

The Money Market Liaison Group Sterling Money Market Survey

Survey results | 2013 H1



BANK OF ENGLAND





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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, 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 complements similar surveys conducted by other central banks. 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 2013 H1 report covers sterling money market transactions that took place during May 2013. The 2012 H2 report can be found at www.bankofengland.co.uk/markets/Documents/mmlg/smms2012h2s.pdf.

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

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

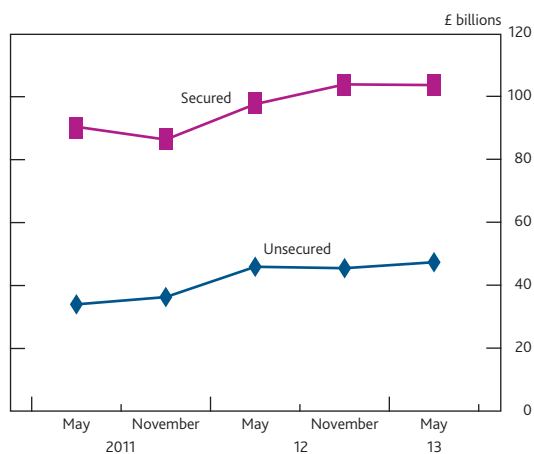
The Money Market Liaison Group Sterling Money Market Survey

The 2013 H1 report covers sterling money market transactions that took place during May 2013. The total value of reported transactions and conditions in the sterling money market were broadly unchanged relative to the previous survey in November 2012. Secured transactions continued to make up a large share of total transactions (69% of the overall money market). As in previous surveys, activity was concentrated at overnight maturities. Perceptions of the functioning of the unsecured sterling money market improved slightly, but remained significantly less positive than those of the secured market.

The overall sterling money market

The value of reported total sterling money market average daily flows was broadly unchanged in May 2013 relative to the previous survey in November 2012. Secured transactions continued to make up a large share of overall turnover (Chart 1).

Chart 1 Reported daily average transactions in the sterling money market^{(a)(b)}

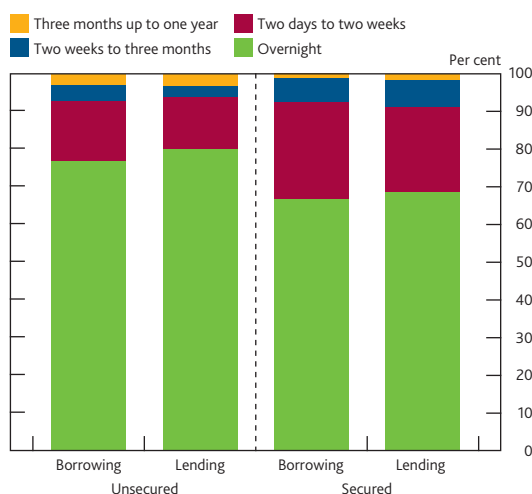


Sources: MMLG Sterling Money Market Survey and Bank calculations.

- (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 May 2013, overnight transactions accounted for around three quarters of daily unsecured turnover and two thirds of secured turnover (Chart 2). Lending or borrowing at maturities of three months or beyond continued to be limited. The proportion of secured borrowing at overnight maturity did fall by 6 percentage points, mostly replaced by an increase in the proportion of borrowing at maturities between two days and two weeks.

Chart 2 Maturity of transactions, May 2013^(a)



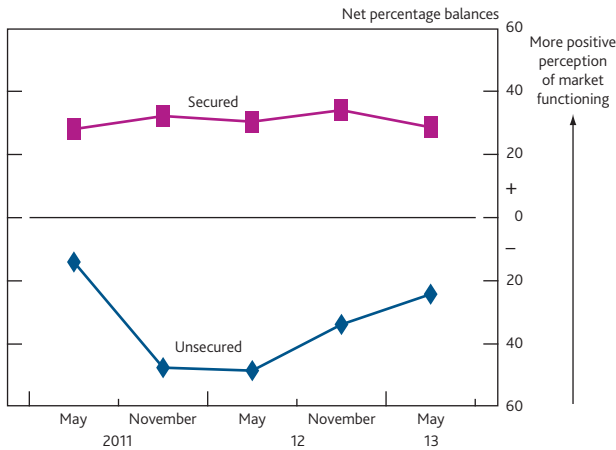
Sources: MMLG Sterling Money Market Survey and Bank calculations.

- (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.

The concentration of activity among participants in the sterling money market fell a little relative to the previous survey. The top five survey respondents in the unsecured market accounted for around 50% of unsecured transactions, falling from around 60% in the November survey. In the secured market, the top five respondents accounted for around 45% of secured transactions.

Perceptions of functioning in the unsecured market showed a slight improvement from the previous survey, but remained significantly less positive than in the secured market (Chart 3).

Chart 3 Respondents' views of overall market functioning^(a)



Sources: MMLG Sterling Money Market Survey and Bank calculations.

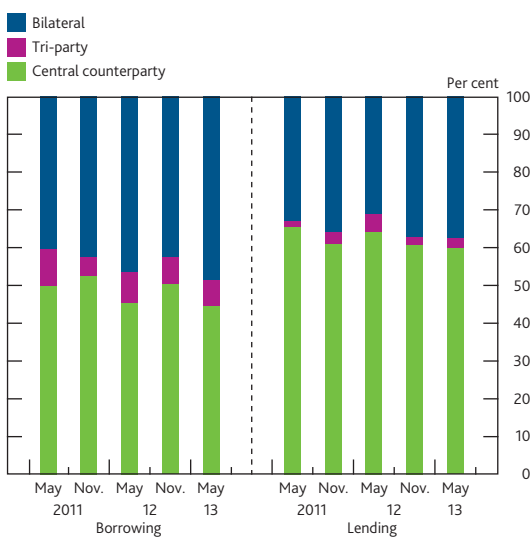
(a) 'Net percentage balance' is calculated as the difference between the balance of participants reporting that, on a scale of 1-5, the market was functioning very poorly (1) to very well (5). The net percentage balances are scaled to lie between ±100: more extreme responses (1 and 5) attract a weight 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 was broadly unchanged from the previous survey, comprising 69% of total sterling money market transactions (Chart 1).

The share of secured borrowing taking place bilaterally relative to that via central counterparties (CCPs) and via tri-party repo increased a little (Chart 4). Contacts thought this may be due to a greater stringency of collateral requirements when trading via CCPs rather than bilaterally.

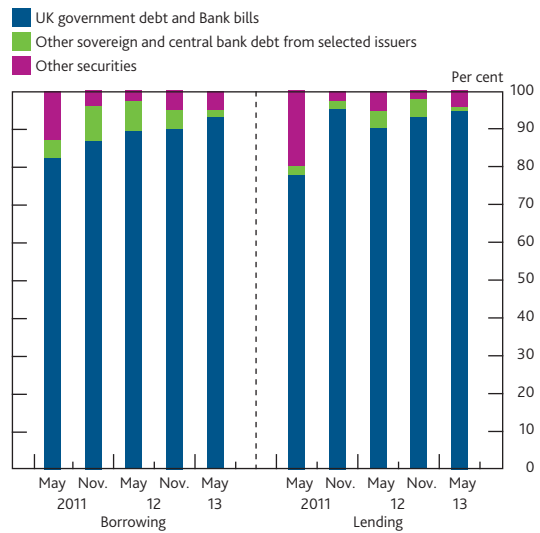
Chart 4 Distribution of secured transaction types



Sources: MMLG Sterling Money Market Survey and Bank calculations.

The proportion of secured transactions collateralised by non-UK sovereign and central bank debt decreased further since the previous survey. Secured transactions backed by UK government debt or Bank bills rose to around 95% (Chart 5).

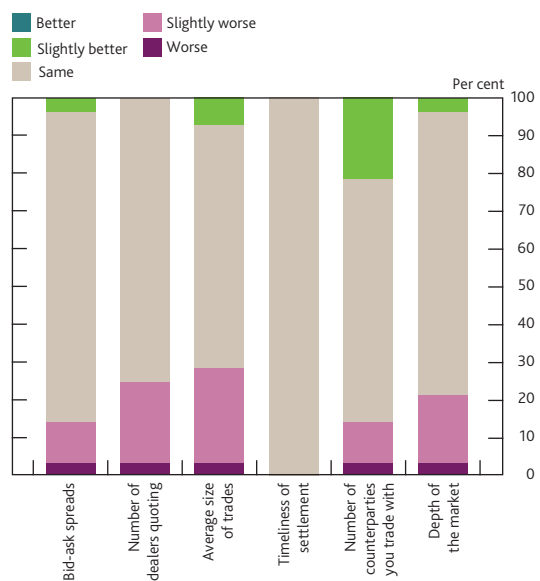
Chart 5 Distribution of collateral usage



Sources: MMLG Sterling Money Market Survey and Bank calculations.

Participants continued to report that overall the secured market functioned well (Chart 3). But there were mixed perceptions of changes in some specific indicators of market functioning. A few respondents reported a worsening in the average size of trades and a decline in the number of dealers quoting prices; others reported a slight improvement in the number of counterparties they dealt with (Chart 6).

Chart 6 Change in secured market functioning indicators between November 2012 and May 2013



Sources: MMLG Sterling Money Market Survey and Bank calculations.

The unsecured sterling money market

The value of unsecured transactions remained broadly similar to that reported in the previous survey (**Chart 1**).

Banks continued to source the majority of their unsecured short-term funding from non-bank institutions (**Chart 7**). Around half of all unsecured borrowing by banks came from non-bank financial institutions. The share of unsecured borrowing by banks from corporates and other non-financial institutions increased to 24%, from 17% in the previous survey. Contacts thought that some of this increase may reflect current and prospective liquidity regulations — regulatory liquidity metrics assume that, during a liquidity stress scenario, banks retain a higher proportion of unsecured funding from non-financial institutions than from banks. That would incentivise banks to source a greater share of unsecured funding from non-financial institutions.

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



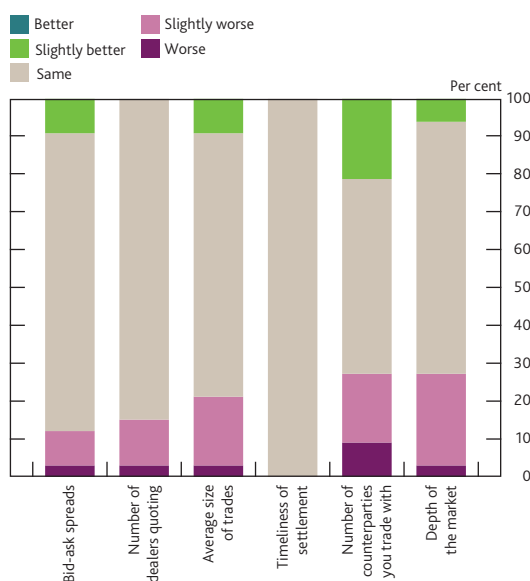
Sources: MMLG Sterling Money Market Survey and Bank calculations.

(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 banks and non-bank institutions.

Activity in the unsecured market was concentrated in overnight transactions, which accounted for around three quarters of average turnover in May (**Chart 2**). The proportion of lending with overnight maturity rose 17 percentage points since the previous survey. Contacts, however, attached little significance to this increase given the small absolute level of reported unsecured lending. Activity at tenors greater than three months continued to be limited.

Although most participants reported that specific indicators of functioning in the unsecured market were unchanged over the past six months, a number of participants recorded some changes (**Chart 8**). While a number of participants reported an improvement in the number of counterparties they traded with, for others this indicator of functioning had worsened. A number of participants also reported a decline in the depth of the market — a measure of respondents' ability to borrow or lend in significant size without moving market interest rates.

Chart 8 Change in unsecured market functioning indicators between November 2012 and May 2013



Sources: MMLG Sterling Money Market Survey and Bank calculations.

The sterling money market has experienced structural changes since the start of the crisis. A number of contacts have, for instance, noted that a greater sensitivity to counterparty credit risk has reduced the number of banks that they are willing to lend to on an unsecured basis. That is reflected in a reduction in the number of credit limits they have to lend unsecured to other banks. To investigate how rapidly this has been occurring, participants in the 2013 H1 survey were asked how the number of unsecured credit limits had changed over the past six months. Three quarters of respondents reported no change, but around 20% reported that the number unsecured credit limits had fallen over this period.

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.
- 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 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**).
- vi. November 2012 data have been adjusted for revisions of past data.

Annex A: Data tables for quantitative survey questions

Table A1: Reported daily average transactions in the sterling money market (£ billions)^(a)

	2011		2012		2013
	May	Nov.	May	Nov.	May
Unsecured	34	36	46	45	47
Secured	90	86	98	104	104

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

	2011		2012		2013
	May	Nov.	May	Nov.	May
Unsecured borrowing	34	37	45	45	47
Unsecured lending	5	4	4	3	3
Secured borrowing	78	75	85	90	88
Secured lending	57	63	66	60	65

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

	2011		2012		2013
	May	Nov.	May	Nov.	May
Unsecured borrowing	19	21	25	16	28
Unsecured lending	54	53	39	22	43
Secured borrowing	39	44	43	36	32
Secured lending	28	31	34	16	17

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

	2011							
	May				Nov.			
	Overnight	Two days to two weeks	Two weeks to three months	Three months up to one year	Overnight	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
Unsecured lending	79	12	7	1	81	12	6	1
Secured borrowing	69	21	7	2	74	18	7	2
Secured lending	68	19	10	2	76	16	6	2
	2012							
	May				Nov.			
	Overnight	Two days to two weeks	Two weeks to three months	Three months up to one year	Overnight	Two days to two weeks	Two weeks to three months	Three months up to one year
Unsecured borrowing	78	17	4	1	77	18	3	2
Unsecured lending	72	20	6	2	63	24	8	5
Secured borrowing	73	19	6	2	73	20	5	2
Secured lending	71	20	7	2	69	20	9	2
	2013							
	May							
	Overnight	Two days to two weeks	Two weeks to three months	Three months up to one year				
Unsecured borrowing	77	16	4	3				
Unsecured lending	80	14	3	3				
Secured borrowing	67	25	6	1				
Secured lending	69	23	7	2				

(a) See note v in the data annex.

(b) Borrowing and lending do not sum to the totals in Table A1. This is because the totals in Table A1 are adjusted for the double counting of matched interbank borrowing and lending flows. See note v for details.

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

	2011				2012				2013	
	May		Nov.		May		Nov.		May	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
Tri-party	10	1	5	3	8	5	7	2	7	2
Bilateral	40	33	43	36	46	31	42	37	48	38
Central counterparty (CCP)*	50	66	53	61	46	64	51	61	45	60
Interbank excluding CCP	18	14	23	20	22	16	16	17	18	16

* All transactions via CCP are assumed to be interbank.

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

	2011				2012				2013	
	May		Nov.		May		Nov.		May	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
UK government debt and Bank bills	82	78	87	95	89	90	90	93	93	95
Other sovereign and central bank debt from selected issuers	5	2	9	2	8	5	5	5	2	1
Other securities	13	20	4	3	3	5	5	2	5	4

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

	2011				2012				2013	
	May		Nov.		May		Nov.		May	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
Non-financial institutions	20	3	20	1	15	2	17	6	24	4
Other financial institutions	47	5	48	9	57	8	55	6	51	7
Interbank:										
Interbank loans/deposits	30	85	29	85	25	82	25	81	21	81
Certificates of deposit	2	1	2	1	2	2	2	1	3	4
Commercial paper	0	6	0	4	1	6	0	6	0	5

Annex B: Data tables for qualitative survey questions

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

	2011		2012		2013
	May	Nov.	May	Nov.	May
1 (very poor)	0	0	0	0	0
2	4	0	11	4	7
3	40	36	25	44	43
4	52	64	57	32	36
5 (very good)	4	0	7	20	14

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

	2011		2012		2013
	May	Nov.	May	Nov.	May
1 (very poor)	3	45	31	21	15
2	41	15	38	32	27
3	41	30	28	41	48
4	13	10	3	6	9
5 (very good)	3	0	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
	2013														
	May														
	Better	Slightly better	Same	Slightly worse	Worse										
Bid-ask spreads	0	4	82	11	4										
Number of dealers quoting	0	0	75	21	4										
Average size of trades	0	7	64	25	4										
Timeliness of settlement	0	0	100	0	0										
Number of counterparties you trade with	0	21	64	11	4										
Depth of the market	0	4	75	18	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

	2013				
	May				
	Better	Slightly better	Same	Slightly worse	Worse
Bid-ask spreads	0	9	79	9	3
Number of dealers quoting	0	0	85	12	3
Average size of trades	0	9	70	18	3
Timeliness of settlement	0	0	100	0	0
Number of counterparties you trade with	0	21	52	18	9
Depth of the market	0	6	67	24	3

Table B5: Changes in unsecured credit limits during previous six months (per cent)

	2013				
	May				
	Much higher	Somewhat higher	The same	Somewhat lower	Much lower
Compared with six months ago, is the number of banks with which you hold credit limits to lend unsecured...	0	3	76	18	3

Table B6: Coverage questions

	2012				2013	
	May		Nov.		May	
	Respondents	Average	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%	33	6%
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%	28	1%
Approximate percentage of turnover where there is uncertainty over the nature of the counterparty	–	–	33	2%	37	1%

Annex C: 2013 H1 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
Co-operative Bank
Coventry Building Society
Crédit Agricole CIB
Credit Suisse
Danske Bank
Debt Management Office
Deutsche Bank
Goldman Sachs
HSBC
ING UK
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