

MONETARY POLICY TRANSMISSION IN SEGMENTED MARKETS

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SUMMARY

- Question: What is the pass-through efficiency in European OTC repo market?
- Approach: First to make use of the ECB's Money Market Statistical Reporting (MMSR) dataset.
- Key findings:
 - European OTC repo market is organized in a core-periphery structure.
 - Pass-through of ECB policy rate changes to OTC repo is imperfect.
- Key conclusions:
 - Dealers' market power is the source of imperfect pass-through.
 - Centralized exchange and/or RRP can improve pass-through.
- Discussion plan: assumptions behind policy recommendations.

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- Diagnosis: dealer's $\theta > 0$ is the reason for imperfect pass-through ($\lambda < 1$).
- Proposed solution: granting OTC participants access to ID exchange.
- Assumption: OTC customers would like to (threat to) trade with more dealers but the lack of a centralized exchange makes it too costly.
- Is reducing *search friction* the key to tilting bargaining powers?

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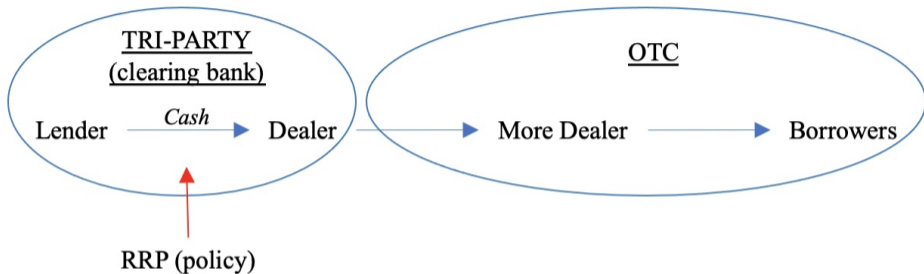
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 - Relationship value? E.g., different rates reflects “soft-dollar” for other services?
- If relationship value is the reason, then even after gaining access to a centralized trading platform, customers may *still* choose to trade with their one dealer ([Allen and Wittwer \(2021\)](#)).
- The rich data set could shed light on the nature of these relationships.
 - E.g., how often do customers trade in OTC repo? If trading occurs frequently, then the search friction must be enormous to not be easily amortized.
 - E.g., customers that have traded with more than one dealer: are they shopping for best rates or splitting trade to maintain relationship?

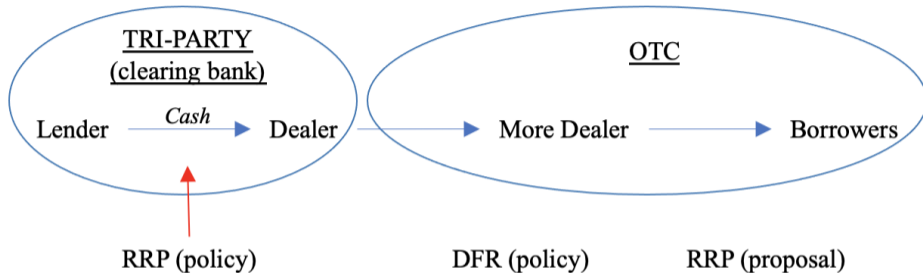
EUROPEAN VS. US REPO MARKET

U.S.

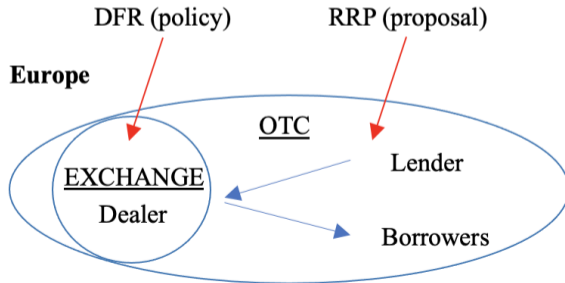


EUROPEAN VS. US REPO MARKET

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Europe



RECOMMENDATION 2: AN EUROPEAN RRP

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 - Assumption: lenders and dealers bargain because of search cost and the RRP is thus a credible alternative.
 - If lenders and dealers bargain because of entrenched long-term relationships arisen from other non-repo services, then RRP may not change relevant outside option.

CONCLUSION

- A pioneer in the study of European OTC repo market.
 - Maps an opaque market.
 - Documents pass-through inefficiency.
 - Makes policy recommendations.
- Micro data is important for macro decisions!

Allen, J. and Wittwer, M. (2021). Centralizing over-the-counter markets?
Technical report.

Huber, A. W. (2022). Lender preference, borrower market power, and the effect of rrp. Technical report.