Repo Trading & Clearing 2022 / 2023: Thriving in a changing world
A brief overview of the Repo year 2022 with its ups and downs, key figures and market development, with a look at the most influential factors and greatest challenges, as well as an outlook on what to expect in 2023.

Events that affected the Repo market in 2022

2022 was forecast as the year when international financial markets and the global economy would recover from the COVID-19 pandemic and focus on the fight against climate change. However, Russia’s invasion of Ukraine and its aftermath (sanctions and energy market instability, to name a few) and the re-assessment of the inflation outlook which led to tighter monetary policies in most countries, including the Eurozone, got in the way.

As soon as economic data confirmed that inflation was no longer transitory, the ECB changed its rhetoric and hinted at first rate hikes by summer. Consequently, it started its monetary tightening by raising its key interest rates by 50 basis points in July 2022, followed by another 75 basis points in September and November. This was accompanied by the cessation of net purchases under the asset purchase program (APP) and led to a widening of the spread between the economies of the core and peripheral Eurozone countries, with Italy particularly affected due to political instability.

Activity in euro Repo markets was dominated by scarcity of high-quality European sovereign securities, particularly in German government bonds, “Bunds”. The scarcity of Bunds was due to several reasons such as rate hike expectations or increased margin requirements on the back of higher volatility in financial markets.

September 2022 saw the final phase of uncleared margin rules (UMR phase 6) and the forthcoming expiry of the exemption of pension funds from the clearing mandate, further driving demand for high-quality collateral and fueling collateral scarcity, while at the same time driving the buy-side to seek liquidity management solutions, including Repo.

From a regulatory perspective, it was primarily the regulation on large exposures under Capital Requirements Regulation (CRR) II that continued to challenge banks. In cases where loans are secured by collateral (e.g. repo transactions), the regulation requires the bank to report the secured portion as a loan to the issuer of the collateral. This forces banks to continuously measure their exposure to specific collateral issuers and assess whether regulatory limits are exceeded. It is our understanding that qualified CCPs are exempt from this regulation and cleared repo transactions and in particular GC Pooling transactions are therefore not affected.
Overall, 2022 was financially a good year for Eurex despite all the political, environmental, and pandemic-related turbulences mentioned above. The Repo markets as such grew as much as 57 percent. Total outstanding volumes across all Eurex Repo markets exceeded EUR 200 billion in December 2022, driven by strong growth in Specials as well as early indications of a GC Pooling “revival.”

### Strong volume growth across all Eurex Repo markets

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### The repo markets at Eurex in detail

Overall, the average term-adjusted volume for all markets increased by more than 50 percent and total outstanding volume exceeded EUR 200 billion again in December 2022 nearing the peak volumes before ECB’s quantitative easing programmes.

In general, the Special and GC repo market continued its robust performance, driven by ongoing collateral scarcity in the Eurozone: Average daily traded volumes for GC and Special Repo increased by approximately 58 percent year-on-year. The interest rate tightening cycle, which began in July 2022 and continued aggressively, led to increased trading opportunities.

**German government bonds** (Bunds) are a benchmark for borrowing costs across the Eurozone, and trading in Bunds dominated Repo market volumes in 2022. Due to tight conditions in European sovereign bond markets, which were structurally favorable for Eurex, and client positioning in response to the ECB’s monetary policy, trading was exacerbated by volatility following the ECB’s decision to cease net asset purchases under the APP, which served as a safety net for price stability. Collateral scarcity in high-quality assets and particularly in Bunds drove volumes in Specials and put pressure on repo levels. The higher level...
of federal bond futures trading in August, September, and October was due to preparations for year-end 2022, which started extremely early and saw participants expressing concern about uncertain market liquidity over the turn of the year.

In October 2022, the German Finance Agency announced an increase of the outstanding amount of 18 bonds by EUR 3 billion each to its own accounts. The increase was done for bonds that were high in demand and was intended to counteract stress in the repo market and alleviate pressure at the end of the year. A similar move was made on a single bond in March 2022 to address a bottleneck when the impact of the war in Ukraine started to affect the Repo market. Average daily traded volume in Bund Special repo more than doubled compared to 2021.

**GC Pooling**

Term-adjusted volumes grew by approximately 37 percent, and average daily traded volumes increased by 51 percent year-on-year. The markets continue to be impacted by high levels of excess liquidity in the Eurozone, although a turnaround is imminent given the ECB’s recent actions on bank borrowing under the Targeted longer-term refinancing operations (TLTROs), a key driver of excess liquidity. The ECB’s rhetoric changed in spring 2022, hinting an update in monetary policy tightening regime stimulates positive volume developments in Eurex Repo markets.

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**ECB monetary policy tightening regime stimulates positive volume developments in Eurex Repo markets**

**Repo Market**

ADV¹ YTD 2022: EUR 144bn
+57%²

ADV¹ 2022 YoY: EUR 144bn
+57%²

- **Jan**
- **Feb**
- **Mar**
- **Apr**
- **May**
- **Jun**
- **Jul**
- **Aug**
- **Sep**
- **Oct**
- **Nov**
- **Dec**

**GC Pooling**

ADV¹ YTD 2022: EUR 66bn
+37%²

ADV¹ 2022 YoY: EUR 66bn
+37%²

- **Jan**
- **Feb**
- **Mar**
- **Apr**
- **May**
- **Jun**
- **Jul**
- **Aug**
- **Sep**
- **Oct**
- **Nov**
- **Dec**

¹ ADV = Average Daily Cleared Volume (term adjusted)
² % change ADV YoY 2021/2022
In the SSA segment, we also saw strong growth over the course of the year with a 20% increase in traded volumes, mainly due to a very high increase in EU bond trading volumes (+128% vs. 2021).

One of our strategic objectives is to further attract cleared repo for the buyside, whose growing importance on our markets is notable. A volume increase of about 120% from this segment, driven by pension funds and insurance companies reaching 11% of total average daily traded volume, speak for themselves.

policy and summer as the earliest time for a first-rate hike. The yield curve steepened accordingly and, for the first time in years, offered term trading opportunities in GC Pooling. After the first rate hike in July, more and more participants re-engaged in GC Pooling, not only in term transactions and more specifically also in those short-term, and thus rediscovering GC Pooling as a liquidity management product. Since banks are to re-evaluate their funding liquidity sources, previously inactive participants are returning to the GC Pooling market in increasing numbers. This is because the features of GC Pooling offer banks unmatched efficiencies in the management of scarce financial resources, compared to bilateral and triparty Repo markets. The power of multi-lateral netting and the preferential risk weights afforded to qualifying central counterparties (QCCPs) brings capital management benefits across all key measures. A comprehensive revision of the ECB's TLTRO in October 2022 led to repayments of around EUR 300 billion in November and around EUR 450 billion in December 2022, reducing excess liquidity. This offers significant opportunities for GC Pooling in 2023 and beyond.

The spread of the STOXX GC Pooling Deferred Funding rate versus ECB Deposit rate has been 9.85 basis points on average throughout the year. With reduction of excess liquidity and further rate increases, we expect the GC Pooling rates to gradually approach the ECB Deposit rate in 2023.
Two main initiatives are driving the ECB’s efforts to harmonize the Eurosystem infrastructure – the consolidation of TARGET2 and T2S into a single platform and the introduction of the Eurosystem Collateral Management System (ECMS). Both require extensive development work from CSDs and ICSDs. Clearstream’s response to these ECB initiatives was the Collateral Mobility Project. It involved the decommissioning of Clearstream Banking Frankfurt’s Xemac collateral management system and the consolidation of all triparty collateral management, as well as pledging services on Clearstream Banking Luxembourg’s CmaX system in October 2022. In parallel, Eurex Clearing migrated more than 150 customers of the Repo and GC Pooling markets from the old CCP system to the new C7 SCS system, which was aligned with the Collateral Mobility Project and offers several functional improvements.

Due to the complexity of these technical migrations we experienced settlement problems for a number of days. This was mainly driven by some technical issues in settlement processing as well as the adaptation period for clients regarding the new processes and new account setup. In consequence, trading activities in GC Pooling were affected with a reduction of overnight liquidity between the end of October and early November, but recovered steadily over the course of November, resulting in more than EUR 80 billion outstanding volume in GC Pooling. We would like to thank all our clients for their effort and support mastering the migration challenges during the weeks following the migration weekend.
Year-end observations

At the end of December, liquidity was quite low for short maturities over year-end, with the average rate for spot next on 28 December at about 1.80%, while the overnight rate on 30 December was 0%. In GC, core government bonds in spot next traded over year-end at an average of –0.74%.

In Special Repo, year-end preparations began extremely early in late summer, even earlier than 2021, with term transactions until early/mid-January 2023. With rising demand, especially for Bunds, repo levels “richened” over the year-end and became significantly cheaper after the German Finance Agency announced in October that it would increase its own holdings to support the repo market.

Regarding term volumes, we saw constant business with end dates until January 2023, which was also reflected in the increase of term-adjusted volumes in the repo market in Q4 (+38% compared to Q4 2021). However, these activities slowed down in December, as most clients seemed to have covered the greatest part of their positions by then.

The volume of spot next trades over year-end in Bunds was about 22% lower than in the previous year, while repo rates against the €STR fixing were quite similar. German government bonds traded in spot next around –2.09% (€STR –3.98% vs. €STR –4.03% in 2021).

Overall, year-end repo market activity was quieter than market participants had expected a few months earlier. Actions taken by the ECB and other authorities appear to have helped allay concerns about a potential collateral shortage. The early, pre-emptive positioning of market participants led to a reduction in volumes in December and thus the risk of a year-end rally. However, it appears that compared to unsecured markets, the widening of repo prices over year-end was still significant.

Trading statistics & order book

- 55% increase in total traded volume
- **EUR 210 bn** average term-adjusted outstanding volume (single counted)
- **2.1 mn** quotes resulted in 51% increase in executed trades
- **2.5** Quote-trade-ratio in GC Pooling
- **11%** of traded volume generated from buy-side via RFQs
- Largest trade in 2022: **EUR 2.05 bn**
- Longest trade in 2022: **457 days** (GC Pooling)
- Average trade size **Specials EUR 50 mn**, **GCP EUR 150 mn**, **GC EUR 250 mn**
Expectations 2023

Eurex's repo business is also in 2023 a key pillar in its fixed income strategy to become the Home of the Euro Yield Curve.

For repo three main objectives are determining our strategic priorities for 2023. First, we aim to attract more buy-side customers for cleared repo, second, to increase our market share in the B2B Special and GC Repo segment, and third, to drive further the recovery of the GC Pooling business.

With regards to our buy-side ambitions we are fairly optimistic to further grow in this segment by further expanding to Pension Funds and Insurance firms and driving adoption of our latest model expansion “ISA Direct Indemnified” to address Hedge Fund demand for access to the cleared repo markets. This expanded scope allows those firms and their counterparty dealer banks to benefit to an even larger degree from multilateral netting and consequently from capital and risk management advantages.

In the B2B Special & GC Repo segment we expect strong volumes in 2023 again, likely drivers are the still existing high level of collateral scarcity linked to the improved capabilities for balance sheet netting introduced in the context of Clearstream's Collateral Mobility Project.

With regards to our Eurex GC Pooling® product we are also already seeing signs of a “recovery” given the ECB's actions to incentivize early repayments under the TLTRO and the resulting increasing funding needs of European banks. Eurex GC Pooling® has been a reliable source of liquidity since the great financial crisis and we believe that we will see activity to increase to previous peak levels facilitated by the monetary tightening measures again and become the marketplace of choice for Euro funding liquidity.

The regulatory Leverage Ratio and GSIB balance sheet treatment of repo continues to present the biggest challenge for market makers in offering repo liquidity to clients. Cleared repo offers unparalleled advantages for balance sheet management through multilateral netting. Additionally, the use of cleared repo products, such as GC Pooling, allows banks to carry out their secured funding activities without ever falling foul of regulatory Large Exposures limits.

The further establishment of market-leading ESG offerings is a further key objective for 2023. We expect a strong increase in repo transactions related to sustainable finance since it will increase the funding and refinancing needs for banks. First, the green transition to a carbon neutral economy requires huge amounts of funding; secondly, the introduction of the Green Asset Ratio GAR requires banks to invest a certain percentage of their assets in green projects and green assets. As a third driver for growth, we have central banks adjusting their collateral framework. Here, the repo market can play an active role with regards to sustainable finance and providing liquidity for primary and secondary markets, as well as supporting the funding and financing market.

The EU wants to strengthen its international status with the help of green and digital instruments and aims to build a greener, more digital and resilient Europe. It announced in December that it intends to issue up to EUR 80 billion in long-term EU Bonds in the first half of 2023 under its unified funding approach and plans to launch a repo facility in 2024.

With innovative products and services in the pipeline and steadily growing demand from customers looking to join our repo market, our outlook for 2023 is quite optimistic.

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