



# Money Markets and Monetary Policy in and after the crisis

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# The SNB's Monetary Policy Framework

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Price stability

Ultimate objective

Inflation forecast

Main indicator

Target range CHF 3M-Libor

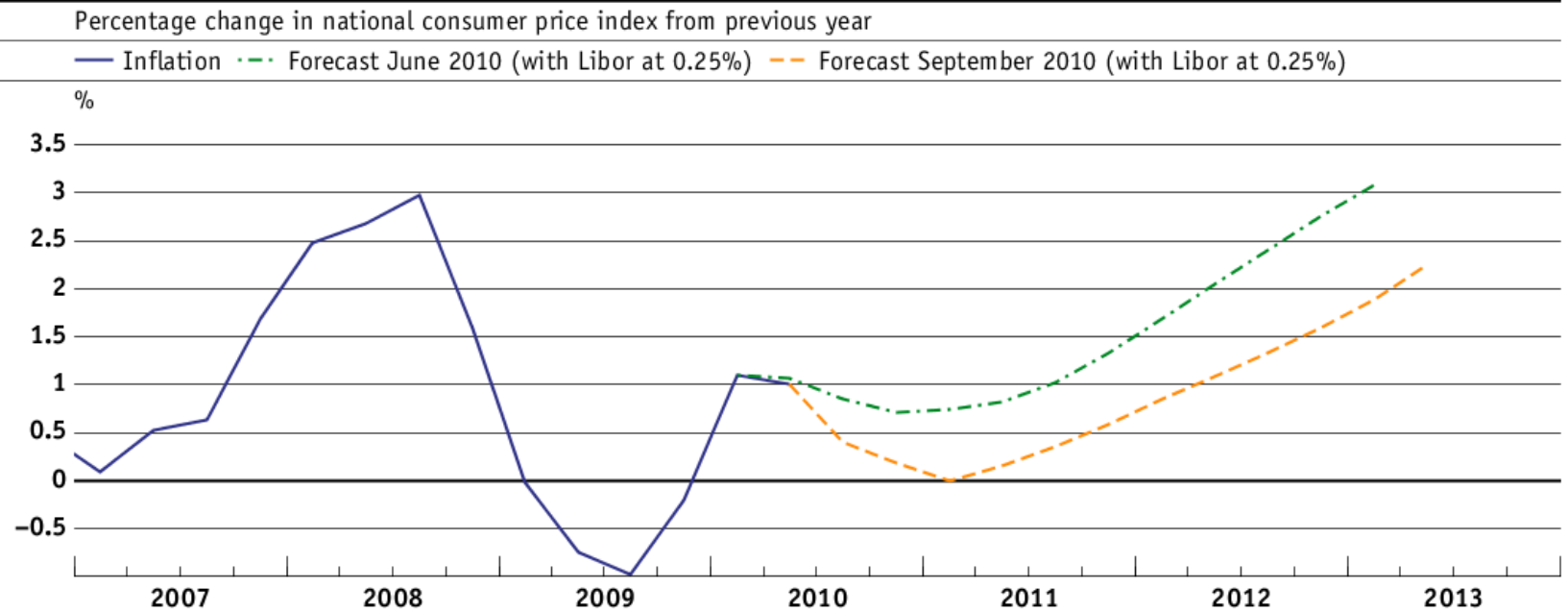
Operational target

SNB Bills/Repo transactions

Instruments

# Inflation forecast...

## Conditional inflation forecast of June 2010 and of September 2010



# The 3 month Libor: an unusual operating target

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- Cons:

Controllability

Manipulable?

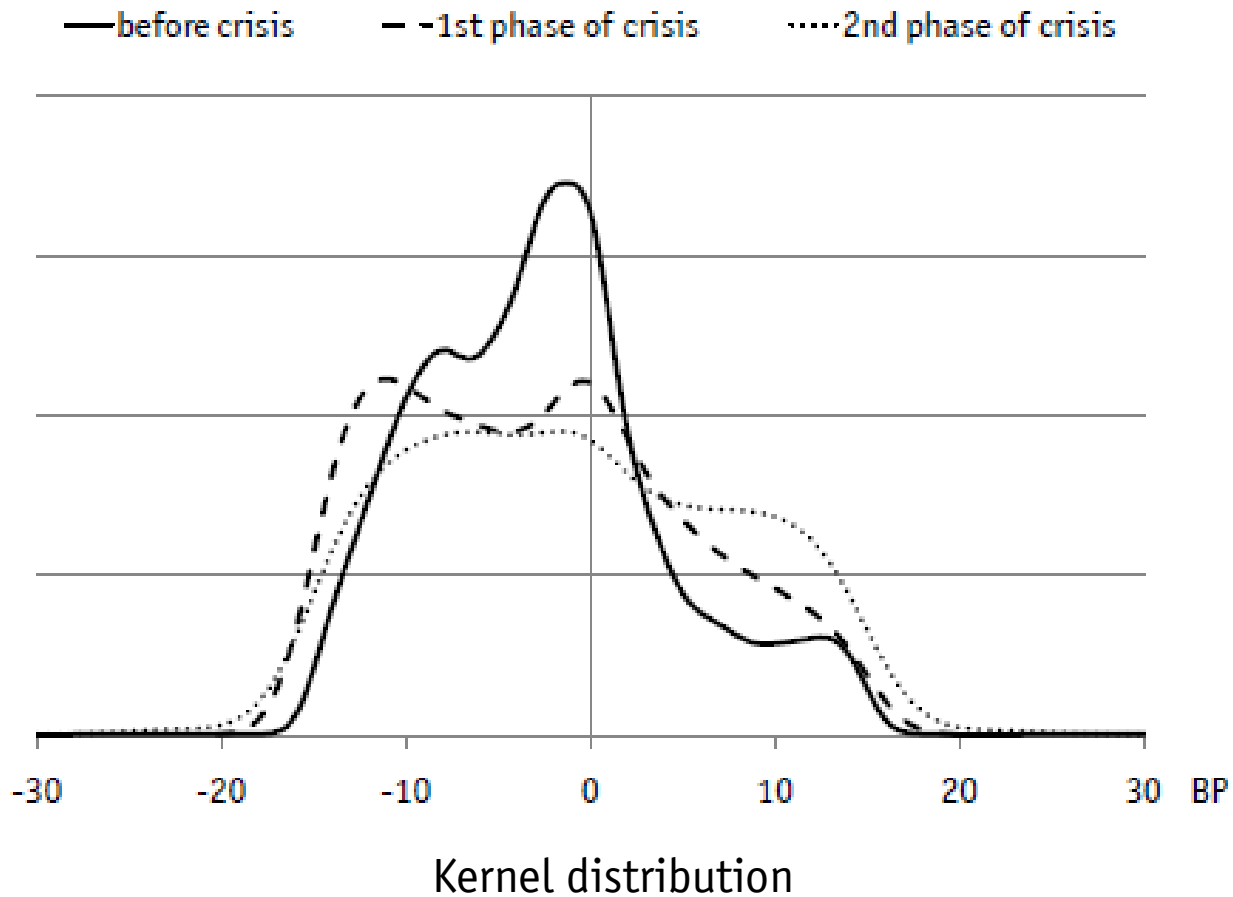
Pros:

Flexibility

Economic Relevance

Risk premium shield

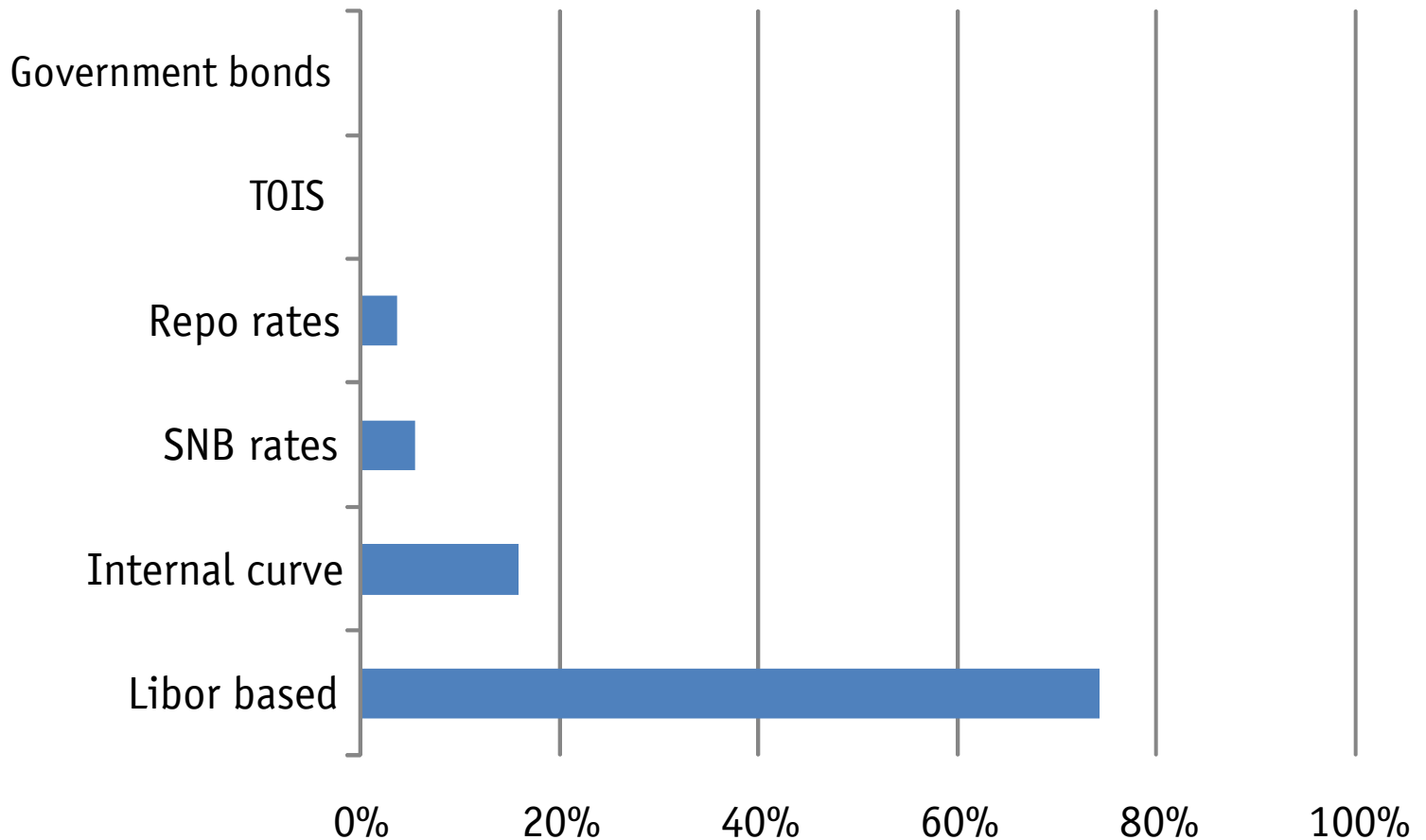
# Libor manipulated?



Source: Kränzlin, Schumacher, Guggenheim (2010)

# Reference rates for loans...

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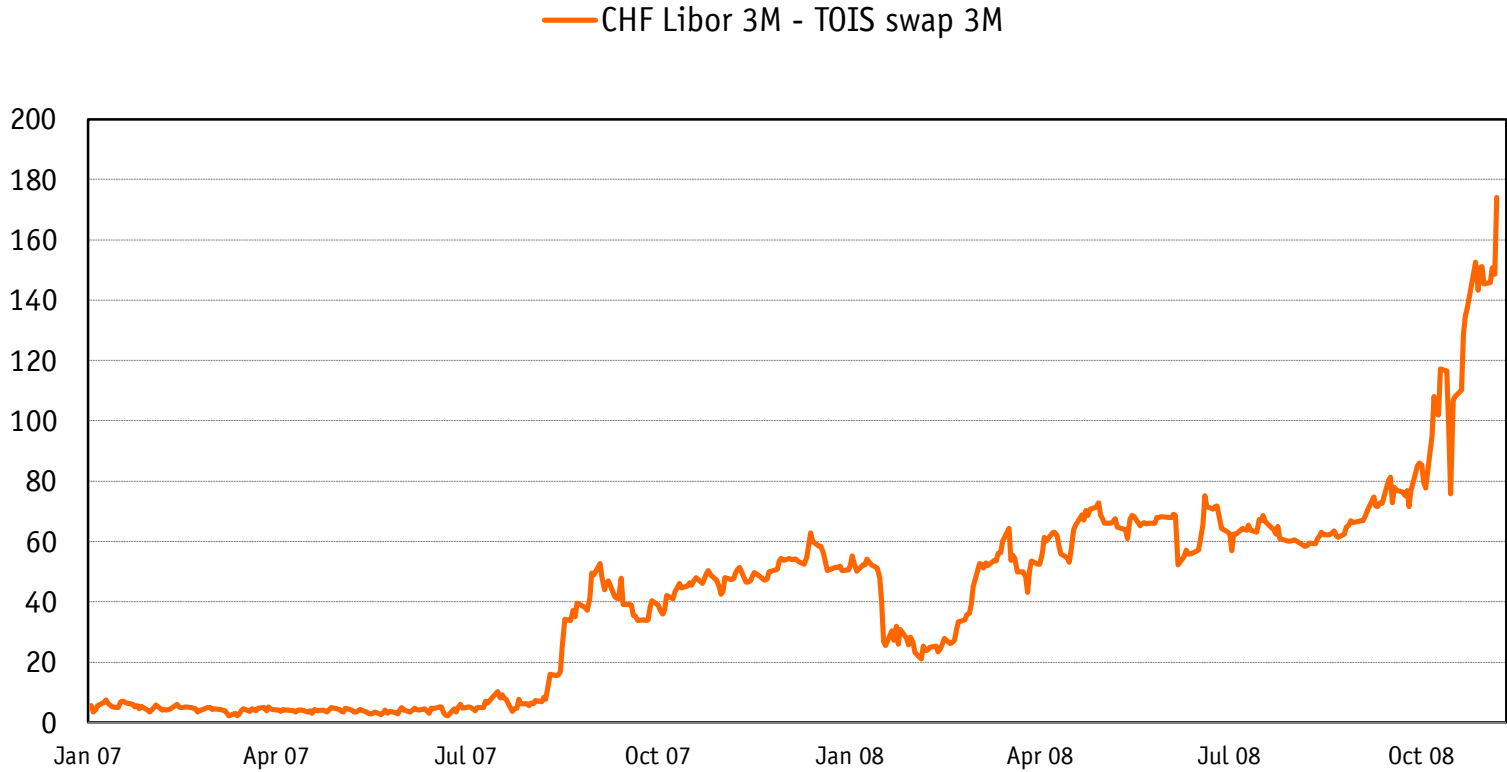


Source: SNB

# Increase of risk premia in money market...

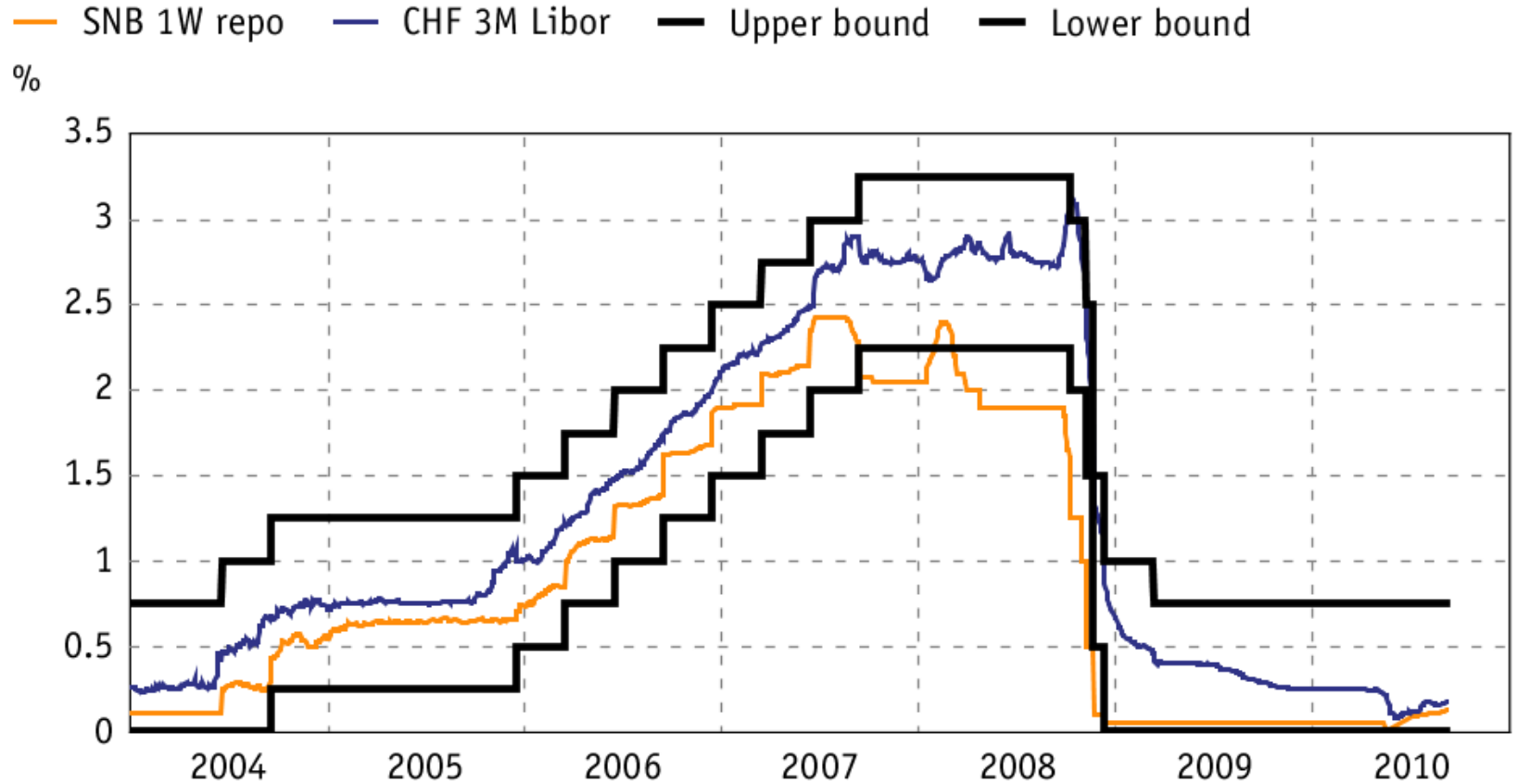
SCHWEIZERISCHE NATIONALBANK  
BANQUE NATIONALE SUISSE  
BANCA NAZIONALE SVIZZERA  
BANCA NAZIUNALA SVIZRA  
SWISS NATIONAL BANK

Lausanne, 28 October 2010



Source: SNB

# CHF 3M-Libor and SNB Repo Rate



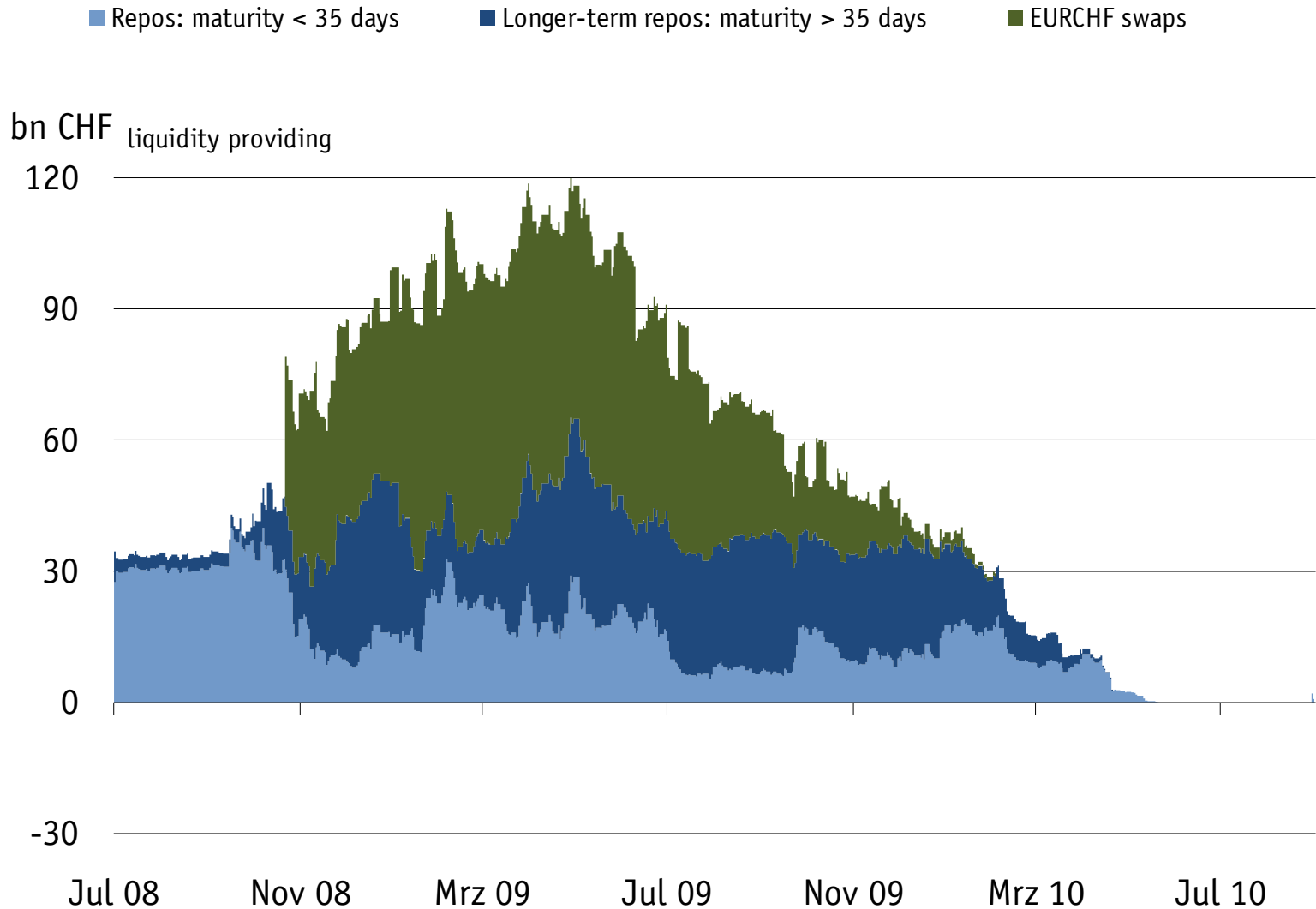
Sources: SNB Markets Analysis Platform, Bloomberg

08.09.2010 15:51:25

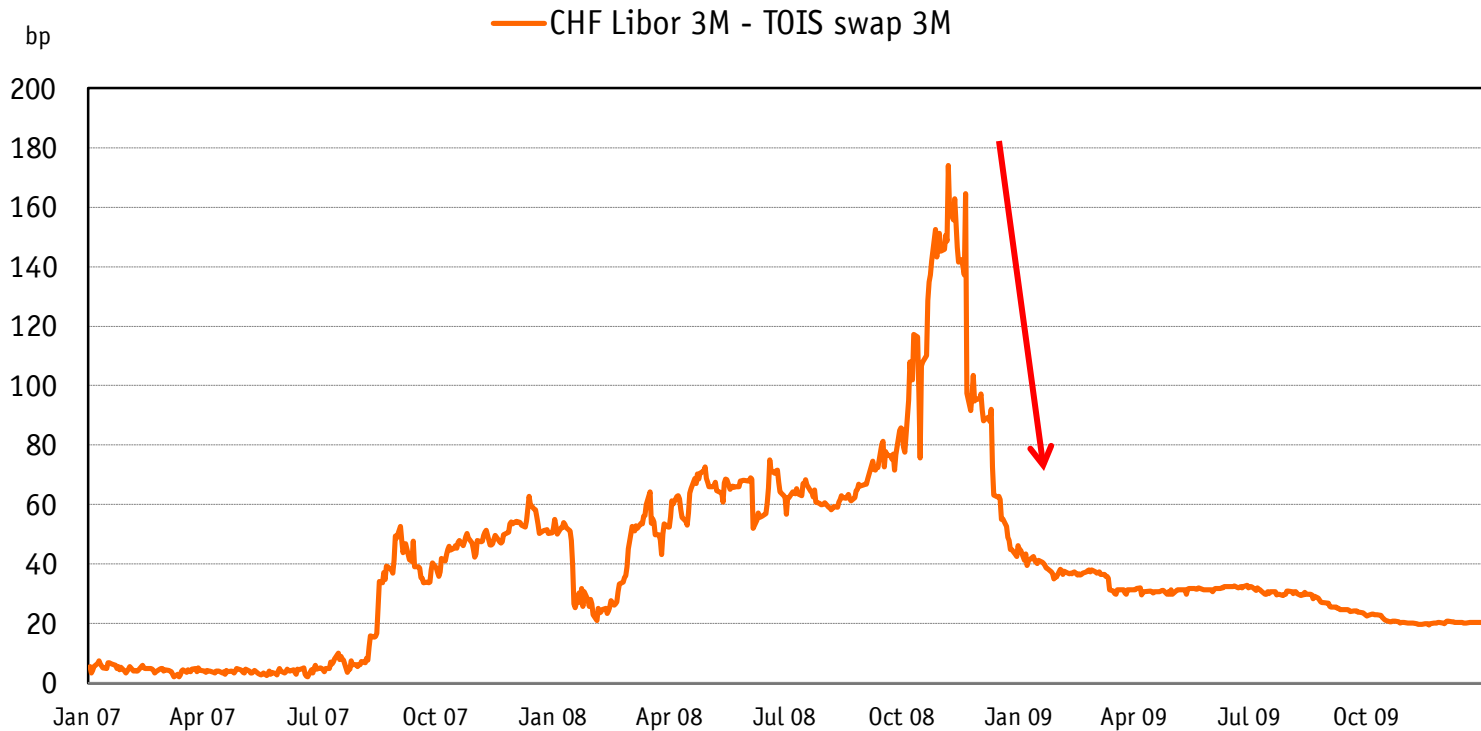


# QE/CE Measures

## EURCHF swaps and longer-term repos



# Reduction of risk premia...

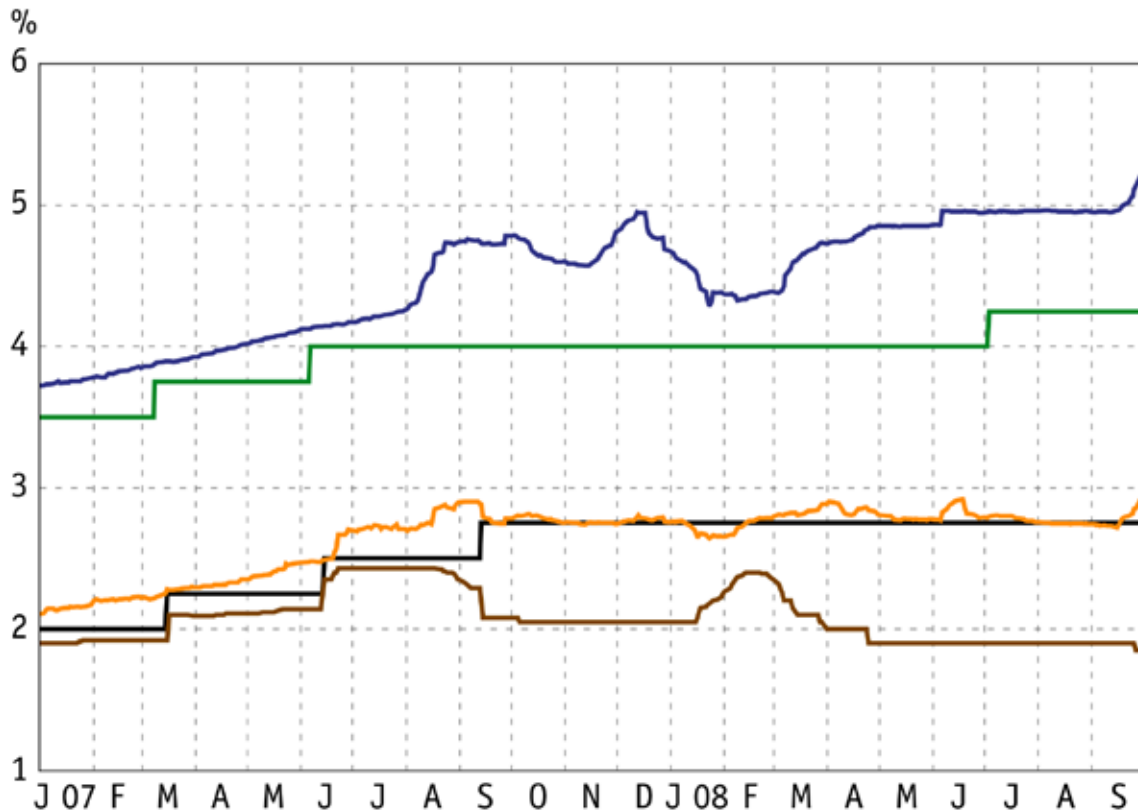


Source: SNB

# Monetary stabilizers...

## 3M-Libor & repo rates

— SNB aimed level 3M-Libor    — 3M-Libor on CHF    — CHF 1W SNB repo  
— 3M-Libor on EUR    — ECB min bid rate



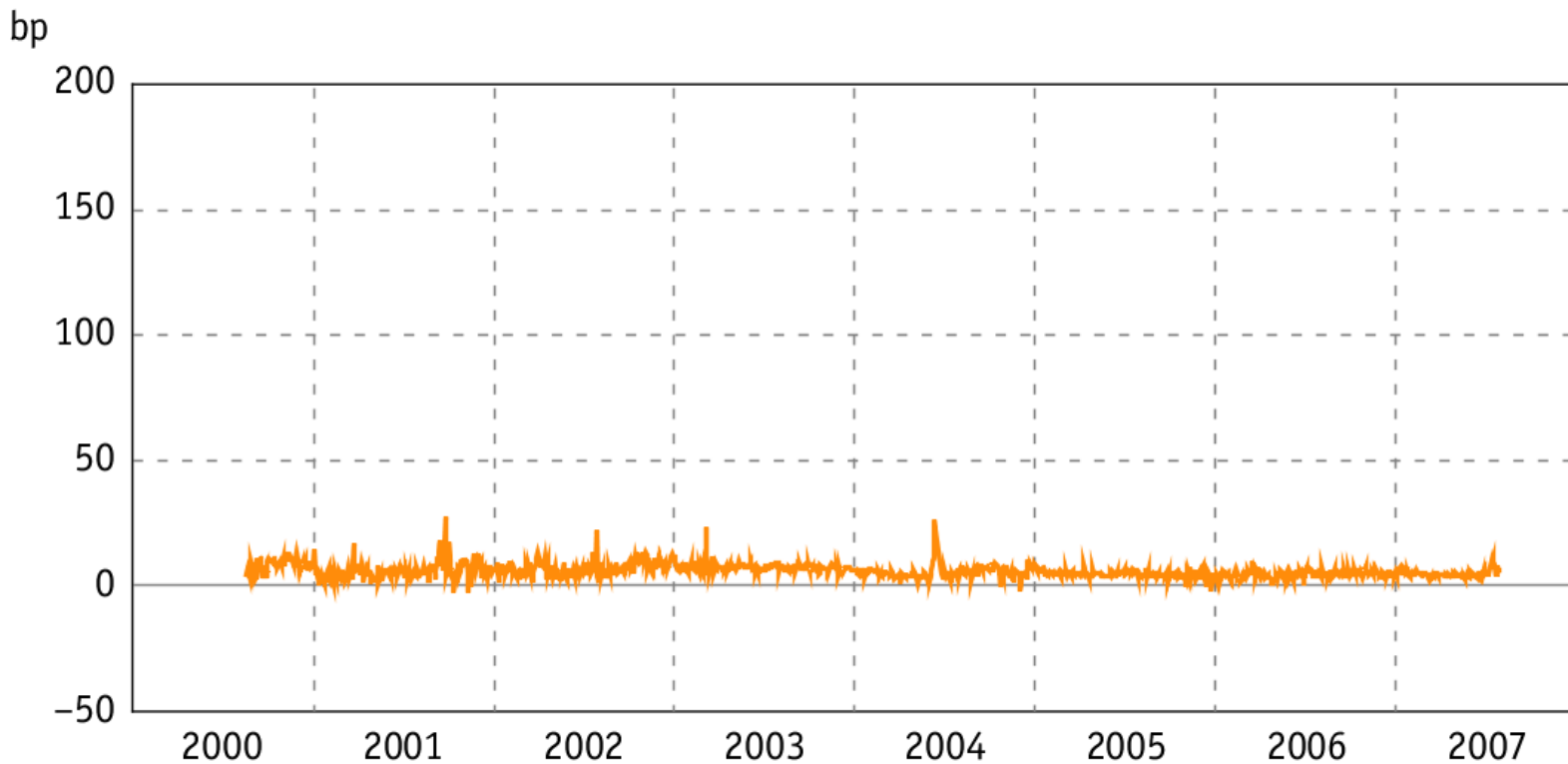
Source: SNB Research Unit - Monetary Information Online

2010-10-11 10:32

# The forgotten money market (1)

## Risk premium money market

— CHF Libor 3M - TOIS swap 3M



Sources: SNB Markets Analysis Platform, Bloomberg

06.10.2010 17:21:32

# The forgotten money market (2)

## Risk premium money market

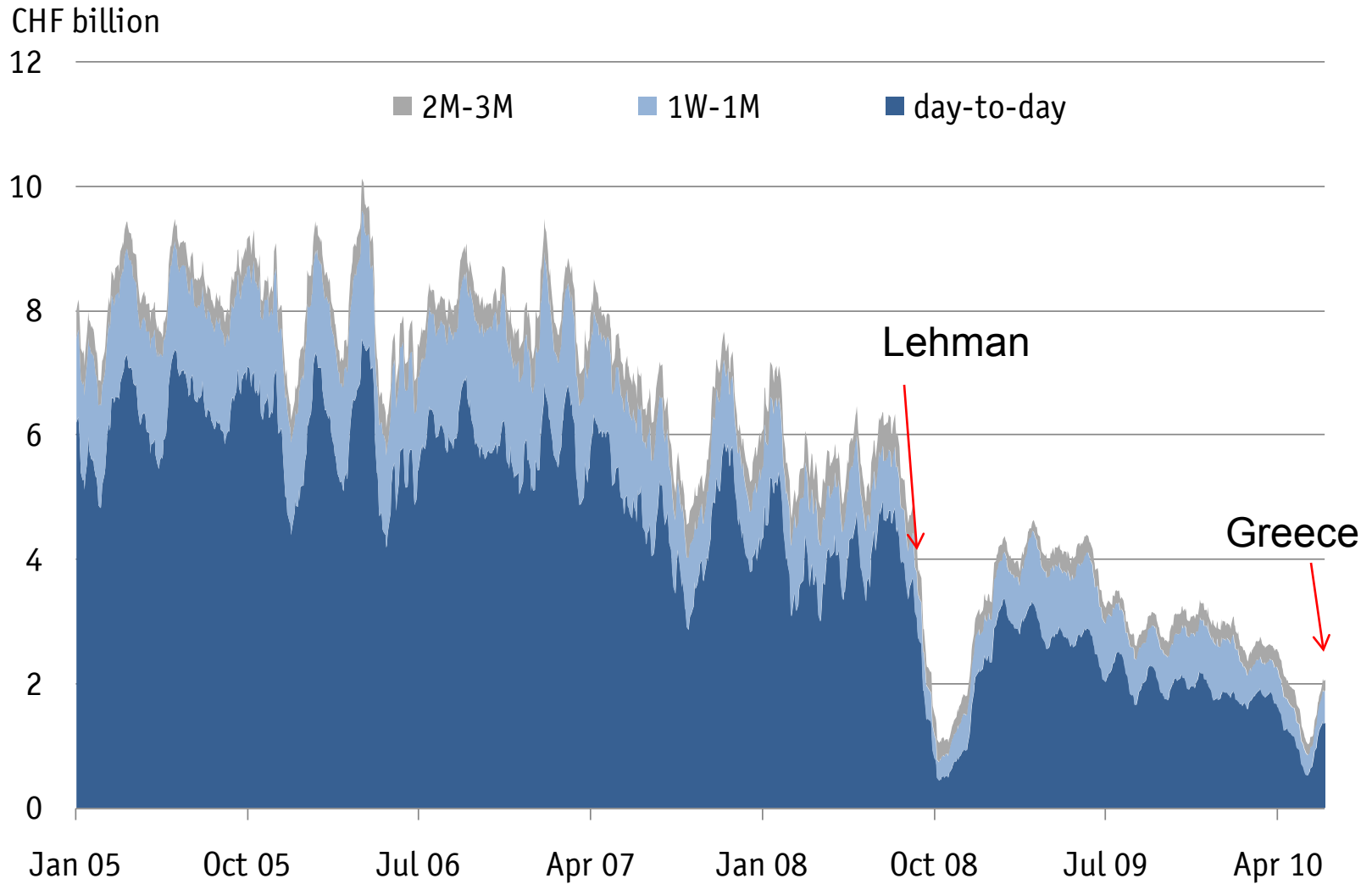
— CHF Libor 3M - TOIS swap 3M



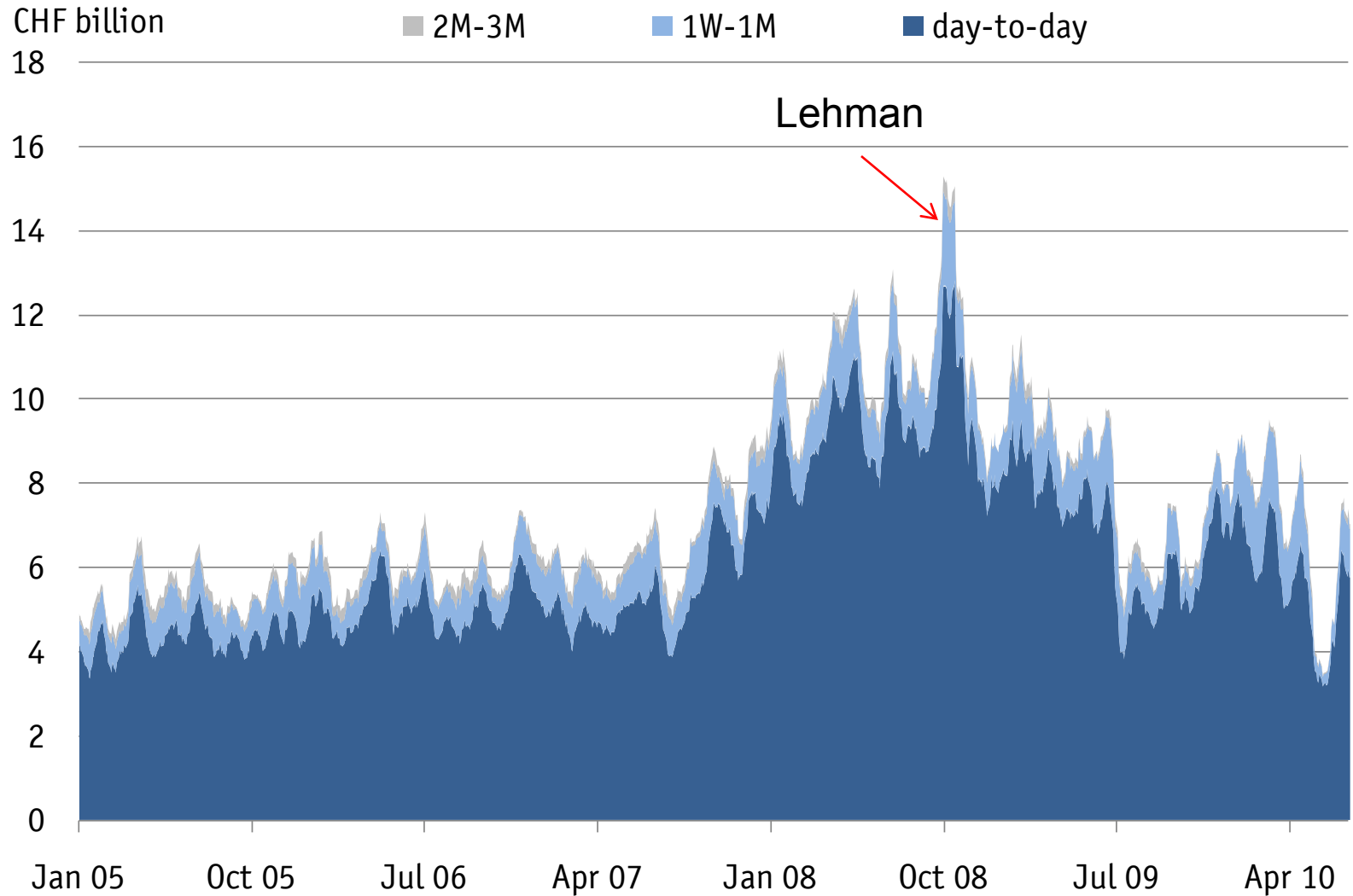
Sources: SNB Markets Analysis Platform, Bloomberg

11.10.2010 11:22:44

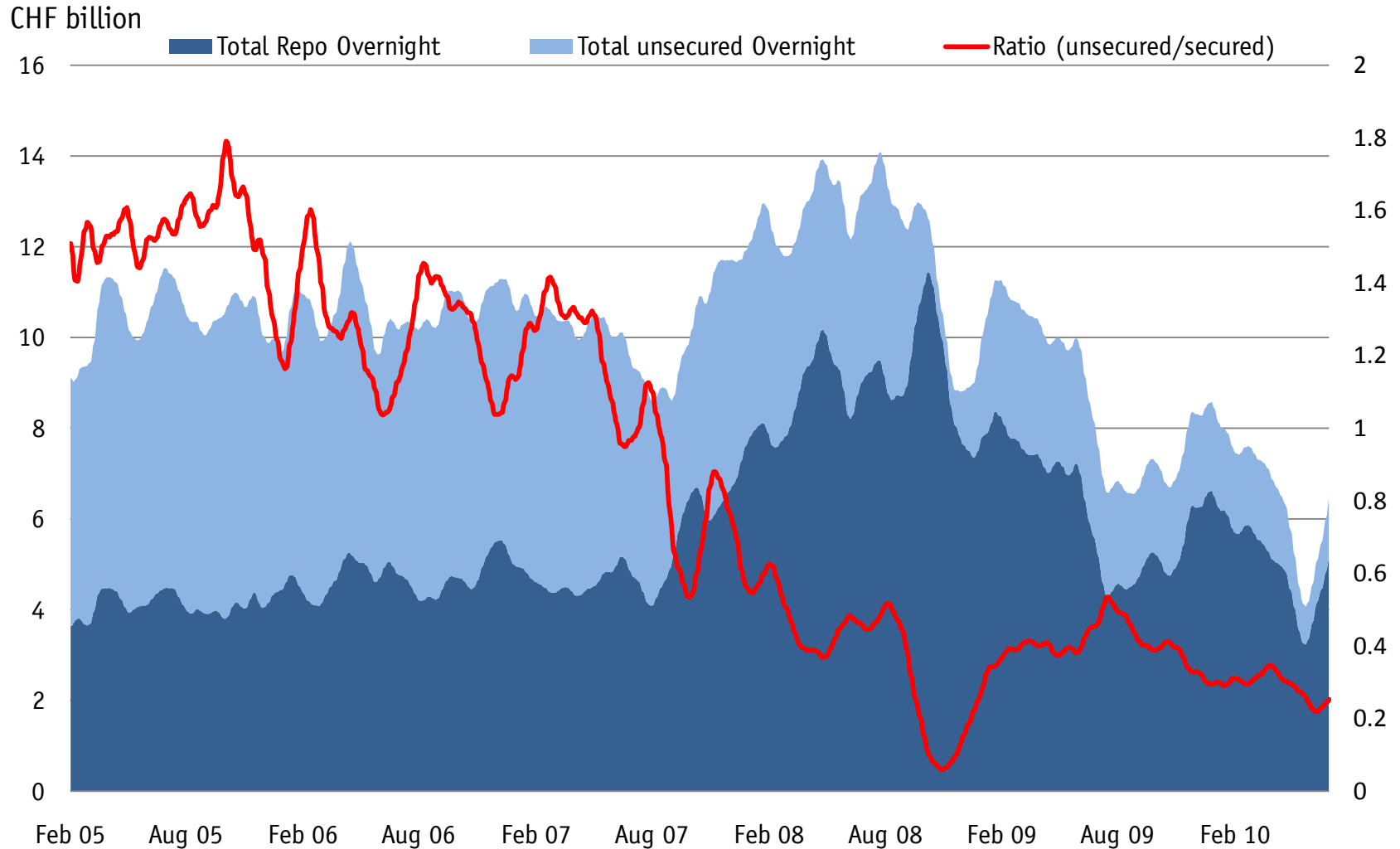
# Turnover in unsecured market...



# Turnover in repo market...

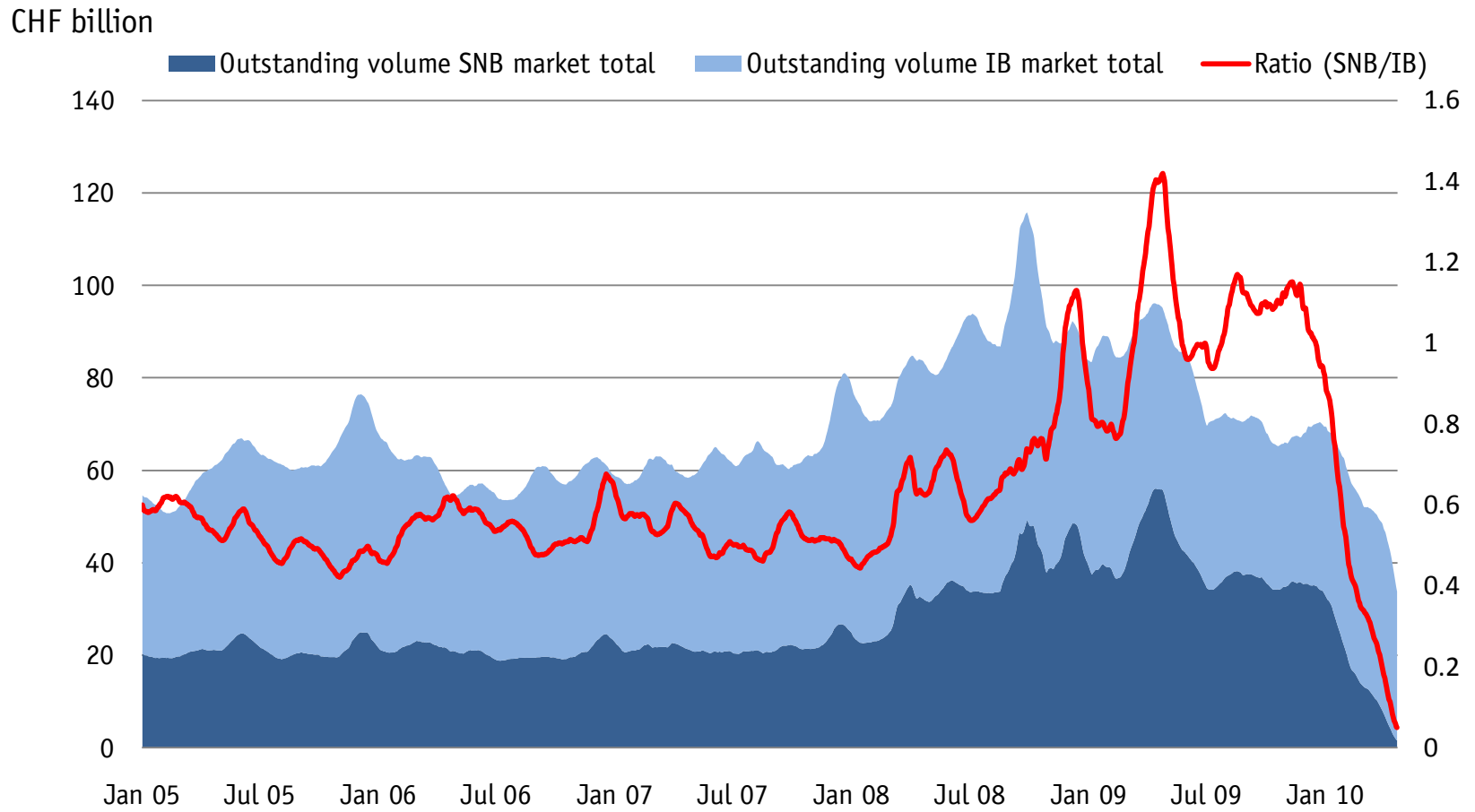


# Shift towards secured lending...





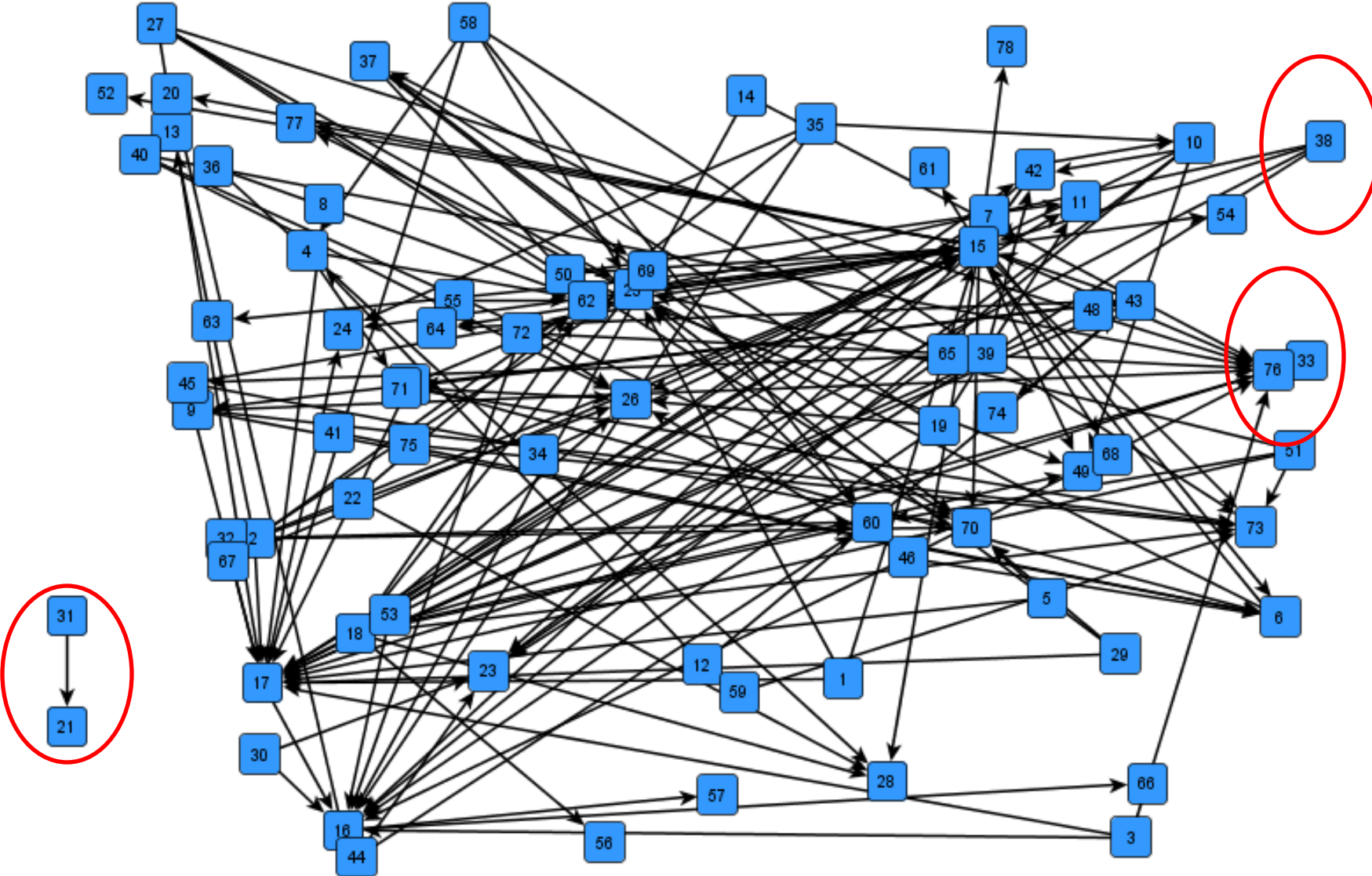
# SNB vs. interbank repos...



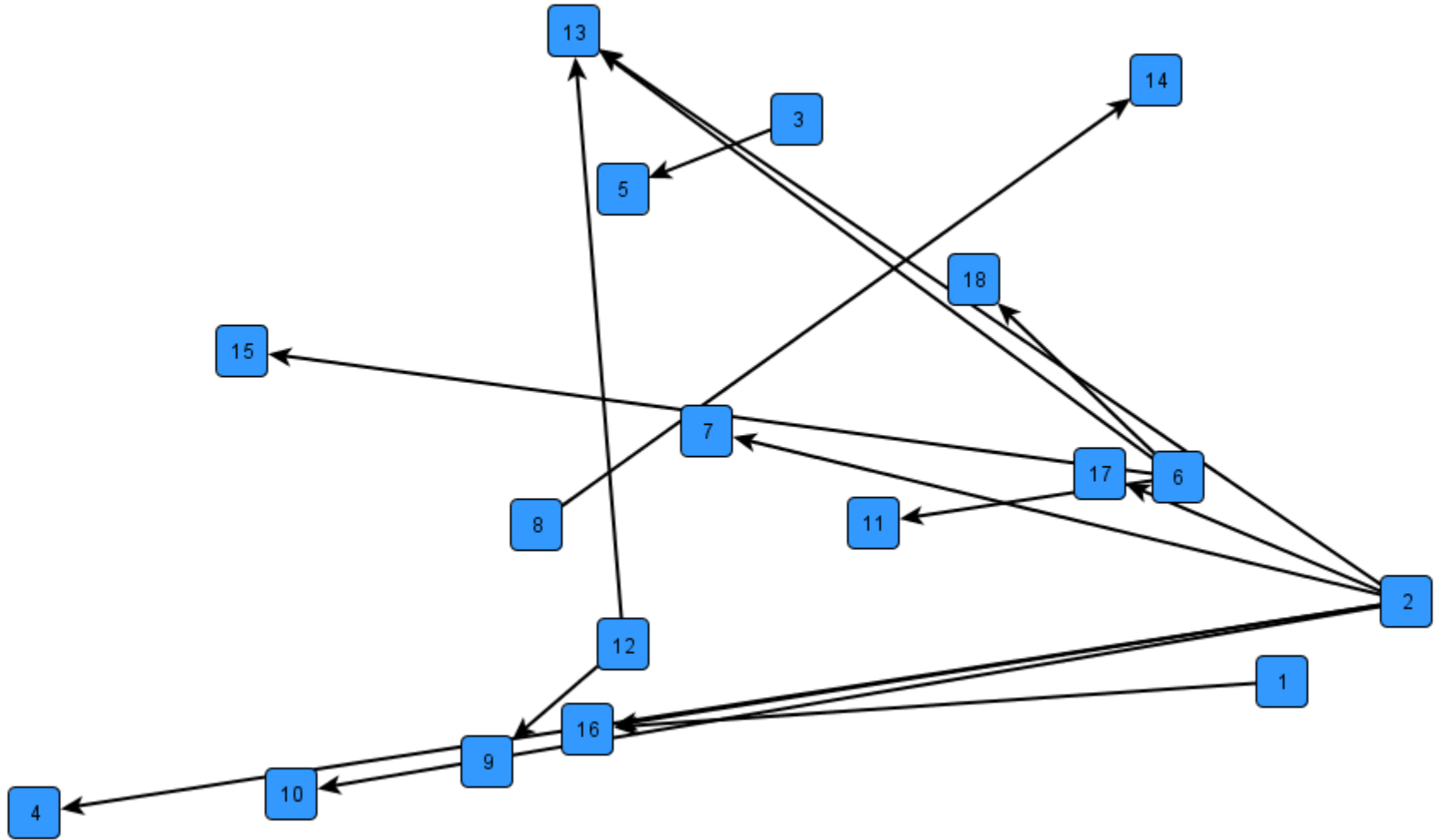
# Boom im Repo-Markt in October 2008

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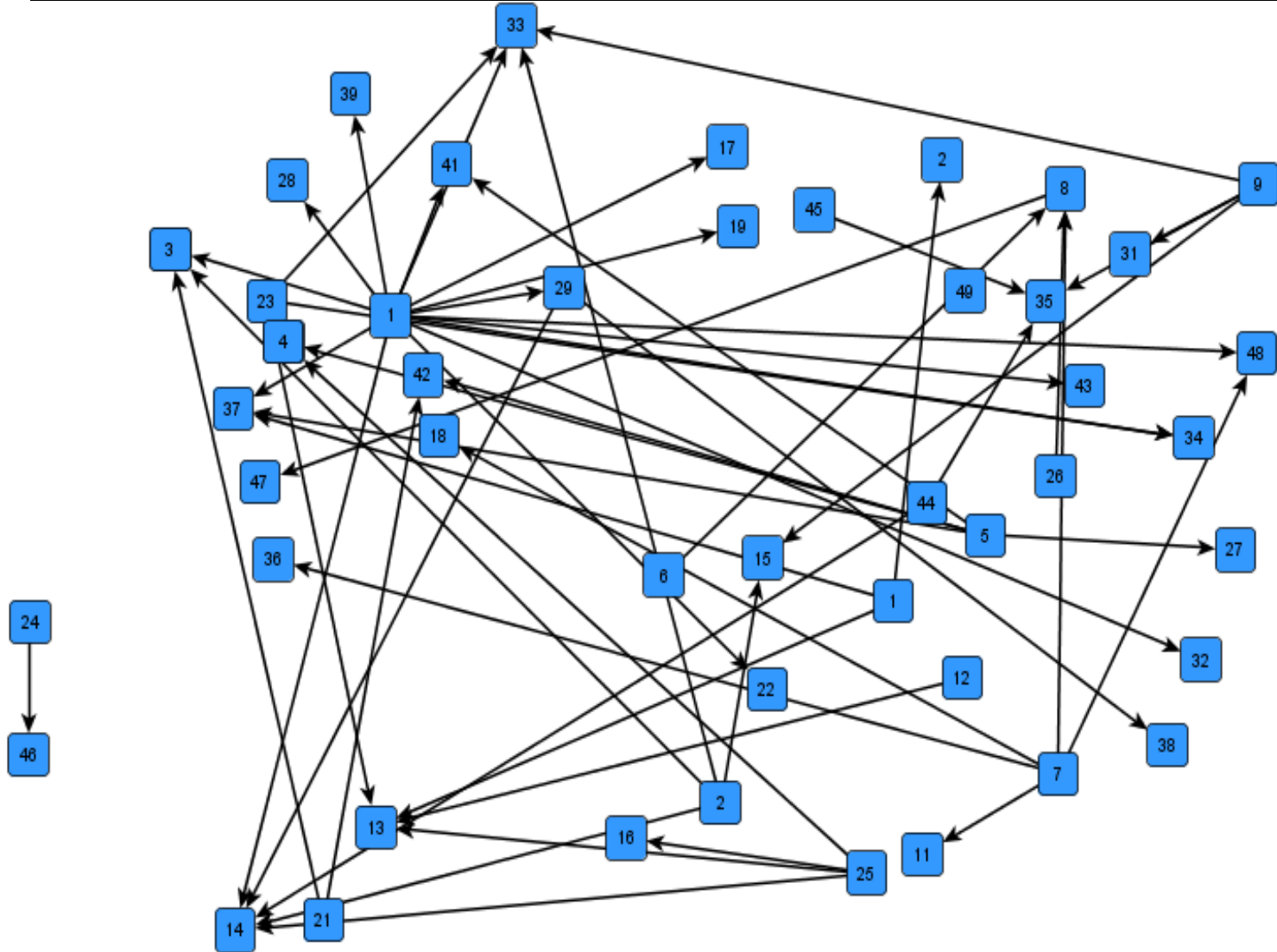
Lausanne, 28 October 2010



# Interbankmarkt in deep sleep

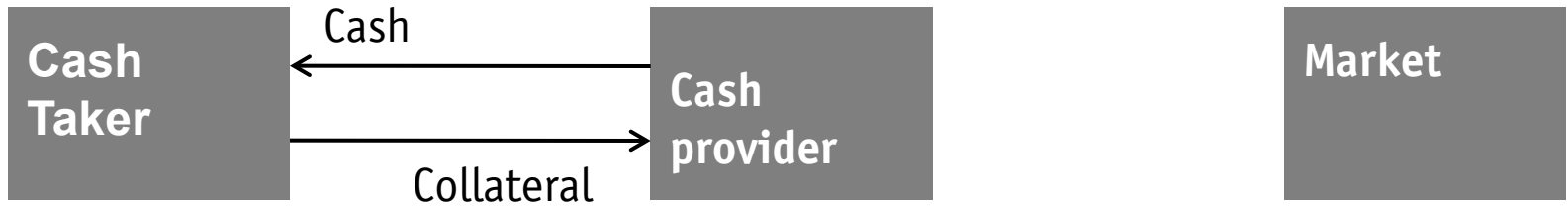


# Interbankmarkt today...



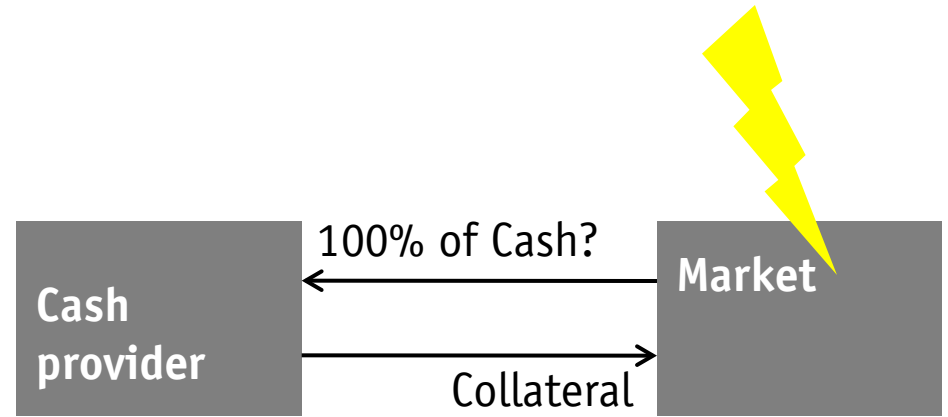
# Repo: Where is the risk? (1)

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# Repo: Where is the risk? (2)

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# What can we do to make the system more robust?

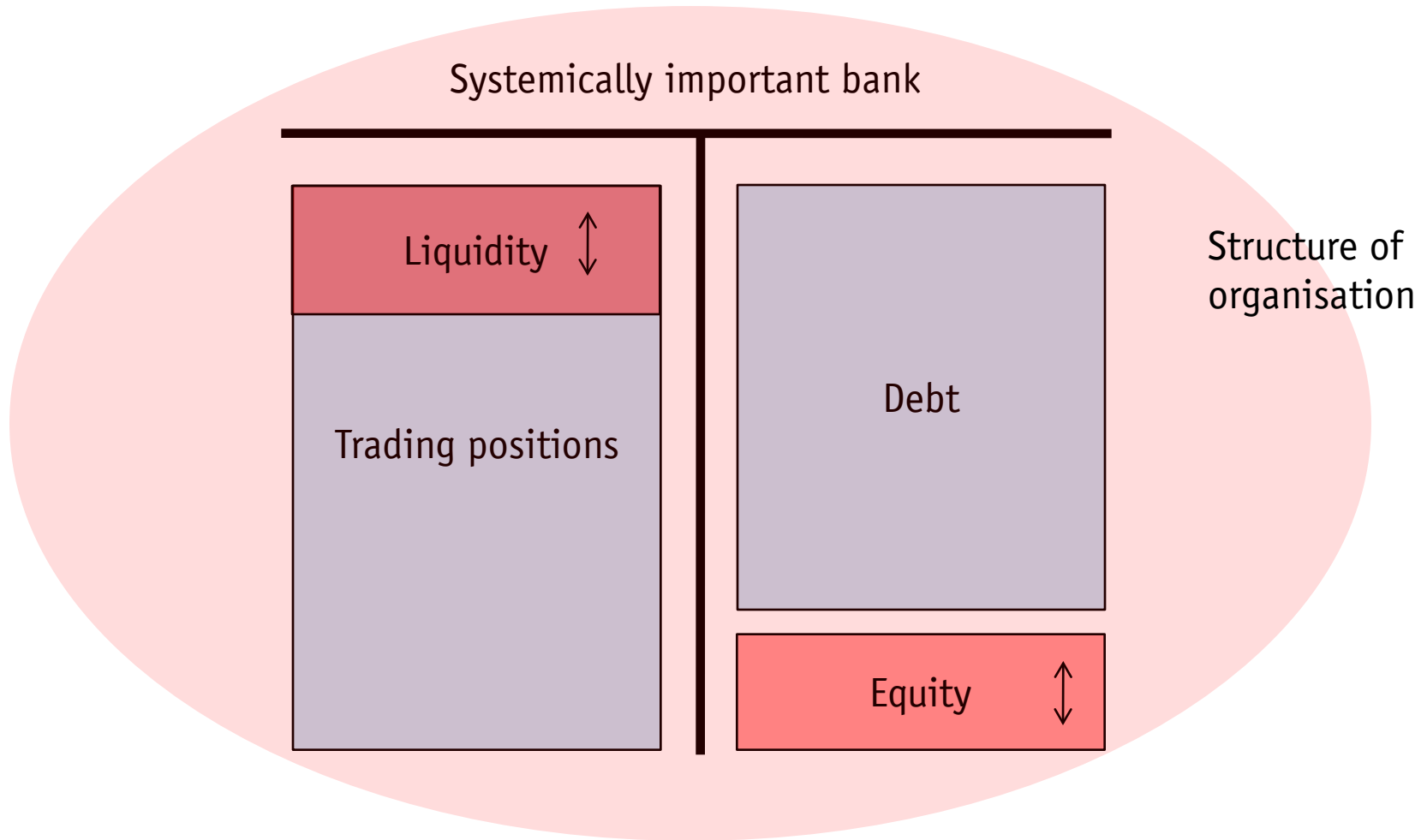
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The Central counterparty...

- Concentrates and reduces counterparty risk
- Bears losses upon default of a counterparty

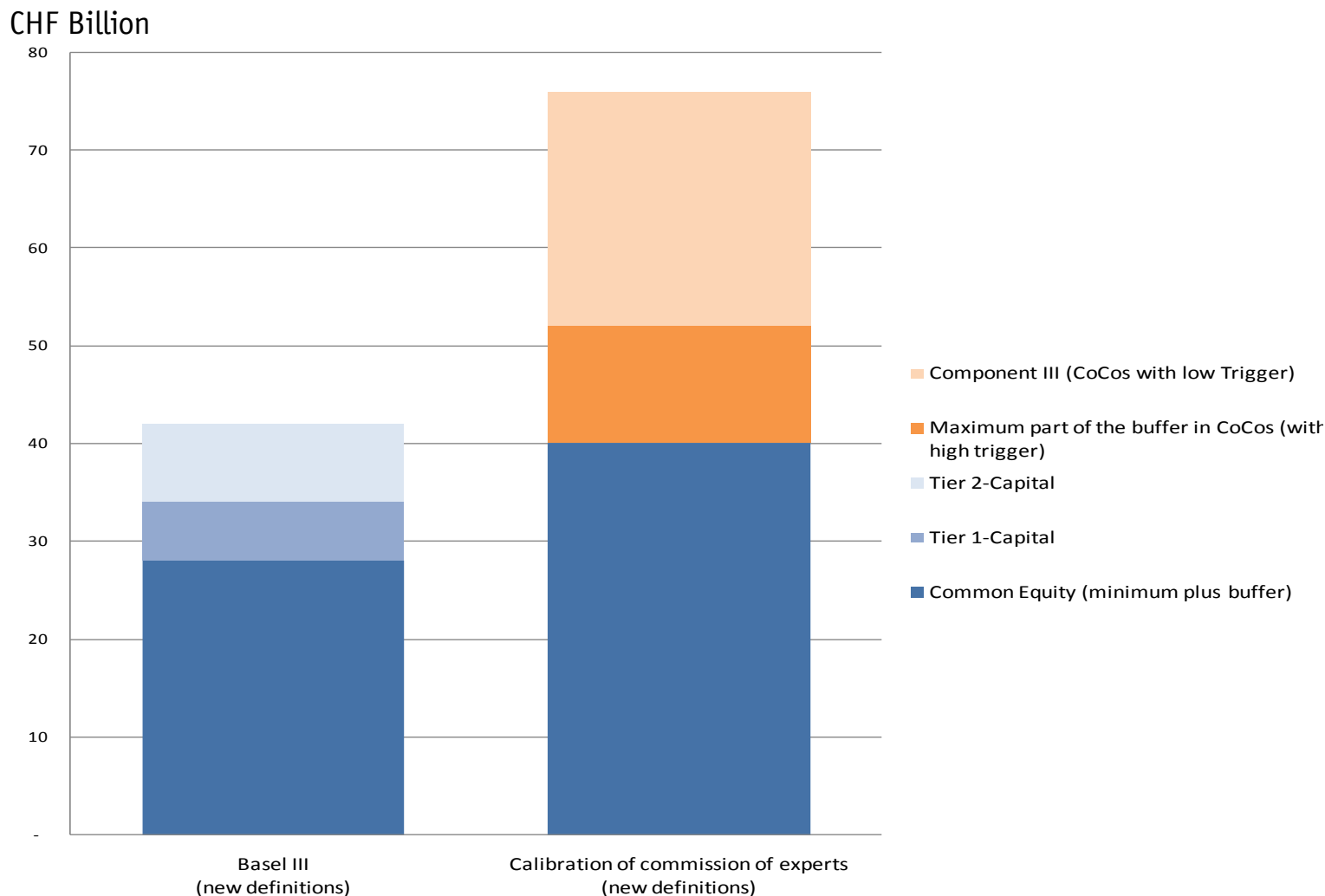


# What can we do to make the agents more robust? (1)





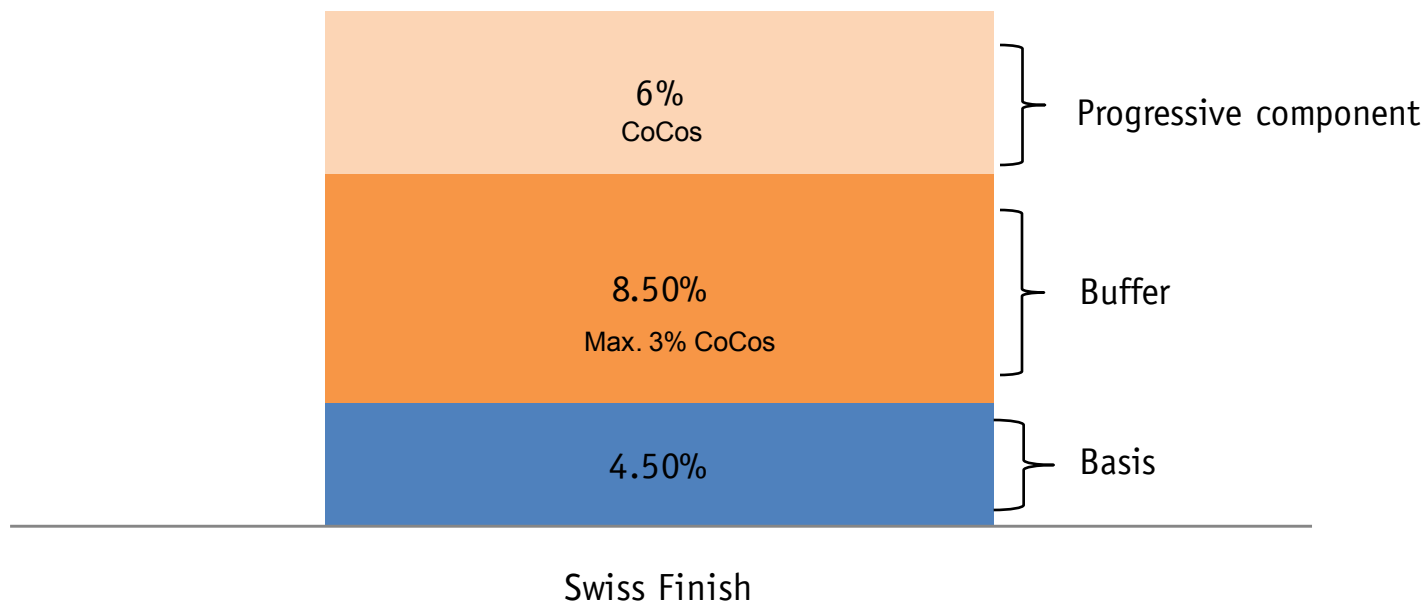
# What can we do to make the agents more robust? (2)



# What can we do to make the agents more robust? (3)

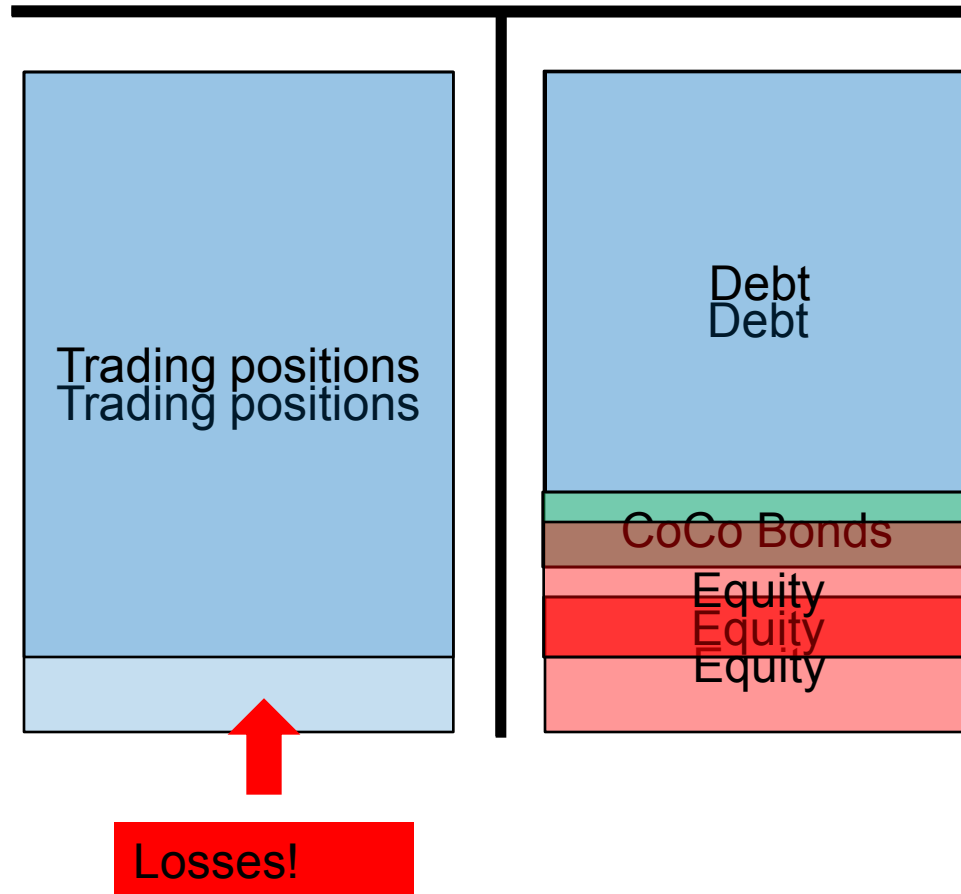
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## New Capital requirements



# CoCo bonds...

Systemically important  
financial institution



# Conclusions:

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- A flexible and adaptable monetary framework
- An unusual operational target
- A solid instrument – the repo market –
  - have withstood the test of the crisis.
- No complacency: how to make the system more robust?
  - Addressing residual risk in repo transactions
  - Making the individual agents more robust

