

European Rates Watch

Term funding please

Key takeaways

- Banks have raised term deposit rates and net issuance of longer-term debt
- We believe this shows banks' desire to secure stable funding as TLTROs roll off
- We expect term premium to rise as liquidity continues to decline and maintain our Euribor-€str widener recommendation

Banks attracting more term deposits...

Corporates and households have been shifting from o/n to fixed term bank deposits in the euro area (Exhibit 1 and Exhibit 2). Fixed term deposits, as a share of corporate and household deposits, increased 9ppt and 2ppt respectively between June 2022 and March 2023. This reflects the widening spread between fixed term and o/n deposit rates offered by banks (Exhibit 3). In March 2023, the fixed term deposit rate was 2.57% for corporates and 2.11% for households. While this was lower than the 2.69% offered by euro MMFs in the same month, our interpretation is that the differential may not have been sufficiently attractive to prompt a meaningful shift of bank deposits by corporates and households to MMFs. This may be why net inflows into euro MMFs year-to-date has been limited (Exhibit 4).

... and net issuing longer-term debt...

Net debt issuance by euro area banks was generally flat after the Covid shock, only to increase notably since 2022 (Exhibit 5). The increase may be driven by banks' desire to secure stable funding as the TLTROs started to decline and on NSFR considerations, as well as to meet MREL requirements. Our Credit analysts showed senior opco/preferred issuance has been strong so far this year, with year-to-date issuance of €82bn surpassing the €80bn from 1H22 (see [European Banks](#)). While the increase in net issuance has been driven by debt with maturity greater than two years, issuance of debt with maturity less than one year has also not been insignificant. But that appears to be driven more by banks in France than to be a broader trend (Exhibit 6).

... pointing to higher term premium in money markets

We believe increased bank demand for term funding is a broad trend and not necessarily limited to banks that are structurally reliant on TLTROs for funding. We expect term funding competition to increase as reserves continue to fall on TLTRO repayments and QT by the ECB, and raise term premium in money markets. We maintain our 3M Euribor futures vs €str widener recommendation (current: 14bp, target: 25bp, stop: 0bp, see [European Rates Viewpoint](#)). Risks are excess liquidity stabilising at high level and bank demand for high quality liquid assets being less than expected.

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For a list of our open rates trades and those closed over the past 12 months, see the latest [Global Rates Weekly, 19 May 2023](#).

o/n = overnight

MMF = money market funds

TLTROs = targeted longer-term refinancing operations

NSFR = net stable funding requirement

MREL = minimum requirement for own funds and eligible liabilities

QT = quantitative tightening

ECB = European Central Bank

Euribor = euro interbank offered rate

€str = euro-short term rate

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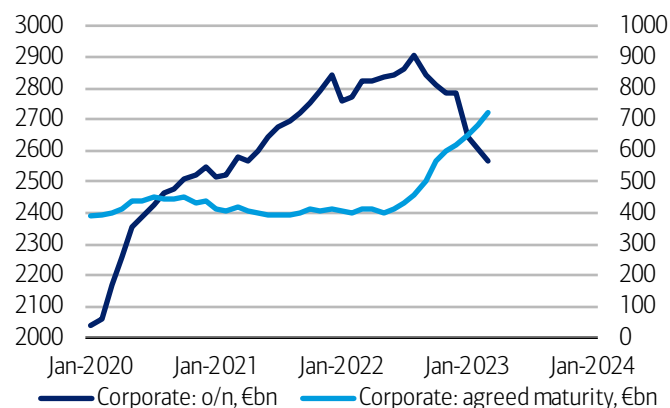
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Timestamp: 26 May 2023 12:00AM EDT

Exhibit 1: Corporate term deposits in euro area banks

Corporates increased term deposits by over €300bn since 2H22

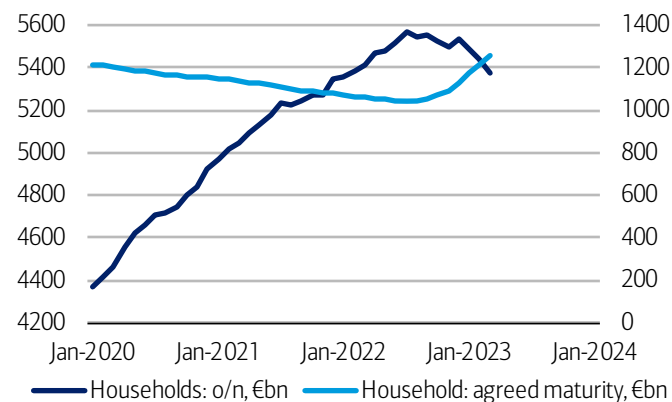


Source: ECB

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Exhibit 2: Household deposits in euro area banks

Households increased term deposits by over €200bn since 2H22

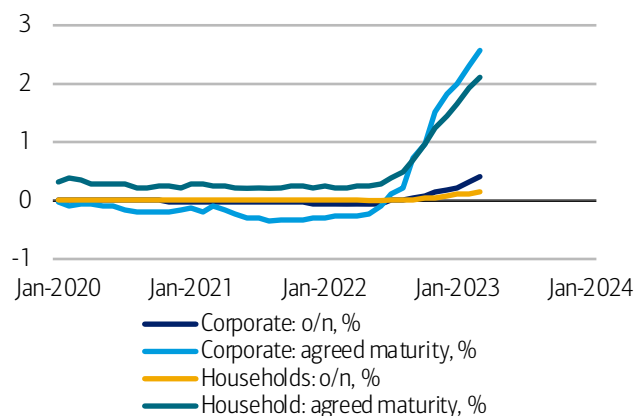


Source: ECB

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Exhibit 3: Rates on new deposits

Banks have been paying up for term deposits

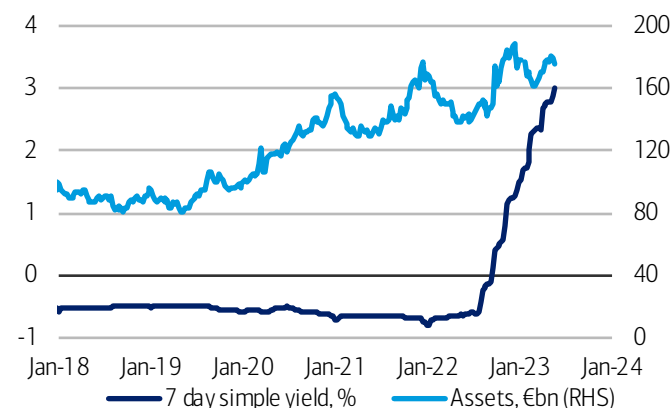


Source: ECB. Latest data point: March 2023.

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Exhibit 4: Yield and assets of euro MMFs

MMF yield may not have been high enough to attract large inflows

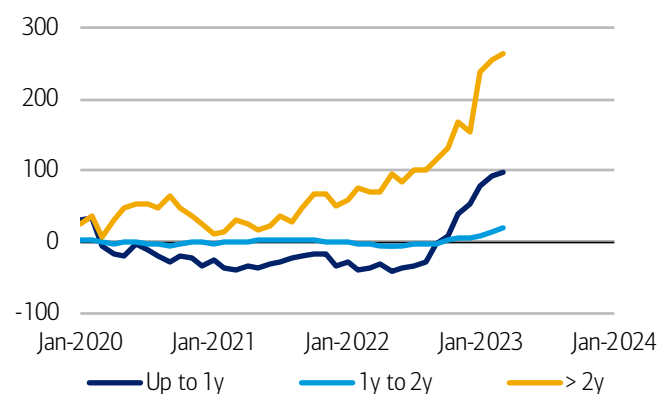


Source: iMoneyNet. Latest data point: 19 May 2023.

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Exhibit 5: Cumulative net debt issuance since Jan20, €bn

Net debt issuance by euro area banks picked up since 2022

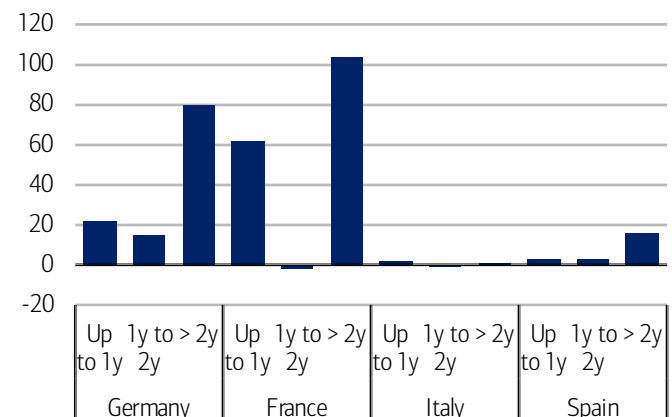


Source: BofA Global Research, ECB

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Exhibit 6: Net debt issuance by banks since 2022, €bn

Net issuance of debt with up to 1y maturity mainly driven by banks in France



Source: BofA Global Research, ECB

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