

The Money Market Liaison Group Sterling Money Market Survey

Survey results | 2013 H2



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 H2 report covers sterling money market transactions that took place during November 2013. The 2013 H1 report can be found at www.bankofengland.co.uk/publications/Documents/other/markets/mmlg/smms2013h1.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.

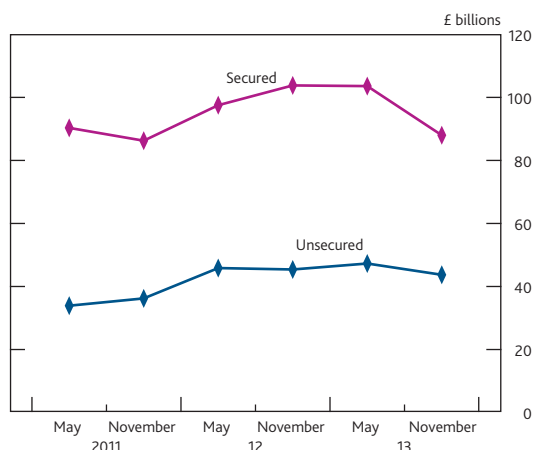
The Money Market Liaison Group Sterling Money Market Survey

The 2013 H2 report covers sterling money market transactions that took place during November 2013. The total value of reported sterling money market transactions decreased since the May 2013 survey. This was largely driven by a 15% fall in the value of secured transactions, which made up some two thirds of the overall money market. By contrast, the value of unsecured sterling money market activity remained broadly unchanged. As in previous surveys, both secured and unsecured activity was concentrated at overnight maturities. Perceptions of the functioning of the unsecured sterling money market improved slightly, but remained significantly less positive than perceptions of the functioning of the secured market.

The overall sterling money market

Average daily flows in the sterling money market fell by 13% in November 2013 relative to the previous survey in May. This was largely due to a 15% fall in the value of secured transactions. The value of unsecured transactions was broadly unchanged. Secured transactions continued to constitute the majority of overall money market turnover (**Chart 1**).

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

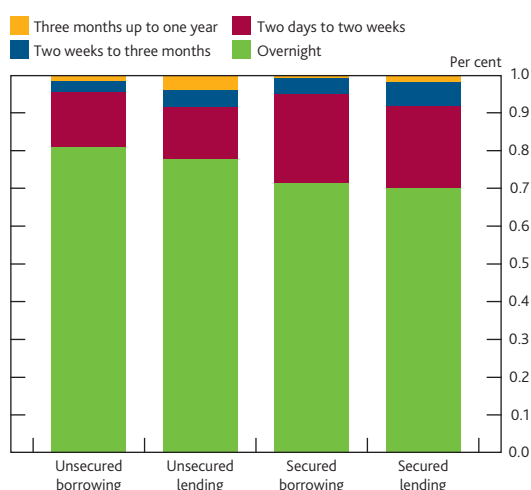


Sources: MMLG Sterling Money Market Survey and Bank calculations.

- (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 November 2013, overnight transactions accounted for around three quarters of total daily turnover (**Chart 2**). Lending or borrowing at maturities of three months or beyond continued to be very limited. There was little change in the distribution of maturities relative to the May 2013 survey.

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



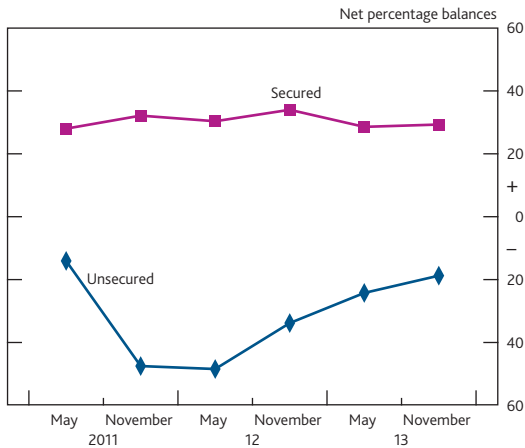
Sources: MMLG Sterling Money Market Survey and Bank calculations.

- (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 distribution of activity among participants in the sterling money market was broadly unchanged relative to the previous survey. The top five survey respondents in the unsecured market accounted for around 50% of unsecured transactions, and the top five respondents in the secured market accounted for almost 45% of secured transactions.

Perceptions of functioning in the unsecured market continued the improvement seen in the last few surveys, while perceptions of secured market functioning were similar to previous surveys (**Chart 3**). Nevertheless, unsecured market functioning remained significantly less positive than secured market functioning.

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 lenders 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

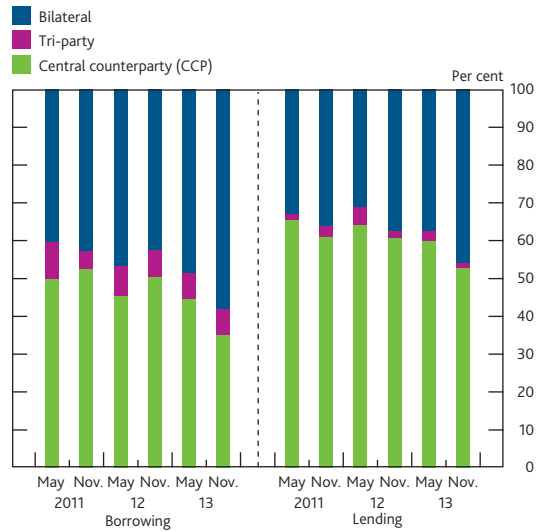
The value of secured transactions fell by 15% since May 2013, and comprised 67% of total sterling money market transactions (Chart 1). Contacts suggested that a contributory factor could have been increased focus on leverage and other metrics of balance sheet usage in anticipation of regulatory requirements.

There was a further fall in the proportion of secured borrowing and lending taking place via central counterparties (CCPs) relative to that taking place bilaterally or via tri-party repo (Chart 4). Secured activity via CCPs fell from 51% of total secured transactions in the May 2013 survey to 42% in November 2013, while the proportion of secured bilateral transactions increased from 44% to 53% of total secured transactions. Contacts thought that this could be the result of the cost of trading via CCPs, with contacts preferring to maintain bilateral relationships instead.

Around 95% of secured transactions continued to be collateralised by UK government debt or Bank bills. This was broadly unchanged since the previous survey. There was therefore also little change in the share of secured transactions collateralised by non-UK sovereign and central bank debt and other securities (Chart 5).

While the balance of respondents continued to report that overall the secured market functioned well (Chart 3), changes in perceptions of specific indicators showed a decline in market functioning over the past six months. In particular, some respondents reported a decline in the number of dealers quoting prices and in perceptions of the depth of the market (Chart 6). Contacts noted that despite how most indicators of

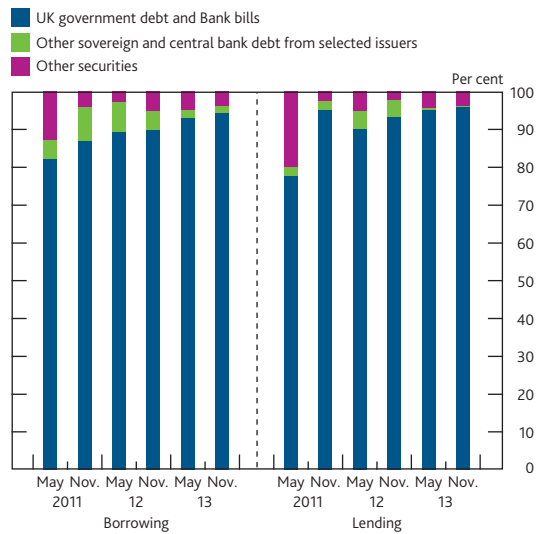
Chart 4 Distribution of secured transaction types^(a)



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.

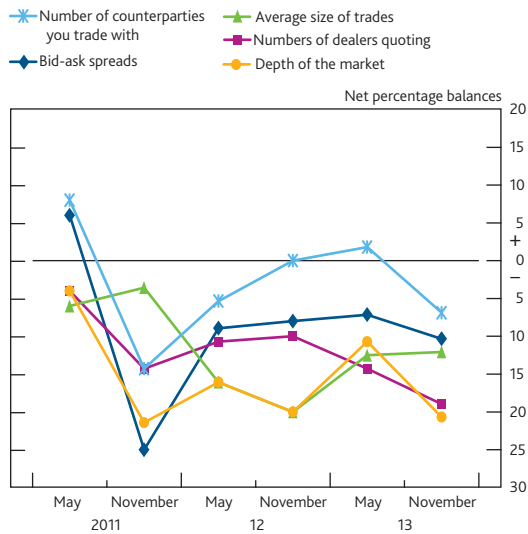
Chart 5 Distribution of collateral usage



Sources: MMLG Sterling Money Market Survey and Bank calculations.

market functioning deteriorated slightly, overall market functioning remained relatively positive.

Chart 6 Change in secured market functioning indicators between May 2013 and November 2013^(a)



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). 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 unsecured sterling money market

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

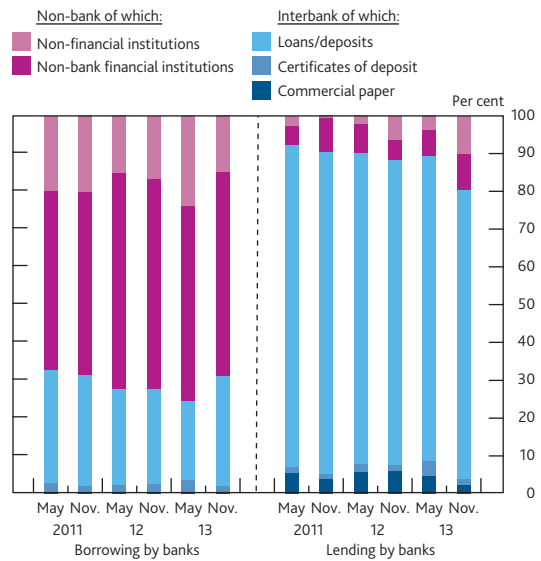
As in previous surveys, banks continued to source around half of their unsecured money market funding from non-bank financial institutions, and 15% from non-financial corporates (Chart 7, left panel). However, the share of interbank borrowing increased from 25% in May 2013 to 31% in November. Although interbank lending comprised about 80% of total unsecured lending by banks, contacts noted that its absolute value remained low, and perceived this market to be used only where necessary, such as for maintaining relationships with counterparties.⁽¹⁾

Activity in the unsecured market continued to be concentrated in overnight transactions, which accounted for around 80% of average turnover in November 2013 (Chart 2). This was broadly unchanged since the previous survey. Contacts reported that liquidity was very limited for unsecured transactions at a maturity of greater than three months.

Overall perceptions of unsecured market functioning showed a slight improvement again in November 2013, although the balance of responses remained negative, indicating that perceptions continued to be poor on balance (Chart 3). Perceptions of specific indicators were reported to be broadly similar over the last six months (Chart 8).

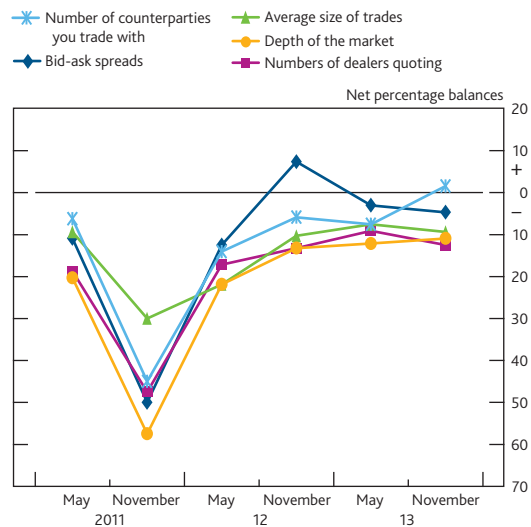
Market participants commented that the sterling money market had experienced structural changes in recent years, and in particular that the number of banks that they were willing to

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



(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.

Chart 8 Change in unsecured market functioning indicators between May 2013 and November 2013^(a)



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). 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.

lend to on an unsecured basis had fallen since the start of the crisis. Participants were asked how the number of unsecured credit limits had changed since the previous survey. The vast majority of respondents reported that there had been no further change in the past six months, though a small minority reported a further modest fall.

(1) Interbank borrowing and lending figures are not equal in the survey as only the survey participants' side of each transaction is recorded. See note iv in the data annex for more detail.

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 intra-group 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	Nov.
Unsecured	34	36	46	45	47	44
Secured	90	86	98	104	104	88

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

	2011		2012		2013	
	May	Nov.	May	Nov.	May	Nov.
Unsecured borrowing	34	37	45	45	47	43
Unsecured lending	5	4	4	3	3	2
Secured borrowing	78	75	85	90	88	72
Secured lending	57	63	66	60	65	51

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

	2011		2012		2013	
	May	Nov.	May	Nov.	May	Nov.
Unsecured borrowing	19	21	25	16	28	30
Unsecured lending	54	53	39	22	43	18
Secured borrowing	39	44	43	36	32	36
Secured lending	28	31	34	16	17	26

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				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	77	16	4	3	81	15	3	1
Unsecured lending	80	14	3	3	78	14	5	4
Secured borrowing	67	25	6	1	71	23	5	1
Secured lending	69	23	7	2	70	22	6	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		Nov.	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
Tri-party	10	1	5	3	8	5	7	2	7	2	7	2
Bilateral	40	33	43	36	46	31	42	37	48	38	58	46
Central counterparty (CCP)*	50	66	53	61	46	64	51	61	45	60	35	53
Interbank excluding CCP	18	14	23	20	22	16	16	17	18	16	17	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		Nov.	
	Borrowing	Lending	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	94	96
Other sovereign and central bank debt from selected issuers	5	2	9	2	8	5	5	5	2	1	2	0
Other securities	13	20	4	3	3	5	5	2	5	4	4	4

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

	2011				2012				2013			
	May		Nov.		May		Nov.		May		Nov.	
	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing	Lending
Non-financial institutions	20	3	20	1	15	2	17	6	24	4	15	10
Other financial institutions	47	5	48	9	57	8	55	6	51	7	54	10
Interbank:												
Interbank loans/deposits	30	85	29	85	25	82	25	81	21	81	29	76
Certificates of deposit	2	1	2	1	2	2	2	1	3	4	2	2
Commercial paper	0	6	0	4	1	6	0	6	0	5	0	2

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	Nov.
1 (very poor)	0	0	0	0	0	0
2	4	0	11	4	7	14
3	40	36	25	44	43	28
4	52	64	57	32	36	45
5 (very good)	4	0	7	20	14	14

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

	2011		2012		2013	
	May	Nov.	May	Nov.	May	Nov.
1 (very poor)	3	45	31	21	15	9
2	41	15	38	32	27	28
3	41	30	28	41	48	53
4	13	10	3	6	9	9
5 (very good)	3	0	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					Nov.									
	Better	Slightly better	Same	Slightly worse	Worse	Better	Slightly better	Same	Slightly worse	Worse					
Bid-ask spreads	0	4	82	11	4	0	3	76	17	3					
Number of dealers quoting	0	0	75	21	4	0	0	66	31	3					
Average size of trades	0	7	64	25	4	0	3	72	21	3					
Timeliness of settlement	0	0	100	0	0	0	0	97	3	0					
Number of counterparties you trade with	0	21	64	11	4	0	10	69	17	3					
Depth of the market	0	4	75	18	4	0	3	59	31	7					

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

	2011					2012					2013				
	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: Changes in unsecured credit limits during previous six months (per cent)

	2013									
	May					Nov.				
	Much higher	Somewhat higher	The same	Somewhat lower	Much lower	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	0	6	72	19	3

Table B6: Coverage questions

	2012				2013			
	May		Nov.		May		Nov.	
	Respondents	Average	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%	32	7%
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%	29	1%
Approximate percentage of turnover where there is uncertainty over the nature of the counterparty	-	-	33	2%	37	1%	32	2%

Annex C: 2013 H2 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