Safe Asset Scarcity and Monetary Policy Transmission

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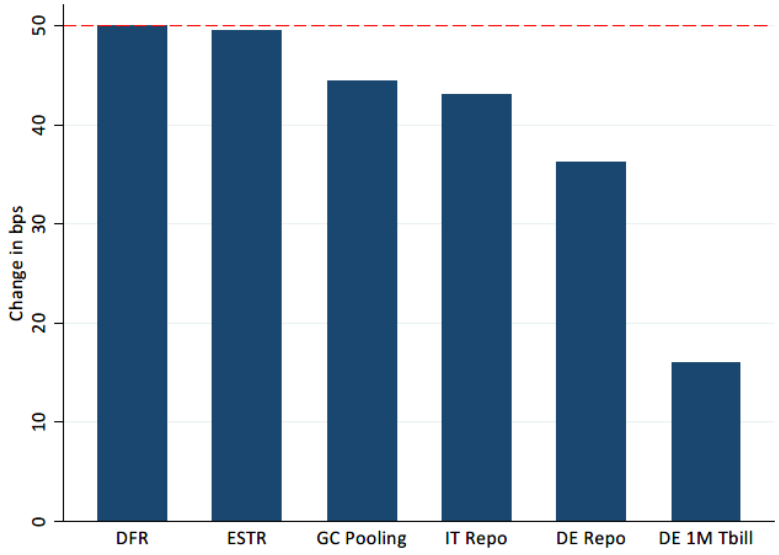
November 21, 2024

Imperfect Pass-through: Policy Rate → Repo Rates → Bond Yields



Why? Proposed Mechanisms

1. **Scarcity**
   ECB's bond holdings ↑ specialness ↑ pass-through ↓

2. **Market power**
   dealers don't fully pass on rate cut in repo trades with customers, pocketing the difference
   - due to segmentation and limited participation: only some investors have access to DFR & repo trading platforms, others forced to do bilateral OTC

3. **Mismatch** between bonds & investors
   scarcer bonds held by investors inactive on repo market

Make contribution clearer

Ballensiefen et al. (2023): impaired pass-through of DFR→repo rates ...

- ... if bond is QE-eligible, due to **scarcity**
- ... if GC<DFR, as in July 2022, due to **segmentation**: banks with DFR access stop cash-driven repos, only do collateral-driven repos

Eisenschmidt et al. (2024): due to **market power** of dealers over clients

- pass-through of EBC's DFR cut in September 2019 to repo rates $\sim 75\%$
- you find 35/50bp $= \sim 70\%$

your results are entirely in line, right? If not, stress differences more

Market power vs. limited participation

Table 4

	(1)	(2)	(3)	(4)
$Specialness_i$	-0.442***	-0.445***	-0.430***	-0.437***
	(-8.60)	(-8.39)	(-8.05)	(-8.28)
Coupon rate	0.00258	0.00224	0.00196	0.00208
	(0.54)	(0.48)	(0.43)	(0.45)
Init. maturity	-0.000149	-0.000317	-0.000262	-0.000318
	(-0.10)	(-0.23)	(-0.19)	(-0.23)
Resid. maturity	0.000570	0.000641	0.000552	0.000669
	(0.38)	(0.43)	(0.37)	(0.44)
ECB haircut	0.000213	0.000518	0.000272	-0.0000345
	(0.14)	(0.33)	(0.18)	(-0.02)
Customer FE	No	No	Yes	Yes
Dealer FE	No	Yes	Yes	Yes
Deal.-Cust. FE	No	No	No	Yes
Adj. R2	0.21	0.22	0.25	0.27
Obs	4,090	4,090	4,086	4,071

include interaction terms, not just fixed-effects

Table 5

	(1)	(2)
$Specialness_i^{Bef}$	-5.501***	-5.149***
	(-3.34)	(-3.22)
$Specialness_i^{Bef}$ × Share volume MFI	5.402***	5.070***
	(3.20)	(3.10)
$Specialness_i^{Bef}$ × Share volume ICPF	2.378	0.306
	(0.89)	(0.13)
$Specialness_i^{Bef}$ × Share volume OFI	4.761***	4.285***
	(2.92)	(2.64)
$Specialness_i^{Bef}$ × Share volume Foreign	4.446**	4.230**
	(2.45)	(2.41)
$Specialness_i^{Bef}$ × Share volume Non-Financials	-16.76	-17.96
	(-1.29)	(-1.37)

$\sim$ perfect pass-through for bank-to-bank trades etc., consistent with market power, why attribute to "limited participation"?

Mismatch channel

example: bonds deliverable/cheapest-to-deliver into bond futures

- very useful feature for investors active on Eurex, e.g. dealers/hedge-funds
- virtually useless for NFC/ICPF/HHs

intruiging and afaik new channel, explore further

- why do sophisticated investors not better anticipate which bonds will become special? e.g. CTD bonds
- did matching improve over time? might explain why pass-through became better

Bond-Level Repo Rate Dispersion

Table 6: Rate variation: MMFs, hedge funds and dealers lending

Fixed effects	Hedge Fund	MMF	Dealer
Week-Maturity	0.50	0.31	0.52
Week-Maturity-Borrower	0.56	0.98	0.59
Week-Maturity-Lender	0.62	0.42	0.59
Week-Maturity-Asset	0.94	0.73	0.93

UK evidence from Coen et al. (2024)

- driven by **spillovers from futures market**?
- re-estimate pass-through dropping CTD/deliverable bonds

→ rough proxy for spillovers from futures market

→ residual driven by collateral demand due to **short selling**?

- link repo premia of deliverable/CTD bonds to open interest in bond futures?
- open interest ↑ potential delivery obligations ↑ repo premia ↑

Heterogeneous effects across investors

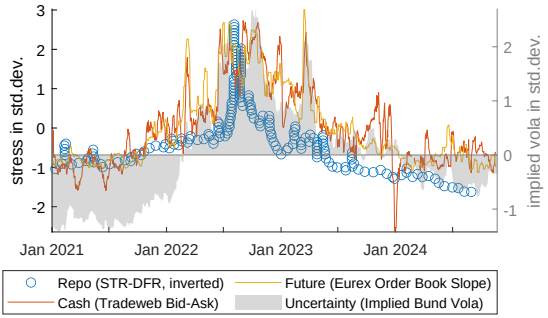
- some lucky investors held many special bonds, lowering their funding costs
- particularly high dispersion across banks, up to -30bp cheaper funding

→ did they actually take advantage? do you observe real effects? e.g. on credit volumes, etc.? compare with Tischer (2021)

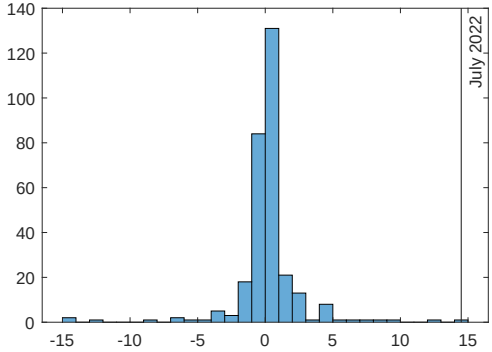
- luck or skill?
  how does share of special bond holdings correlate with investor sophistication?

July-December 2022 sample

general market stress?
repo/cash/future markets all intertwined
uncertain rate outlook as common driver?



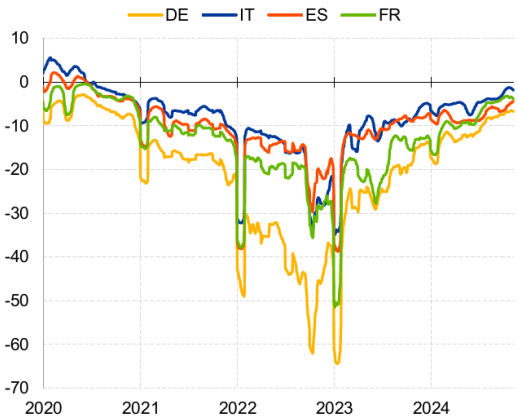
50bp hike in July biggest surprise in ECB history. Better pass-through for better-anticipated hikes?



1y OIS change around press release, from EA-MPD

Pass-through ultimately intact

Spread of repo rates to deposit facility rate
(basis points)



Source: MMSR.
Notes: Repo 1-day against government collateral – DFR, smoothed by 20-days moving average.
Latest observation: 5 November 2024.

- how to square with your evidence? you find persistent effects for all rate hikes
- need to update your sample

Policy Implications

Your conclusion hints at three options for the ECB

1. faster QT or outright sales
2. expand Securities Lending Facility (SLF), pricing/size/access
3. issue securities (certificates of deposit?) to soak up cash (implicit Eurobond)

$\rightarrow$ would that actually help? I thought the problem were collateral-driven repos?

more generally: occasional repo stress healthy?

- CB interventions cause moral hazard
- SLF crowds out private repo market

Conclusion

- straightforward and convincing paper
- accentuate your contribution
- focus on new/overlooked mechanisms