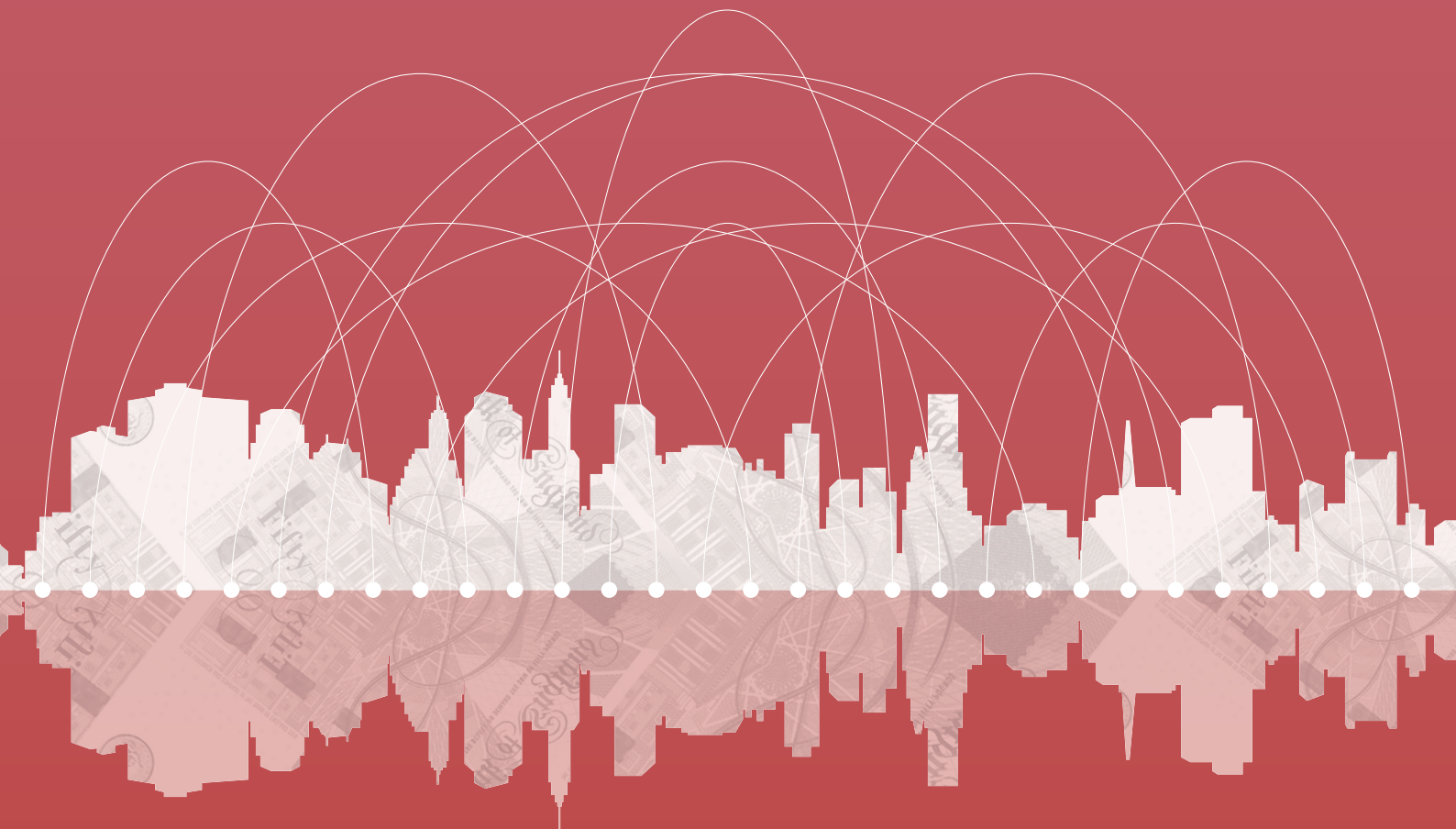


# The Money Market Liaison Group Sterling Money Market Survey

Survey results | 2012 H2



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## Survey results | 2012 H2

The Sterling Money Market Survey is conducted by the Bank of England on a biannual basis, on behalf of the Money Market Liaison Group (MMLG). Established in 1999 and chaired by the Bank, the MMLG comprises representatives from market participants, trade associations and the authorities, and provides a forum for discussion of structural issues in the money market.

The sterling money market brings together banks, other financial institutions and non-financial companies looking to borrow or lend money, and enables them to manage their liquidity. Transactions can be secured or unsecured and include deposits, loans, repo and the sale and purchase of tradable financial instruments such as commercial paper (CP) and certificates of deposit (CDs). The market plays a central role in the Bank's pursuit of its monetary and financial stability policy objectives, and is the market in which the Bank implements the interest rate decisions of the Monetary Policy Committee and provides liquidity insurance to the banking system.

The Money Market Survey gathers quantitative and qualitative information on developments in the sterling money market. Launched in May 2011, it adds to existing data sources available for different segments of the market and supplements the Bank's market intelligence. It also complements similar surveys conducted by other central banks of their own domestic money markets. Over time, the survey is intended to increase public understanding of the sterling money market, identify emerging trends, and help policymakers assess the impact of their actions on the behaviour of market participants. This report presents the data from the survey and provides a brief commentary.

The survey sample comprises over 30 commercial banks, building societies and investment banks active in the sterling money market. The list of participants is detailed in the annex. Selection is based on the scale of institutions' involvement in the sterling money market and is kept under active review.

Additional background information on the survey can be found in the 2011 Q3 *Quarterly Bulletin* article, 'The Money Market Liaison Group Sterling Money Market Survey'.

The 2012 H2 report covers sterling money market transactions that took place during November 2012. This is the first time that results have been published on a stand-alone basis. In previous survey rounds, selected results have been published in the Bank's *Quarterly Bulletin*.

Detail on data definitions and interpretation is included alongside the data tables in the annexes.

This report is available on the Bank's website, along with copies of the questionnaire and data tables from the annexes in Excel format, at [www.bankofengland.co.uk/publications/Pages/other/mmlg/default.aspx](http://www.bankofengland.co.uk/publications/Pages/other/mmlg/default.aspx).

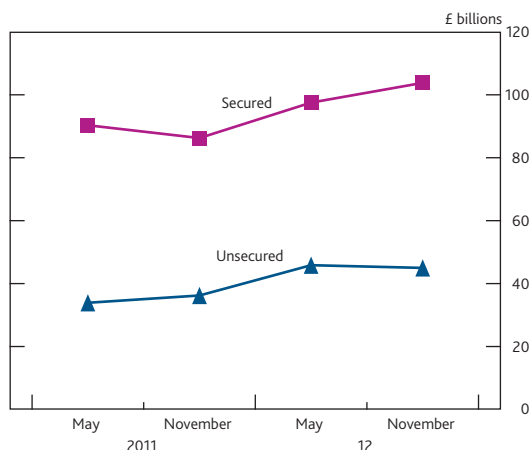
# The Money Market Liaison Group Sterling Money Market Survey

The 2012 H2 report covers sterling money market transactions that took place during November 2012. The value of total sterling money market transactions was slightly higher than in the previous survey in May 2012. This was due to an increase in the value of secured transactions (some 70% of the overall money market). The value of unsecured transactions remained roughly similar to that in May. The majority of transactions continued to take place at overnight maturity. Perceptions of sterling money market functioning improved slightly, although the perceived functioning of the unsecured market remained markedly less positive than that of the secured market.

## The overall sterling money market

The value of reported total sterling money market flows was slightly (3.8%) higher in November 2012 than in the previous survey in May. This was due to an increase in the value of secured transactions, which rose by 6.4% (Chart 1). The value of unsecured transactions was broadly unchanged.

**Chart 1** Reported daily average transactions in the sterling money market<sup>(a)(b)</sup>

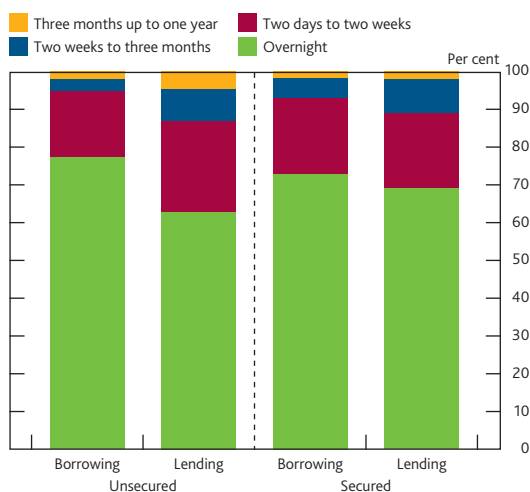


Sources: MMLG Sterling Money Market Survey and Bank calculations.

- (a) Daily average flows are reported as the value of sterling money market transactions in the survey month divided by the number of working days during that period.  
 (b) The calculation adjusts for the double counting of matched interbank borrowing and lending flows. See note v in the data annex for more detail.

The majority of money market flows continued to take place at overnight maturity. In November 2012, overnight transactions accounted for around three quarters of daily turnover (Chart 2). Lending and borrowing at maturities of three months or beyond remained limited. While overnight transactions naturally dominate daily average flows due to the regularity with which they roll over, longer-dated transactions

**Chart 2** Maturity of transactions, November 2012<sup>(a)</sup>



Sources: MMLG Sterling Money Market Survey and Bank calculations.

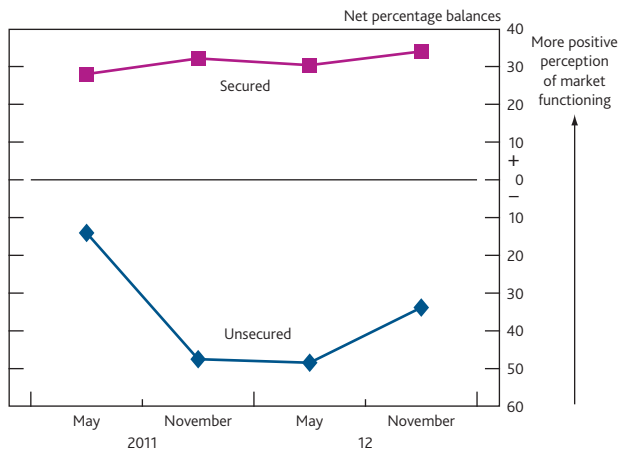
- (a) Borrowing and lending figures are not equal because the survey only captures the survey participants' side of each transaction. There are likely to be a number of lenders who do not participate in the survey, and whose lending therefore is not captured in the survey lending figures, but is nonetheless captured in survey participants' borrowing returns. See note iv in the data annex for more detail.

represent a significant proportion of the stock of money market lending and borrowing.

Activity in the sterling money market continued to be relatively concentrated. The top five survey respondents in the unsecured market accounted for around 60% of unsecured transactions; the equivalent figure for the secured market was 50%.

Perceptions of both secured and unsecured market functioning improved somewhat (Chart 3). Contacts suggested this reflected a general improvement in sentiment across broader financial markets since the previous survey. However, functioning in the unsecured market remained markedly less positive than in the secured market.

**Chart 3** Respondents' views of overall market functioning<sup>(a)</sup>



Sources: MMLG Sterling Money Market Survey and Bank calculations.

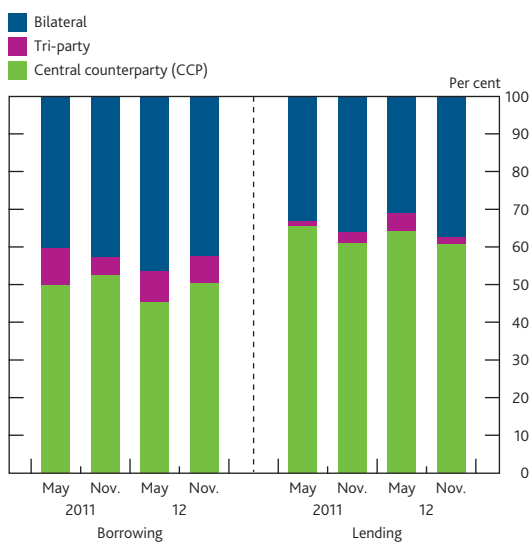
(a) 'Net percentage balance' is calculated as the difference between the balance of lenders reporting that, on a scale of 1-5, the market was functioning very poorly (1) to very well (5) in November 2012. The net percentage balances are scaled to lie between ±100: more extreme responses (1 and 5) attract a weight of 100%, less extreme responses (2 and 4) attract a weight of 50% and central responses (3) attract a weight of zero.

### The secured sterling money market

The value of secured transactions rose by 6.4% since the previous survey, to stand at 70% of overall money market transactions (Chart 1).

The nature of these secured flows changed somewhat, with a small increase in the proportion of secured borrowing taking place via central counterparties (CCPs) compared with bilaterally (Chart 4, left panel). The share of secured borrowing via tri-party repo remained little changed, at slightly less than 10%.

**Chart 4** Distribution of secured transaction types<sup>(a)</sup>



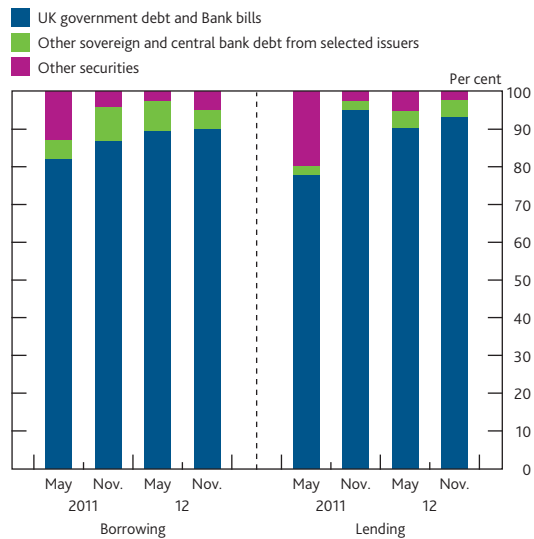
Sources: MMLG Sterling Money Market Survey and Bank calculations.

(a) All transactions via CCPs are assumed to be interbank. Other interbank transactions are captured as a subset of bilateral and tri-party transactions. See Table A5 of data annex for more detail.

The proportion of secured lending transactions collateralised by non-UK sovereign and central bank securities decreased

since the previous survey, with that involving UK government debt or Bank bills rising to over 90% (Chart 5). Contacts suggested this was in part due to higher haircuts imposed by CCPs on non-UK government securities that made their use as collateral more expensive.

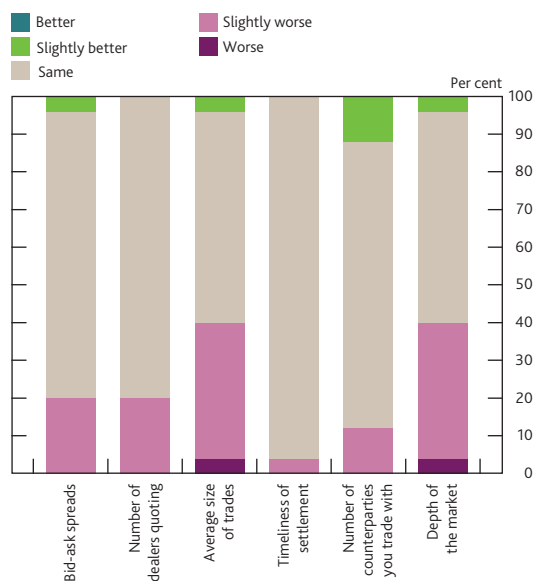
**Chart 5** Distribution of collateral usage



Sources: MMLG Sterling Money Market Survey and Bank calculations.

While participants reported that overall secured market functioning had improved slightly (Chart 3), there were mixed perceptions of changes in specific indicators of market functioning. Some participants perceived an improvement in certain indicators, particularly the number of counterparties with whom they traded and bid-ask spreads. But some respondents perceived a slight deterioration across a range of indicators (Chart 6).

**Chart 6** Change in secured market functioning indicators between May and November 2012



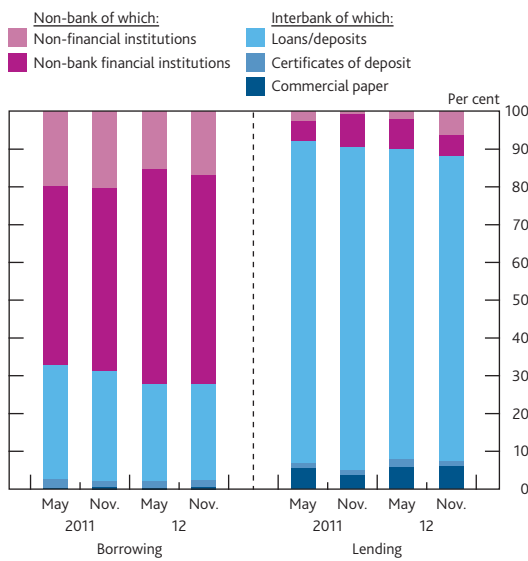
Sources: MMLG Sterling Money Market Survey and Bank calculations.

### The unsecured sterling money market

The value of unsecured money market transactions remained roughly similar compared with the previous survey (Chart 1).

In common with previous surveys, most unsecured borrowing by survey respondents was in the form of loans from non-banks (Chart 7, left panel). Non-bank financial institutions, such as money market funds, provided around half (55%) of all unsecured lending to banks, with non-financial corporates providing over 15%. Contacts reported that the absolute value of interbank lending remained low.

**Chart 7** Source/destination of unsecured borrowing and lending(a)



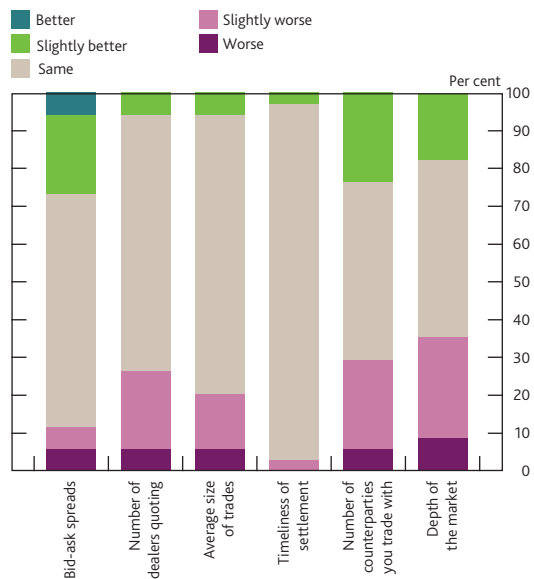
Sources: MMLG Sterling Money Market Survey and Bank calculations.

(a) Chart shows, in the left panel, borrowing by banks from bank and non-bank institutions, and, in the right panel, lending by banks to bank and non-bank institutions.

The unsecured market continued to be dominated by overnight transactions (Chart 2, left panel), with contacts reporting the bulk of lending to be of maturity less than three months, with only a few firms lending somewhat longer term. Although the share of unsecured lending accounted for by overnight transactions fell by almost 10% in the latest survey — replaced by longer-maturity lending — contacts did not currently expect persistent increases in the tenor of loans.

Most participants reported a reduction in both the number of dealers quoting, and average size of transactions, in unsecured markets (Chart 8). But a significant number of respondents reported an improvement in other qualitative metrics of market functioning, including bid-ask spreads and the number of counterparties with whom they traded. This is consistent with the perceived overall improvement in unsecured market functioning, shown in Chart 3.

**Chart 8** Change in unsecured market functioning indicators between May and November 2012



Sources: MMLG Sterling Money Market Survey and Bank calculations.

## Notes to annexes

- i. The survey sample comprises over 30 commercial banks, building societies and investment banks that are active in the sterling money market. The list of participants is detailed in Annex C. Selection is based on the scale of institutions' involvement in the sterling money market and is kept under active review.
- ii. Sterling money market transactions are defined as wholesale borrowing and lending of a maturity no longer than one year. Non-sterling and intragroup trades are excluded.
- iii. Participants are asked to exclude trades with the Bank of England but, from May 2012, to include transactions with the UK Debt Management Office (DMO). This change was based on feedback from survey participants that suggested they may not be able to identify the ultimate counterparty to transactions made in the secured market via a central counterparty when using an automated trading system. So, to the extent that such transactions included those with the DMO, survey respondents may not have been able to exclude them. For more details on the DMO's money market activity see [www.dmo.gov.uk](http://www.dmo.gov.uk).
- iv. Borrowing and lending figures are not equal because the survey only captures the survey participants' side of each transaction. In common with other central banks' money market surveys, there are likely to be a number of lenders who do not participate in the survey, and whose lending therefore is not captured in the survey lending figures, but is nonetheless captured in survey participants' borrowing returns. In particular, this affects the MMLG survey interbank data, yielding a discrepancy whereby interbank borrowing is larger than interbank lending. Discussions with a subgroup of survey participants indicate that this is likely to be because the survey sample excludes a range of, particularly foreign-based, banks that are regular net lenders.
- v. Reported daily average transactions in the sterling money market (**Table A1** and **Chart 1**) are calculated by adjusting for the double counting of matched interbank borrowing and lending flows (double counting occurs because respondents are asked to record both borrowing and lending, so the same transaction appears as lending in one participant's return and as borrowing in another). The calculations are as follows:
  - Secured transactions: secured borrowing (**Table A2**) + secured lending (**Table A2**) – secured interbank lending (CCP and interbank excluding CCP, **Table A5**)
  - Unsecured transactions: unsecured borrowing + unsecured lending – unsecured interbank lending (**Table A7**).

## Annex A: Data tables for quantitative survey questions

Table A1: Reported daily average transactions in the sterling money market (£ billions)<sup>(a)</sup>

	2011		2012	
	May	Nov.	May	Nov.
Unsecured	34	36	46	45
Secured	90	86	98	104

Table A2: Borrowing and lending (daily averages, £ billions)

	2011		2012	
	May	Nov.	May	Nov.
Unsecured borrowing	34	37	45	45
Unsecured lending	5	4	4	3
Secured borrowing	78	75	85	90
Secured lending	57	63	66	60

Table A3: Average borrowing and lending transaction size (£ millions)

	2011		2012	
	May	Nov.	May	Nov.
Unsecured borrowing	19	21	25	16
Unsecured lending	54	53	39	22
Secured borrowing	39	44	43	38
Secured lending	28	31	34	17

Table A4: Maturity distribution of borrowing and lending (per cent)

	2011								2012							
	May				Nov.				May				Nov.			
	Over-night	Two days to two weeks	Two weeks to three months	Three months up to one year	Over-night	Two days to two weeks	Two weeks to three months	Three months up to one year	Over-night	Two days to two weeks	Two weeks to three months	Three months up to one year	Over-night	Two days to two weeks	Two weeks to three months	Three months up to one year
Unsecured borrowing	76	17	4	2	80	16	3	1	78	17	4	1	77	18	3	2
Unsecured lending	79	12	7	1	81	12	6	1	72	20	6	2	63	24	8	5
Secured borrowing	69	21	7	2	74	18	7	2	73	19	6	2	73	20	5	2
Secured lending	68	19	10	2	76	16	6	2	71	20	7	2	69	20	9	2

Table A5: Distribution of secured borrowing and lending by type of transaction (per cent)

	2011				2012			
	May		Nov.		May		Nov.	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
Tri-party	10	1	5	3	8	5	7	2
Bilateral	40	33	43	36	46	31	42	37
Central counterparty (CCP)*	50	66	53	61	46	64	51	61
Interbank excluding CCP	18	14	23	20	22	16	16	17

\* All transactions via CCP are assumed to be interbank.

(a) See note v in the data annex.

Table A6: Distribution of secured borrowing and lending by type of collateral (per cent)

	2011				2012			
	May		Nov.		May		Nov.	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
UK government debt and Bank bills	82	78	87	95	89	90	90	93
Other sovereign and central bank debt from selected issuers	5	2	9	2	8	5	5	5
Other securities	13	20	4	3	3	5	5	2

Table A7: Source/destination of unsecured borrowing and lending (per cent)

	2011				2012			
	May		Nov.		May		Nov.	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
Non-financial institutions	20	3	20	1	15	2	17	6
Other financial institutions	47	5	48	9	57	8	55	6
Interbank:								
Interbank loans/deposits	30	85	29	85	25	82	25	81
Certificates of deposit	2	1	2	1	2	2	2	1
Commercial paper	0	6	0	4	1	6	0	6



## Annex B: Data tables for qualitative survey questions

Table B1: Respondents' views of secured market functioning (per cent)

	2011		2012	
	May	Nov.	May	Nov.
1 (very poor)	0	0	0	0
2	4	0	11	4
3	40	36	25	44
4	52	64	57	32
5 (very good)	4	0	7	20

Table B2: Respondents' views of unsecured market functioning (per cent)

	2011		2012	
	May	Nov.	May	Nov.
1 (very poor)	3	45	31	21
2	41	15	38	32
3	41	30	28	41
4	13	10	3	6
5 (very good)	3	0	0	0

Table B3: Change in secured market functioning indicators during previous six months (per cent)

	2011					2012									
	Nov.					May					Nov.				
	Better	Slightly better	Same	Slightly worse	Worse	Better	Slightly better	Same	Slightly worse	Worse	Better	Slightly better	Same	Slightly worse	Worse
Bid-ask spreads	0	7	43	43	7	0	7	71	18	4	0	4	76	20	0
Number of dealers quoting	0	0	71	29	0	0	4	75	18	4	0	0	80	20	0
Average size of trades	0	14	64	21	0	0	11	46	43	0	0	4	56	36	4
Timeliness of settlement	0	0	100	0	0	0	4	89	7	0	0	0	96	4	0
Number of counterparties you trade with	0	0	71	29	0	0	11	68	21	0	0	12	76	12	0
Depth of the market	0	7	57	21	14	0	11	54	29	7	0	4	56	36	4

Table B4: Change in unsecured market functioning indicators during previous six months (per cent)

	2011					2012									
	Nov.					May					Nov.				
	Better	Slightly better	Same	Slightly worse	Worse	Better	Slightly better	Same	Slightly worse	Worse	Better	Slightly better	Same	Slightly worse	Worse
Bid-ask spreads	0	0	30	40	30	0	6	63	31	0	6	21	62	6	6
Number of dealers quoting	0	0	25	55	20	0	3	59	38	0	0	6	68	21	6
Average size of trades	0	10	35	40	15	0	3	53	41	3	0	6	74	15	6
Timeliness of settlement	0	0	85	15	0	0	0	100	0	0	0	3	94	3	0
Number of counterparties you trade with	0	15	5	55	25	0	22	34	38	6	0	24	47	24	6
Depth of the market	0	0	15	55	30	0	13	38	44	6	0	18	47	26	9

Table B5: Coverage questions

	2012			
	May		Nov.	
	Respondents	Average	Respondents	Average
Approximate percentage of your institution's global unsecured sterling money market transactions not conducted via your main London (or UK) desk(s)	32	6%	34	8%
Approximate percentage of your institution's global secured sterling money market transactions not conducted via your main London (or UK) desk(s)	28	3%	28	5%
Approximate percentage of turnover where there is uncertainty over the nature of the counterparty	–	–	33	2%

## Annex C: MMLG Sterling Money Market Survey participants

Bank of America Merrill Lynch  
Bank of New York Mellon  
Bank of Tokyo Mitsubishi UFJ  
Barclays  
BNP Paribas  
Citigroup  
Clydesdale  
Commerzbank  
Coventry Building Society  
Crédit Agricole CIB  
Credit Suisse  
Danske Bank  
Debt Management Office  
Deutsche Bank  
Goldman Sachs  
HSBC  
JPMorgan Chase  
Lloyds Banking Group  
Mizuho Corporate Bank  
Morgan Stanley  
Nationwide  
Nomura  
Nord LB  
Northern Trust  
Rabobank  
Royal Bank of Canada  
Royal Bank of Scotland  
Santander  
Société Générale  
Standard Chartered  
State Street  
Svenska Handelsbanken  
UBS  
UniCredit  
Yorkshire Building Society