BANK OF ENGLAND

Money Markets Committee

Minutes

7 September 2020

Time:	10:30-12:00
Location:	Teleconference

Committee Attendees

Gordon Lowson	Aberdeen Standard
James Winterton	Association of Corporate Treasurers
Mick Chadwick	Aviva Investors
Michael Manna	Barclays Bank UK
Emma Cooper	BlackRock
Ina Budh-Raja	BNY Mellon
Romain Dumas	Credit Suisse
Marije Verhelst	Euroclear
James Murphy	HSBC
Chris Brown	Insight Investment
Olivia Maguire	J.P. Morgan Asset Management
Ben Challice	J.P. Morgan
Peter Left	Lloyds
Nina Moylett	M&G
Rachel Lane	Natwest
Nic Erevik	Newcastle Building Society
Paul Barnes	Santander UK
Romain Sinclair	Societe Generale
Lynda Heywood	Tesco
Ross Barrett	The Investment Association
John Argent	Tradition
Jessica Pulay	DMO (Observer)
Alan Barnes	FCA (Observer)

Apologies

Stephen Grainger	Aldermore
Mathew McDermott	Goldman Sachs
Vicky Worsfold	Guildford Borough Council
Elissa Holme	LCH
Robert Thurlow	Mizuho

Bank of England

Rhys Phillips (Chair)
Andrew Hauser
Jon Pyzer
Rebecca Jones
Azuolas Alisauskas
Thomas Jennings

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Item 1. Bank of England Introductory remarks and minutes from last meeting

1. The Chair thanked members of the Committee for their time and welcomed Rachel Lane, Liquidity Portfolio Manager at Natwest Bank, to the Money Markets Committee.
2. The Committee had no further comments to raise on the minutes from June's meeting which had been posted on the Bank's website after circulation to members.

Item 2. Market conditions

3. The Bank introduced a discussion on market conditions. It was noted that since the previous MMC meeting in June 2020 economic activity had picked up following a gradual relaxation of lock-down measures in the UK. The Monetary Policy Committee had also announced an increase in the target stock of asset purchases to £745bn, with purchases of Gilts to take place at a pace of £4.4bn per week from August. Against the context of calmer conditions, take up of Central Bank liquidity operations had declined and Gilt market volatility indicators had normalised.
4. The Chair turned to Committee members for views on how market conditions had evolved. Attendees agreed that Gilt markets had remained stable and recognised the improvement in USD liquidity, which was felt to be largely as a result of Central Bank interventions. In sterling money markets participants felt liquidity was good but some had observed market participants beginning to avoid concentrating maturities at quarter-end.
5. There had been continued stability in repo rates and the LIBOR-OIS spread although there had been a small spike in repo rates in early September days, and collateral scarcity had appeared to increase in line with the stock of assets held by the Bank. Attendees commented that the unprecedented levels of reserves in the system were naturally keeping repo rates low, and felt that the recent short-term increase in rates could be attributed primarily to a forthcoming gilt maturity - as well as the impact of large ILTR maturities - on levels of cash in the market. Most agreed that asset purchases combined with fund positioning were driving the increase in gilt specialness.
6. Looking ahead, attendees noted that most market participants did not appear to be expecting negative policy rates to be implemented in the UK in the near term. Covid and Brexit were key points of focus, but for most members geopolitical risks including around the US election did not yet seem to be fully priced into market expectations. Some anticipated that year-end could be challenging due to Brexit, the US election and the risk of a second Covid spike potentially all happening in Q4 2020.

Item 3. SMMD/SMMH update

7. The Sterling Money Markets Daily data (SMMD) and the results of the Sterling Money Markets Half-yearly survey (SMMH) were presented by the Bank team.[1]
8. The Bank noted the sustained elevated volumes of transactions underlying SONIA, which had been accompanied by a continued decline in the SONIA rate.
9. Some attendees believed that the SONIA rate could continue to decrease towards zero due to the increased levels of liquidity in the system, especially at and around quarter ends. They linked the increased wedge to Bank Rate to the flat yield curve; and it was suggested that some depositors, when faced with increased cash holdings to manage, had used up their lending limits to the best rate payers and therefore increased lending to other participants who could as a result pay lower rates.

[1] A summary of the May 2020 SMMH results, published in July 2020, can be found at this link

10. Most members viewed CD/CP issuance as having returned to pre-Covid levels, with greater liquidity and lower pricing at longer terms compared to during the dysfunction seen in recent months.

Item 4. Post-Covid changes in sterling money markets

11. The Chair asked members for their views on how – if at all – sterling money markets might be different in structure or practices following the Covid-19 crisis. A range of views were offered, and it was agreed that this would usefully be a topic to which the committee could return later.
12. Some members observed that tighter pricing had been seen as staff had begun to return to their primary offices, and noted a perceived increased likelihood of completed settlement from firms with a trading team in the office compared to those trading solely from home. However, it was also recognised that these differences had lessened since the peak of the crisis, with pricing differences and numbers of fails normalising significantly as working from home became the norm.
13. The consensus was that many firms would be keen to give staff the option of returning to the office, for wellbeing reasons as much as reasons of efficiency and effectiveness. However, many members believed the switch to working from home had also carried significant benefits in terms of flexible working, which could help to increase diversity and inclusion especially around parents and part-time workers. Some participants were concerned to ensure that appropriate controls could be implemented for those firms looking to have staff trading from home in the long term, such that benefits were not lost.
14. It was also also noted that the switch to working from home had accelerated the rate at which electronification was being implemented in sterling money markets, although in markets like securities lending this was starting from a low base. However, it was acknowledged that there was still a large amount of work to be done to reduce manual intervention.
15. One member noted that a project to propose shortened market hours on exchanges had not gained any traction.

Item 5. MMC Code review update

16. The Bank team and the Chair of the Code sub-committee gave an overview of progress made on the ongoing review of the Money Market Code. Some of the main changes discussed to date included:
    - highlighting the main principles of the Code more prominently to aid ease of use, and ensuring the right prominence for the Register that had been established since the original publication;
    - looking at whether and how the Code could promote Diversity and Inclusion;
    - the importance of establishing policies on Environmental, Social and Corporate Governance (ESG);
    - using the Code to support best provision of transparency to the market; and
    - looking at adaptations to reflect the change to working from home during Covid-19, and how this could mesh with wider aspects of the Code.

17. These changes would be finalised and circulated in due course to the Committee.

Item 6. Forward agenda

18. The Committee agreed to liaise on this item via email.

Item 7. AOB

19. None