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Repo Trading & Clearing 2024/2025

Navigating Uncertainty: Geopolitics and Market Dynamics

Table of Content

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Navigating Uncertainty: Geopolitics and Market Dynamics

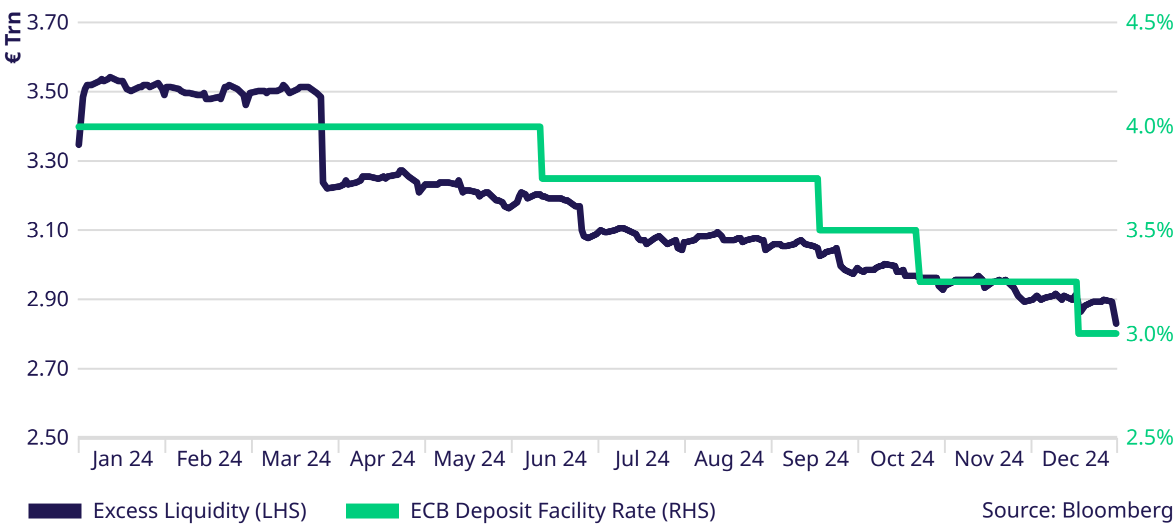
The Transition from "Cash Hunting for Collateral" to "Collateral Hunting for Cash"

The year 2024 marked a significant shift in the dynamics of the repo market, transitioning from an environment where cash was hunting for collateral to one where collateral was looking for cash. This review highlights the key developments, figures, and trends for 2024 in the European Repo Market in general and the Eurex repo market in particular, along with the challenges, successes, and issues likely to impact 2025. Therefore, "Navigating Uncertainty: Geopolitics and Market Dynamics" has been chosen as the theme of our Deutsche Börse Group (Eurex & Clearstream) Global Funding & Financing Summit 2025 and is the headline of this annual report too.

Market Development in European Repo Markets

Central banks once played a crucial role in shaping the securities finance landscape this year again. The Federal Reserve, European Central Bank (ECB), and other major central banks have navigated a complex environment of moderating inflation and economic uncertainty. The Fed signalled a slower pace of interest rate cuts, with expectations of a few rate reductions in the latter half of 2024. Similarly, the ECB was expected to begin cutting rates in the second half of the year, albeit at a slower pace. These decisions have influenced borrowing costs and market liquidity, impacting the demand and pricing of securities.

Chart 1: Eurozone Excess Liquidity and ECB Deposit Facility Rate



Source: Bloomberg

Quantitative tightening was a significant factor for the European Central Bank (ECB). Since early 2023, the ECB has gradually reduced its balance sheet resulting in decreased liquidity in the financial system. This reduction in liquidity has led to tighter financial conditions, affecting the availability and cost of collateral.

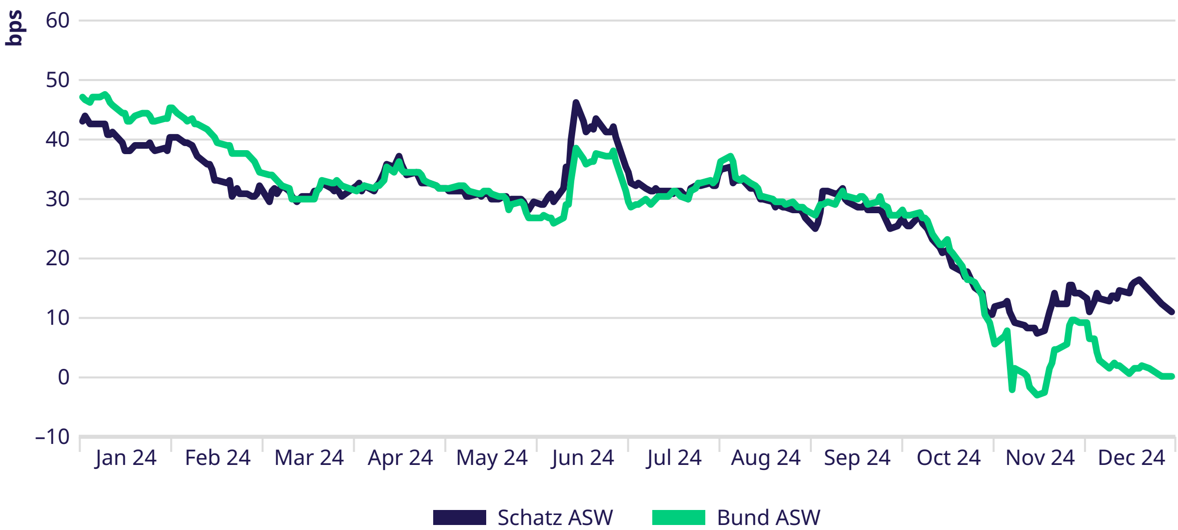
Over the past two years, excess liquidity in the euro area has significantly declined. It has decreased by over a third from its peak in 2022, dropping below €2.9 trillion in the fourth quarter of 2024. This decline in excess liquidity predominantly resulted from banks repaying the loans they had taken under the third series of targeted longer-term refinancing operations (TLTROs). More recently, the phasing-out of reinvestments of bonds maturing under the Eurosystem's monetary policy portfolios increasingly contributed to the decline. As of January 2025, the Eurosystem will no longer reinvest any of its monetary policy bond holdings, leading to a run-off in our portfolios of around €40 billion per month.

In March 2024, the ECB's Governing Council announced changes to the operational framework for implementing monetary policy.
The main change, effective from September 2024, is the reduction of the spread between the Main Refinancing Operations (MRO) rate and the Deposit Facility Rate from 50 bp to 15 bp.

The reduction in collateral scarcity has led to the normalization of repo markets. Central bank policies influenced the availability of collateral, particularly high-quality liquid assets (HQLA) like German Bunds. As central banks wind down their balance sheet, more collateral enters the market.

Chart 2: Spread Developments 2024

Asset Swap (ASW) Spreads



BTP – Bund Spread

Source: Bloomberg

This increased supply makes collateral cheaper and easier to obtain. However, the demand for HQLA remains high due to regulatory requirements and risk management needs.

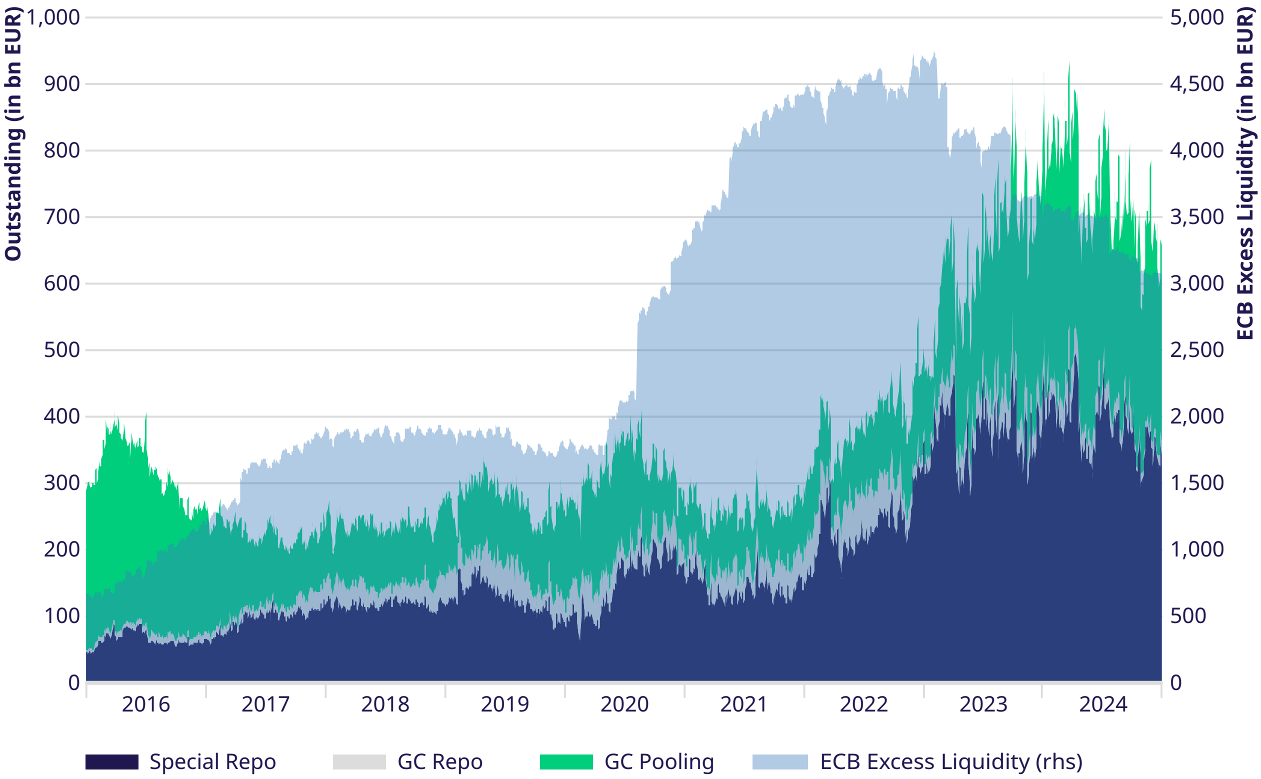
Specifically, the cheapening of German Bunds is notable. The increased supply from central bank actions and broader market dynamics have led to lower yields and reduced borrowing costs for these securities. This trend has implications for collateral management strategies, as institutions seek to optimize their collateral usage in a cost-effectively.

Overall, the interplay of central bank decisions, interest rates, quantitative tightening, and collateral dynamics created a complex and evolving environment for the securities finance industry in 2024.

Development at Eurex Repo Markets

ECB's policy decisions significantly impacted private funding markets as the eurozone's excess liquidity, although still high, is expected to decline further. With reduced central bank support ahead, market participants are re-evaluating their funding strategies. In Eurex's cleared repo markets, renewed interest has emerged since the ECB's rate hikes began in 2022 and demand has remained robust since then. Total outstanding volumes across all repo segments at Eurex remained on elevated levels, down just 3.7% compared to last year's record numbers.

Chart 3: Eurex Repo Outstanding Volume Development



Source: ECB and Eurex. Calculation according to ICMA Repo survey methodology.

Repo markets will play a crucial role in funding plans as excess liquidity reduces further. In recent years, there has been a high demand for single ISIN trades at Eurex, where they once made up 90% of activity, outpacing GC Pooling. Around two years ago, GC Pooling activity saw a resurgence as the market returned to strategies like spread and arbitrage trading (e.g. versus €STR Swaps or the Deposit Facility Rate), which had previously been subdued due to quantitative easing.
New participants, especially pension funds and insurers, and other non-bank institutions like central banks and supranationals, initially boosted GC Pooling volumes. However, recent market expectations regarding rate cuts in 2024/2025 by the ECB and the cheapening of collateral, which pushed GC Pooling levels closer to the Deposit Facility Rate (DFR), have subsequently reduced the growth of GC Pooling and term repo activity.

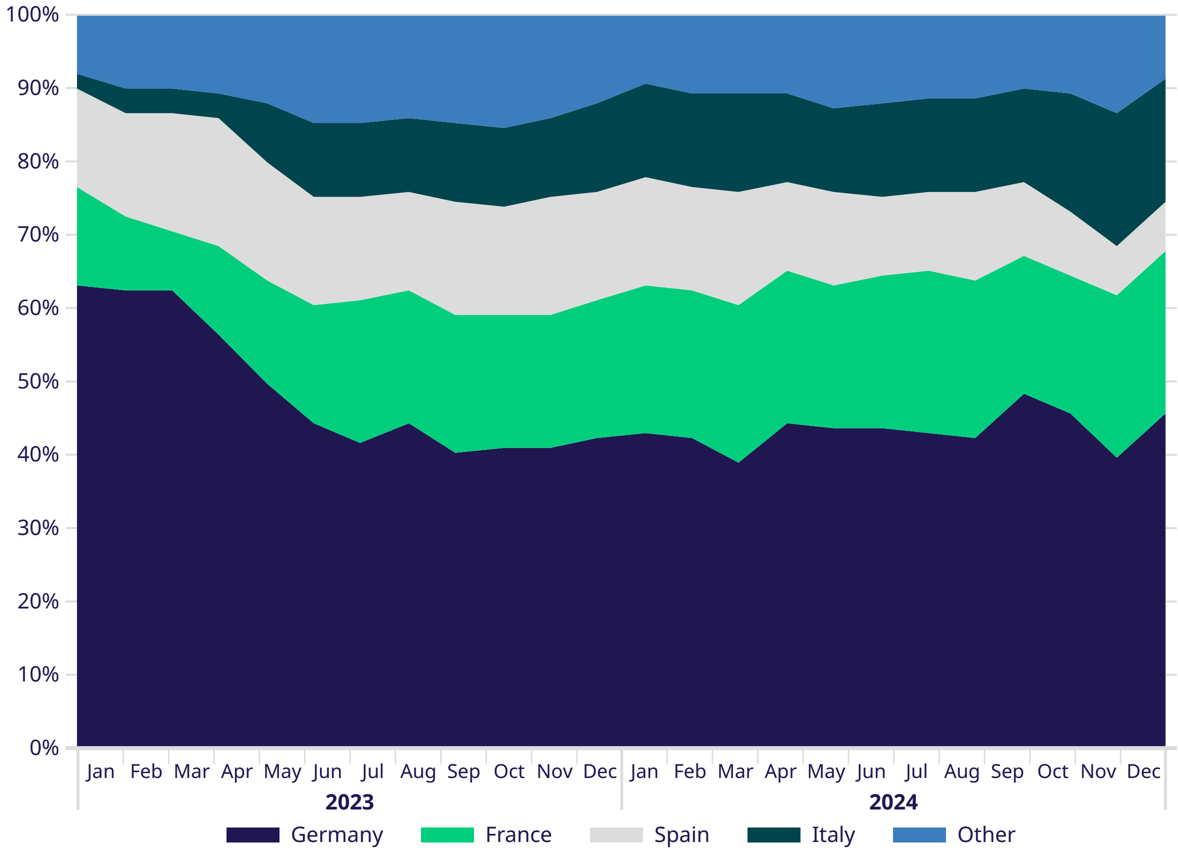
Further, notable market developments have been related to hedge fund positioning. Hedge funds have shifted toward long positions in European Government Bonds, particularly in German Government bonds (Bunds), building up the highest net long positions seen in recent years. Amid rate cuts and more Bund supply, Bund prices returned to pre-QE levels. Increased activity in French (OATS), Italian (BTPS), and Spanish (Bonos) government bonds offset falling Bund activity in Eurex's market, where new participants and improved quoting mechanisms added liquidity. BTPS stood out as Italian clients became much more active at Eurex. Additional growth is anticipated for BTPS repo trading at Eurex, partly due to the repayment and maturity of TLTROs, which results in a need to refinance the released collateral.

A key driver in the rise of European cleared repo is the growing presence of buy-side institutions at Eurex. Their share of outstanding volume at Eurex increased by about 15% from the same period last year. This is set to increase again, with new buy-side firms in the process of onboarding to Eurex. In total, the number of cleared repo market participants at Eurex now stands at 166.

Pension funds in particular, frequently encounter challenges in liquidity management stemming from the cash variation margin requirements imposed by centrally cleared OTC IRS. They need quick access to cash for margin payments, yet their business model leans towards long-term investments in search of higher yields. Eurex's cleared repo markets offer an attractive solution to raise or place cash reliably and efficiently.

For example, Eurex's buy-side clients can now invest their cash buffers in GC Pooling at significantly higher rates than those in bilateral repo

Chart 4: Share by Issuer Country in single ISIN Repo

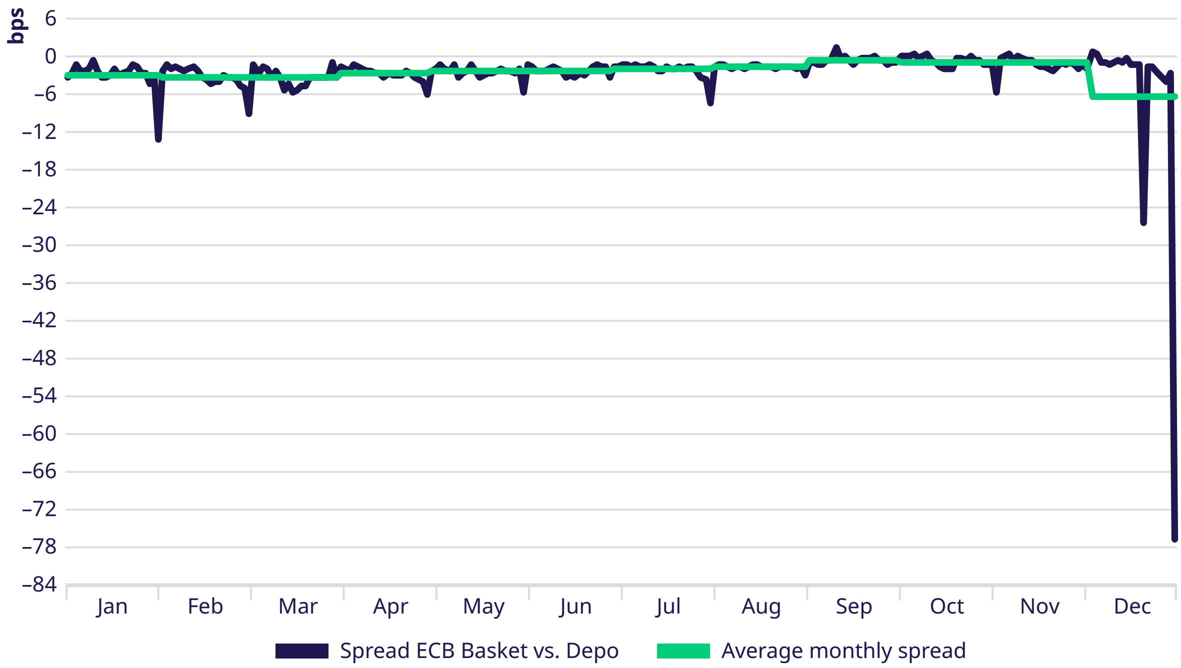


markets, with the confidence to monetize collateral at short-notice. Current EUR GC Pooling rates are close to the ECB's deposit rate, around 8–10 bps above €STR. Eurex's setup enables efficient execution and in large ticket sizes, with buy-side firms regularly investing €5–10 billion within 10–20 minutes – a process that would take much of the morning in bilateral markets.

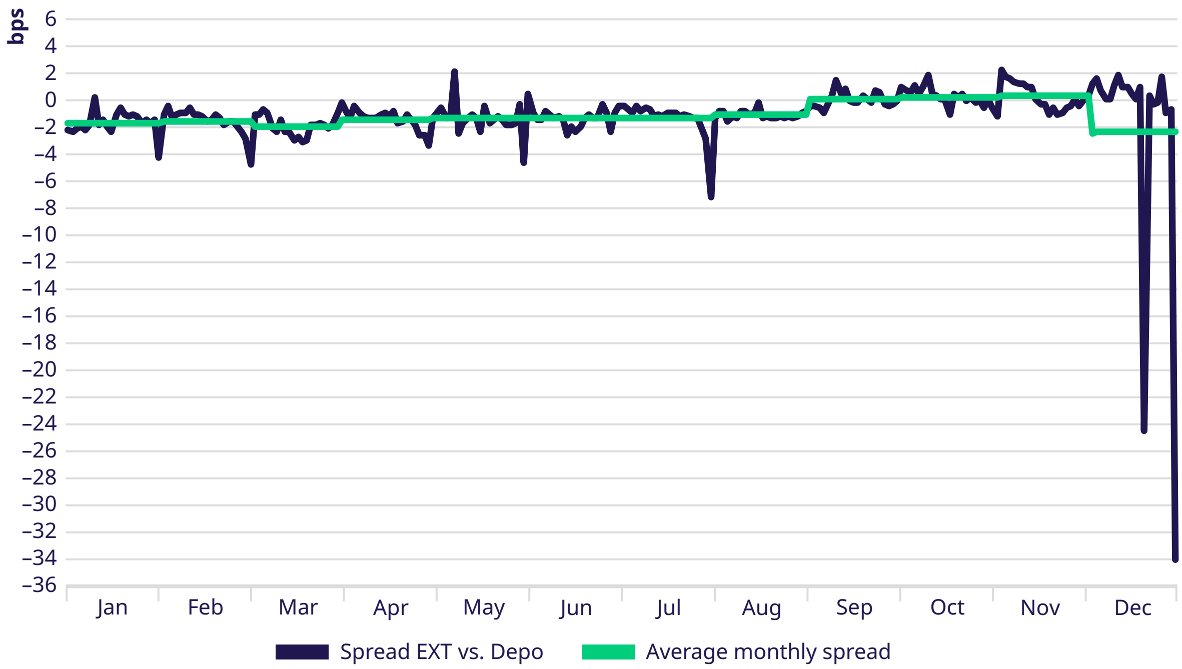
In addition, several buy-side firms have become active in single ISIN repo, i.e. trading their high-quality assets on Eurex Repo's F7 trading system. This provides a new source of liquidity to the street with all the benefits of cleared repo.

Chart 5: GC Pooling Overnight Rates vs. ECB's Deposit Facility Rate

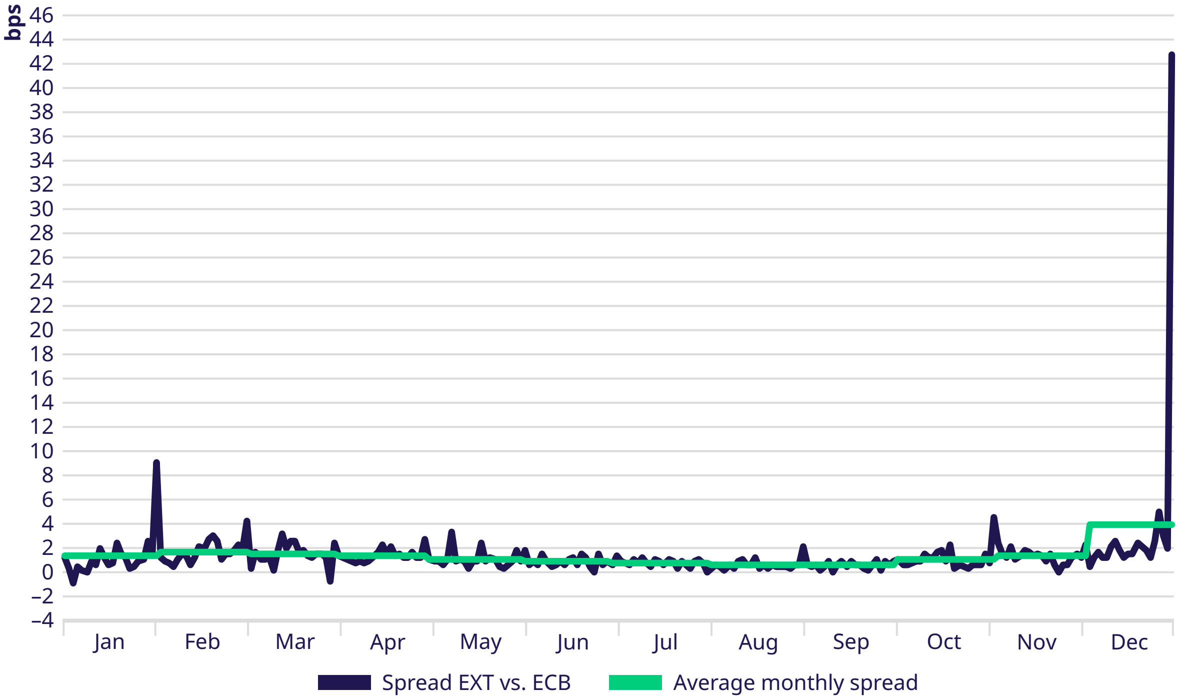
Spread in Bps: GC Pooling o/n ECB Basket vs. DFR
1 January 2024 – 31 December 2024 (daily and monthly average)



Spread in Bps: GC Pooling o/n EXT Basket vs. DFR
1 January 2024 – 31 December 2024 (daily and monthly average)



GC Pooling o/n daily spread and average monthly spread EXT basket vs. ECB basket
1 January 2024 – 31 December 2024



Year-End 2024 – This Time it's Different

In October, year-end preparations in the Special Repo market started with huge trading volumes in the 3-month terms, mainly in French and Italian Government bonds. Contrary to previous years, where collateral scarcity and demand for bonds drove rates lower over year-end, this year was different. With plenty of collateral in the market, refinancing pressure over year-end pushed rates higher. EUR govies traded in 3-month terms between €STR +(10–15) bps, implying a triple-digit spread versus €STR over the 2-day year-end turn.

In November, overall term-adjusted volumes increased by 42% compared to October, driven by high term activity in the GC Pooling ECB basket, with trades in standard terms up to twelve months and significant sizes in six-month terms. Eurex's "break dates" functionality has been heavily employed in these term trades, allowing clients to maximize netting opportunities. Despite lower term business in Special Repo compared to October, there were notable term trades in various government bonds, particularly in Bunds, French, and Italian bonds up to 6 months. Flex terms also saw significant activity, with OATS trading with break dates for twelve months.

At the end of 2024, the repo market showed notable variations in rates and spreads. However, overall conditions were very smooth, with no concerns regarding liquidity in either bonds or cash. The STOXX GC Pooling ECB basket overnight rate was 2.232%, with a spread of –67.3 basis points to the €STR fixing of 2.905%.

Meanwhile, the STOXX GC Pooling EXT basket overnight rate stood at 2.66%, with a spread of –24.5 basis points to the same fixing.

On 27 December, Bunds specials in the Spot Next market had an average rate of 2.75%, ranging from 1.7% to 2.96%, and a spread of –15.5 basis points to the €STR fixing. Other specials in EUR government bonds on the same day had an average rate of 2.89%, with rates spanning from 2.65% to 3.04%, and a spread of –1.5 basis points.

By December 31st, other specials in EUR government bonds in the overnight market had an average rate of 2.44%, with a range from 0.75% to 2.80%, and a spread of –46.5 basis points to the €STR fixing.

Innovation and Strategic Enhancements in 2024

Eurex implemented several strategic initiatives in 2024 across trading, collateral and settlement.

Regarding trading, Eurex notably introduced the GC Pooling Green Bond Basket to further promote sustainable financing. This product has seen significant activity since its launch in April. In July, pricing adjustments for terms exceeding one month were implemented to incentivize term repo. Given the increasing demand for NSFR-driven term repo transactions, Eurex also expanded the maximum trading term to three years in August.

Collateral eligibility was notably expanded, including the introduction of Italian CCTs. In addition, T2S-eligible bonds from Slovakia, Ireland, and Slovenia were re-introduced to GC Pooling.

Furthermore, Eurex significantly extended its settlement offering by supporting repo settlement of core European repo markets at CBF in T2S. Eurex's clients now have the unique capability to settle their Euro GC Pooling and Euro single ISIN repo in central bank money at a single CSD which should allow for balance sheet netting as well as more efficient cash and collateral management. This initiative also helps to alleviate some of the expected challenges from implementing of T+1 settlement for cash bond markets. In addition, further enhancements were made to GC Pooling settlement processing and Eurex was able to expand the re-use opportunities for collateral receivers in GC Pooling. Overall, the settlement efficiency in GC Pooling of close to 100% and the increase in the duration of intraday processing continue to be attractive key characteristics for this market segment.

Finally, Eurex Repo participated in several successful Eurosystem trials and experiments on new technologies for wholesale central bank money settlement that involved CCP cleared and non-CCP cleared initiatives as well as hybrid and native digital securities. This approach aims to ensure Eurex Repo remains at the forefront of innovation and market development, providing a resilient and efficient platform for all market participants.

For the exceptionally strong growth of the repo markets at Eurex over the last couple of years, as well as our innovations and initiatives in both the Sales and Product Development areas, we proudly received industry recognition with the Securities Finance Excellence Award "European Repo Team of the Year".

Eurex Repo "European Team of the Year", pictures from ceremony in July 2024 – above from left to right: Michel Seeman (BBVA), Cassandra Jones (State Street), Stoil Topalov (Barclays), Peter Fuhrmann (Eurex), Carsten Hiller (Eurex), Katja Renner (Eurex), Frank Gast (Eurex), Lucy Tophman (Elan Capital Management), Guido Schlenckenbrock (Point 72), Chris Page (Eurex)

European Commission joins Eurex Repo

A total of 22 new licenses have been granted in 2023 and 2024. In a major milestone for Eurex, the European Commission announced that it will provide a repo facility for EU Bonds via the Eurex Repo platform.

The European Commission further strengthens the market infrastructure for EU bonds by participating in repo trading and clearing at Eurex. It supports its secondary market liquidity as well as its use as collateral liquid trading in its issued EU bonds.

During the official bell ringing event at the Frankfurt Stock Exchange on 7 October, the Commission was warmly welcomed to the segment in the presence of EU Commissioner Johannes Hahn, President Dr. Joachim Nagel of Deutsche Bundesbank and Burkhard Balz, Member of the Executive Board of Deutsche Bundesbank.

More Repo Clearing Agents to support cleared repo for buy-side firms to join Eurex ahead of cross-margining rollout in 2025

As the TLTROs phased out, banks and pension funds turned to new liquidity strategies, spurring more banks to support sponsored access to Eurex's European repo clearing. While Eurex's cross-margining facility has yet to incorporate repo trades, banks are preparing for its launch. Until 2023, Société Générale was the only bank providing pension fund clearing access, but recently, ABN Amro began offering buy-side access with different access models. In Q4-2024, several banks have started preparations to become a clearing agent for ISA Direct repo thereby providing buy-side firms to choose between different "sponsors" and, consequently increase their usage of cleared repo activities. In 2025, we expect more banks to offer their clients this clearing of repo transactions at Eurex.

Outlook for 2025

Economists project moderate global economic growth for 2025, with emerging markets and tech-driven industries leading the charge. Inflation is expected to stabilize, though geopolitical risks and climate-related disruptions could create uncertainties.

Regarding interest rates in the Eurozone, the European Central Bank (ECB) is expected to continue its rate-cutting cycle into 2025. Following several rate cuts in 2024, the ECB signaled an easing bias, with economists anticipating further reductions in 2025. The ECB's deposit facility rate, currently at 3.00%, is projected to be cut by an additional 100 basis points over the year, potentially bringing it close to 2%. This continued easing aims to support economic growth and stabilize inflation around the ECB's medium-term target of 2%. However, the ECB's approach will remain data-dependent, adjusting to economic developments and risks as they arise.

The change to the ECB's operational framework, announced in March and effective from September 2024, reduced the spread between the MRO rate and the Deposit Facility Rate from 50 basis points to 15 basis points. There are mixed views on how this impacts the repo market. Some see this kind of cheap money from the central bank as a threat to the repo market, while others believe it will not have a major impact, as 15 basis points is still a significant spread in the repo market. High-quality liquid assets (HQLA) should still trade around the deposit facility rate even in times of cheap collateral. At the same time, the MRO is expected to be used primarily for refinancing non-marketable or illiquid assets such as credit claims. It will be interesting to see how this develops in 2025 and whether there will be any implications for the European repo market.

The trend of collateral hunting for cash is expected to continue in 2025. With further pressure on the refinancing of assets, Eurex expects GC Pooling short-term rates to increase above the deposit rate, which should attract further cash providers in this market. In this context, Eurex also expects increasing interest from new clients, including banking institutions, central banks and debt management offices.

The regulatory landscape will remain as important as ever in 2025, particularly as banks navigate the finalization of Basel 3 implementation across all key jurisdictions, notwithstanding the continuing political uncertainty in the U.S. and what it means for globally consistent regulation. The emphasis on Standardized approaches in the Basel 3 capital standards will tighten balance sheet and capital constraints, which will in turn incentivize banks to further examine the efficiencies of Eurex's cleared repo markets in optimizing scarce financial resources. The existing challenges with Net Stable Funding Ratio (NSFR) management will further exacerbate in 2025 with the forthcoming expiry of the temporary provisions that allow reduced stable funding requirements for short term reverse repo transactions in June.

As the demand for repo increases, leverage-based capital costs are expected to become more and more relevant for commercial banks that, ultimately, may restrict access to the bank's balance sheet for some non-banking financial institutions (NBFI). Therefore, we expect more buy-side clients such as pension funds, insurance companies and hedge funds to explore Eurex's innovative buy-side access models to take advantage of the efficiencies in cleared repo markets. Corporates also represent a new target client segment for Eurex, driven by attractive GC Pooling repo rates and operational efficiency.

Eurex has submitted its application to the regulatory authorities to migrate its cash bond & repo margin methodology to its market leading Prisma risk methodology already utilized for Eurex's exchange-traded derivatives and OTC IRS. Introducing Prisma will reflect the risk more accurately and significantly lower the cost of clearing repo transactions for Eurex's clients. Eurex anticipates implementation in Q4-2025. More strategically, aligning methodologies across cash, repo and derivatives enables Eurex to offer cross product margining in the near future, benefiting its clients and enhancing the efficiency and resilience of the Euro capital markets as a whole.

The landmark decision of the U.S. Securities and Exchange Commission on mandatory clearing for U.S. Treasuries has several implications for European repo markets going forward. The broad suite of clearinghouse access models required to cater to the broad range of market participants impacted should enhance familiarity and acceptance of these models. Similarly, there will be renewed conversations around risk management in government bond repo where the practice of margining / haircuts is absent in certain repo market segments today. Finally, the U.S. developments will promote discussion on the need for similar measures for European government bond cash and repo transactions in the EU, notwithstanding the differences in market structure.

Eurex is committed to supporting market participants in the Euro-denominated repo markets by delivering superior value and navigating through both foreseen and unforeseen challenges. The Eurex Repo business remains a key pillar in the overall Eurex vision to build out the Home of the Euro Yield curve. Robust technology, operations and risk management capabilities, and a coordinated approach to sustainability underpin Eurex's business model.

In summary, Eurex will focus on attracting additional buy-side participants to cleared repo, maintaining its momentum in GC Pooling as the largest pan-European liquidity-pool, and growing its market share in the D2D Special repo segment supported by improved margin efficiencies and highly effective settlement processes.

Summary of Key Figures

Over the past two years, cleared repo activity has peaked, and the overall outstanding repo volumes remained robust in 2024. While GC pooling volumes continue to grow by almost 7% year-on-year, specials volumes at Eurex have declined by around 10%, mainly due to reduced specials in the German government bond segment.

Daily Key Figures

	GC Pooling	Special & GC Repo
Average Trade Size	250 mn	50 mn
Largest Single Trade	5.5 bn	1.5 bn
Longest Trade Duration	372 days	382 days
Average Trade Tenor	4.4 days	6.6

Average outstanding ICMA volume 2024 compared to 2023 (y-o-y):

Eurex Repo (average outstanding volume in billion euros)	2024	2023	Change
All Segments	692.7	719.2	–3.7 %
GC Pooling Segment	309.8	290.8	6.5 %
Repo Segment	383.0	428.4	–10.6 %

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Further Information – Publications from 2024

Eurex Clearing expands its ESG Compass to cover Cash Market and Repo Transactions
10 December

Vienna Roundtable: Cleared repo markets adapt to ECB policy shifts
11 November

Navigating the evolving regulatory landscape: Eurex's strategic vision for the Repo Market
11 November

New York Roundtable: The expanding role of the buy-side in cleared repo
24 October

Eurex repo roundtable series 2024
15 October

Interview with Christoph Rieger, Head of Rates and Credit Research at Commerzbank
15 October

EU Commission joins Eurex's repo market
7 October

Eurex Clearing also joins second wave of ECB trials on new technologies for settlement
24 June

Repo growth and innovation in uncertain markets
22 May

Eurex joins Clearstream & VERMEG partnership to expand use of collateral of its leading pan-European cash-driven liquidity pool
15 May

Eurex to strengthen European green bond segment with new GC Pooling Green Bond Basket
29 April

New report "Repo Trading & Clearing 2023/2024" is out
25 January

Eurex Repo: "Paving the way for new paradigms"
22 January

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