

European Rates Watch

Spain's Treasury to make cash work harder

Spain's Treasury to conduct repo auctions...

On 12 February 2024, Spain announced its Treasury will conduct repos to make its Treasury's resources profitable. A liquidity auction will be held on 16 February 2024 for a series of repo transactions with daily expiry between 21 February and 13 March 2024 (i.e. a series of overnight repos over 21 days). Eligible counterparties must be a Public Debt Market Maker of the Kingdom of Spain or a collaborating entity of the Tax Agency that fulfil certain conditions.

... and may raise returns from its cash by at least c. 30bp

Based on current Spain one-day GC rates, the Treasury may make at least c. 30bp more from placing its cash in repo than keeping it at the central bank. In December 2023, Spain's central government had €44bn deposits at the central bank, which were remunerated at as much as €str minus 20bp (Exhibit 1). We view €44bn as the upper limit on how much liquidity may be offered in the upcoming auction and note a second auction may be held before or after the first series of repo transactions end.

ECB remuneration changes remain on the table...

We expect all NCBs to remunerate government and non-euro area resident deposits at 0% after the ECB concludes its operational framework review, if they haven't been reduced already, to minimise costs (Exhibit 2, see [European Rates Viewpoint](#)). If government treasuries have similar expectations as us, then it would strengthen their incentive to place cash currently at the central bank elsewhere. The German central government reduced its deposits at the Buba the most within the euro area in 2023, in part reflecting the Buba's decision to remunerate its government deposits 0% from October 2023 (Exhibit 3).

... but impact from a unilateral move by BdE may be small

Remuneration rates on non-euro area resident deposits are not publicly available, but we assume they are similar to that offered to the domestic government. In 2023, the reduction in non-euro area resident deposits at the Eurosystem came primarily from the Buba (Exhibit 4). Given non-resident deposits at the BdE was only €6bn in December 2023, we expect the impact from any unilateral remuneration rate reduction on non-resident deposits by the BdE to be small (Exhibit 5).

We think Spain-core GC may be kept tight at the margin

Securities that are 1) denominated in euros, 2) admitted for Eurosystem monetary policy operations, and 3) registered with Iberclear may be used for the repo operations announced by Spain's Treasury. The possibility of non-government bonds being used in these operations may dampen the potential impact of these repo transactions on Spain GC rates. Our view is that these repo operations may help sustain recent tightening pressure on the Spain-core GC spreads only at the margin (Exhibit 6).

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BdE: Banco de España

Buba: Bundesbank

ECB: European central bank

€str: euro short-term rate

GC: general collateral

NCB: national central bank

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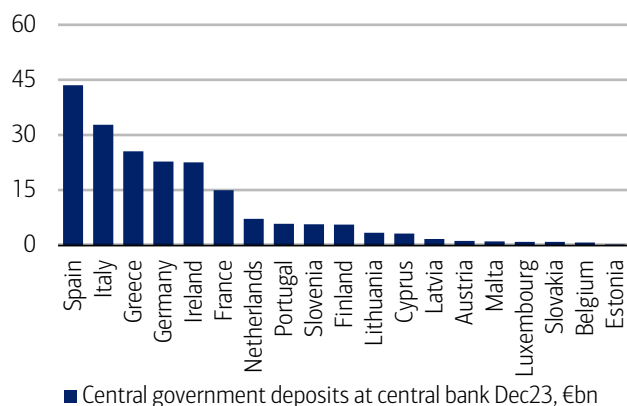
Refer to important disclosures on page 3 to 4.

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Timestamp: 13 February 2024 12:00AM EST

Exhibit 1: Central government deposits at Eurosystem by country

Spain's central government held most cash at central bank in Dec23

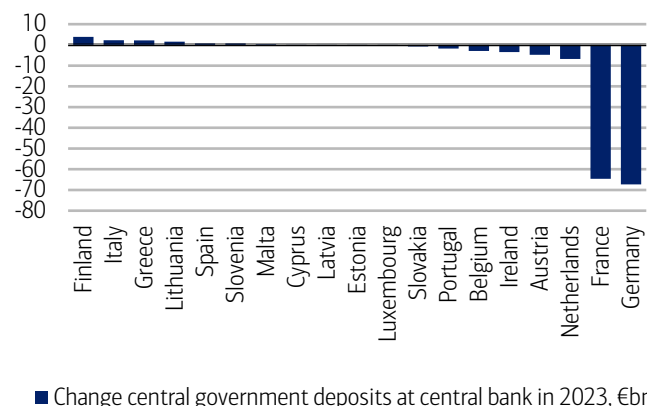


Source: ECB

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Exhibit 3: Change in central government deposits at Eurosystem

Largest decline in Germany in 2023 as Buba lowered remuneration rates

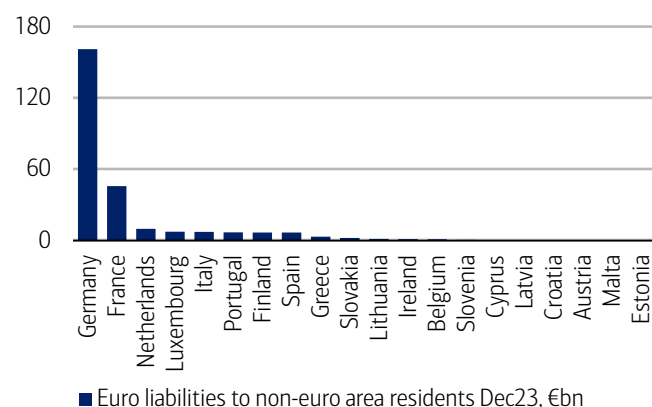


Source: ECB

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Exhibit 5: Eurosystem liabilities to non-residents

Non-residents only held €6bn at BdE



Source: ECB

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Exhibit 2: Remuneration of certain central bank liabilities

The Eurosystem may reduce remuneration rates further to minimise costs

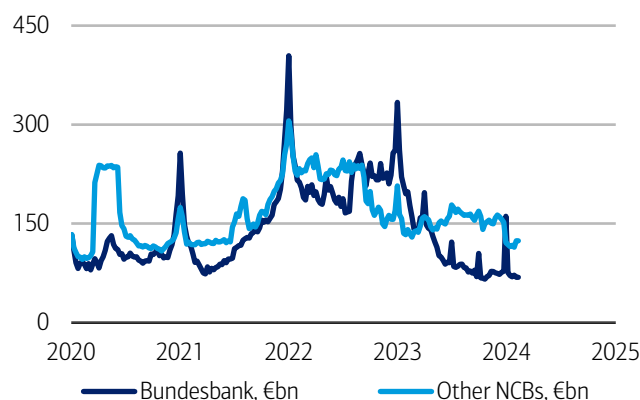
	Current remuneration rate, %	Current amount, €bn
Current account	0%	161
Minimum reserves	0%	0
Others	0%	0
Deposit facility	Depo facility rate	3,502
General government	0% at Bundesbank	56
	Cap of €str-20bp for all other national central banks (based on announcements)	106
Other euro area residents	Not publicly known, assume 0%	77
Non-euro area residents	Not publicly known, assume similar to general government	193

Source: BofA Global Research, Bloomberg, ECB. Data as of 13 Feb 2024.

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Exhibit 4: Non-euro area resident deposits at Eurosystem

Decline in non-resident deposits in 2023 came out of Buba

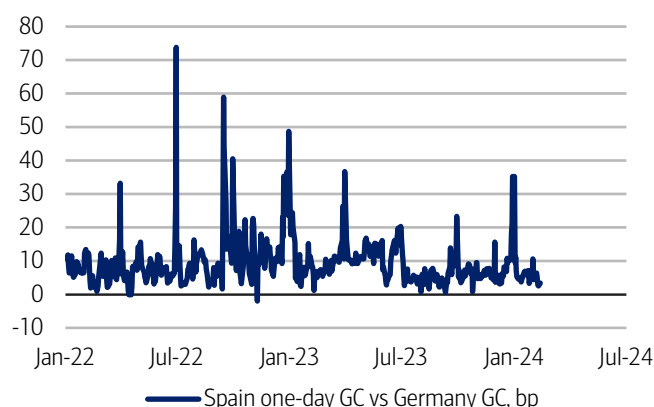


Source: BofA Global Research, ECB

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Exhibit 6: Spain one-day GC vs Germany

Spain vs Germany GC spread has been tight recently



Source: BofA Global Research, CME Group

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