra DE DEYNE	STEP Secretariat
Mr	Giuseppe DELLE FAVE	STEP Secretariat
Mr	Jakobus FELDKAMP	STEP Secretariat
Ms	Amandine MAES	STEP Secretariat
Ms	Pauline RONVAUX	STEP Secretariat

Apologies

Mr	Dennis GEPP	Federated Hermes
Mr	Timothy O'CONNELL	EIB
Mr	Jean-Luc SINNIGER	/