EUROPEAN CENTRAL BANK

EUROSYSTEM

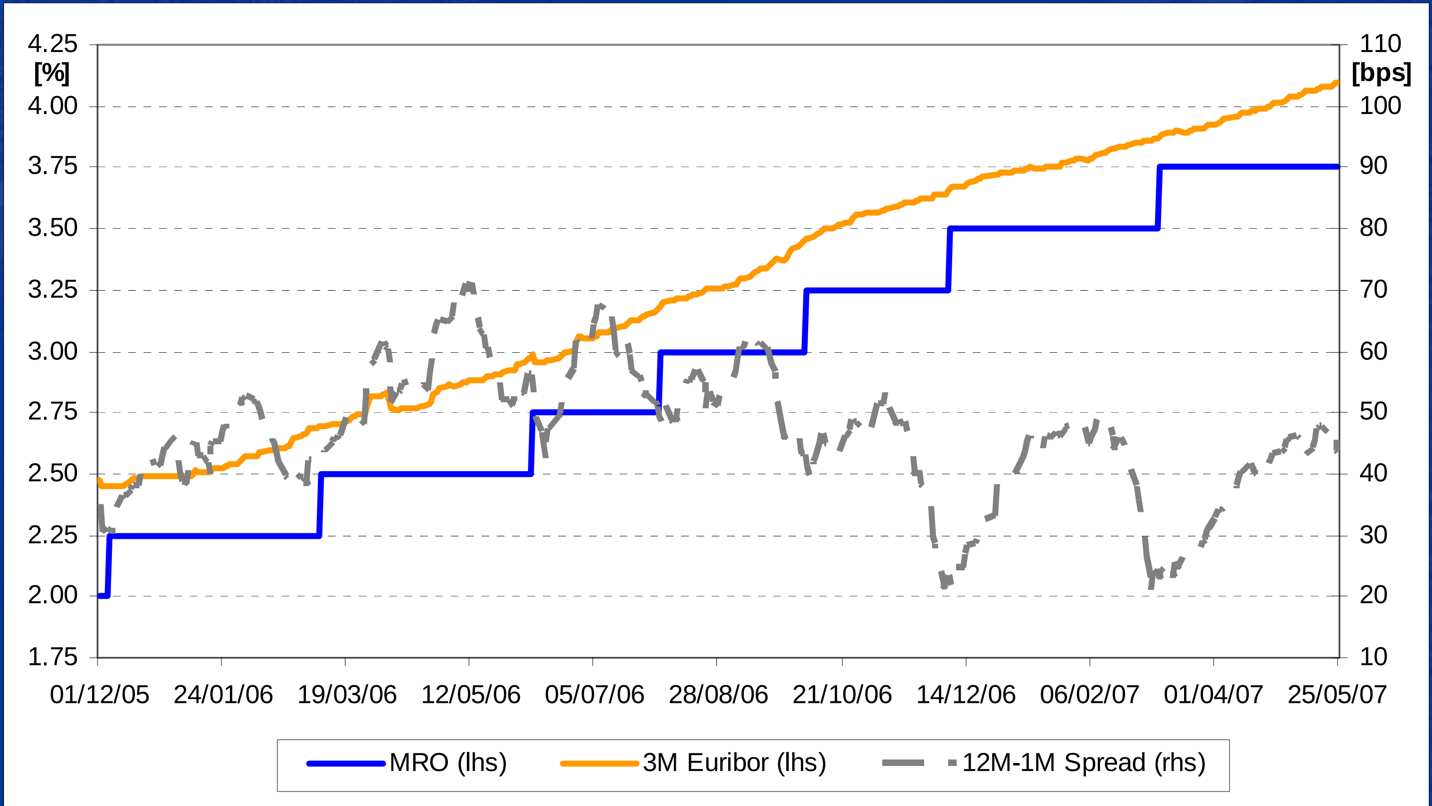
Recent Money Market Developments

Money Market Contact Group

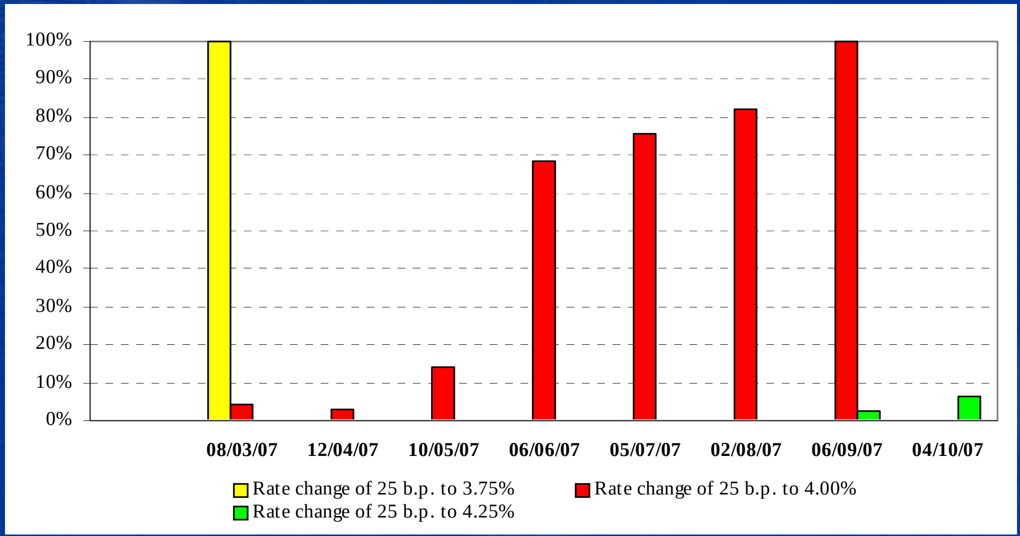
Frankfurt am Main, 31 May 2007

DGM/FRO/2007/99

Development of selected interest rates

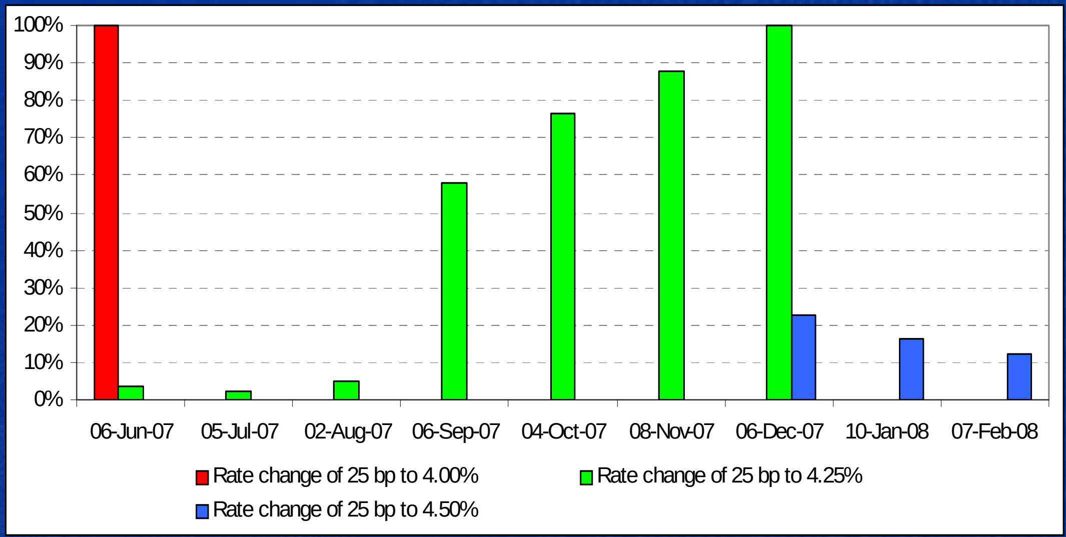


Interest rate expectations in the euro area



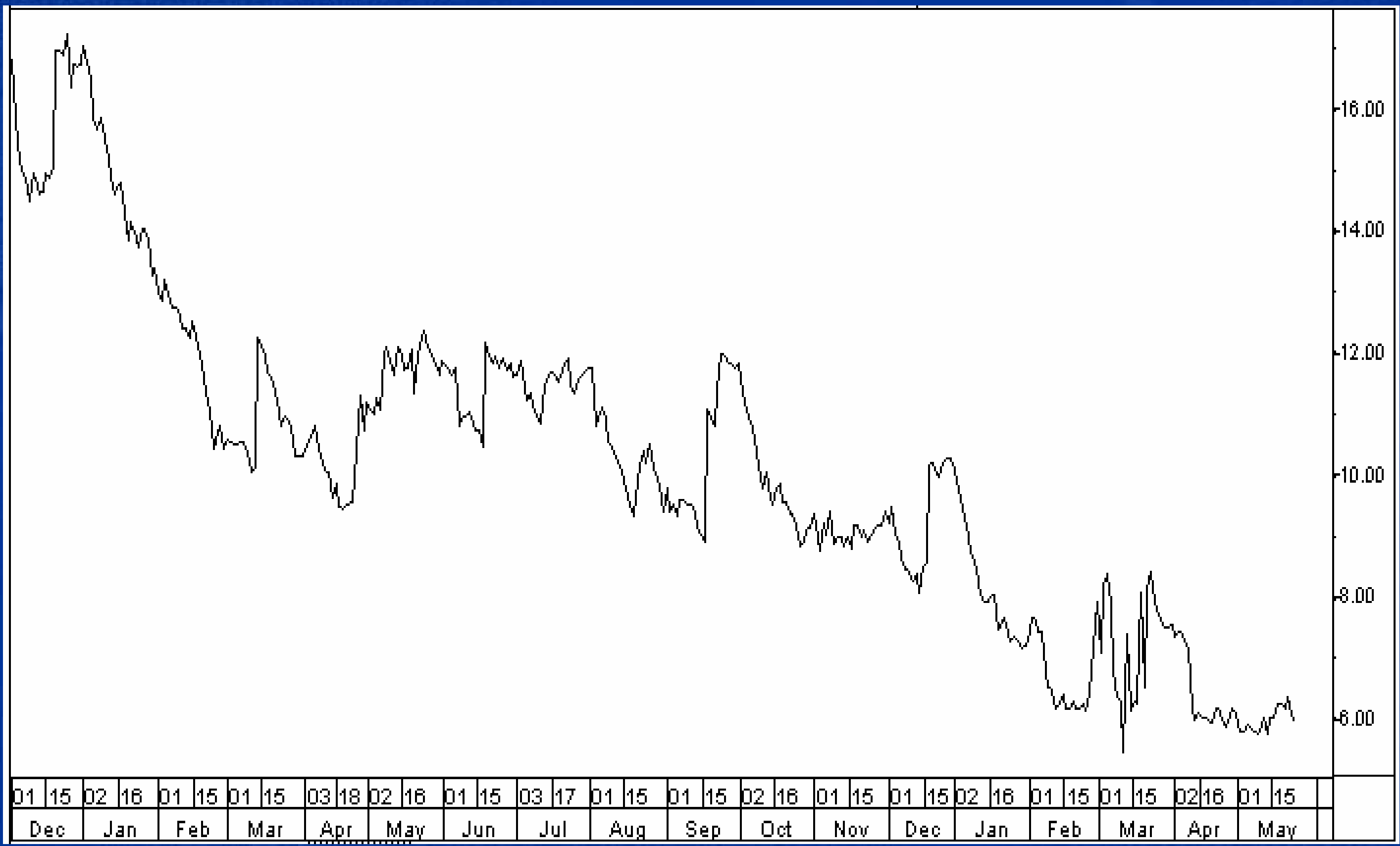
Ahead of our previous meeting

As at 25 May



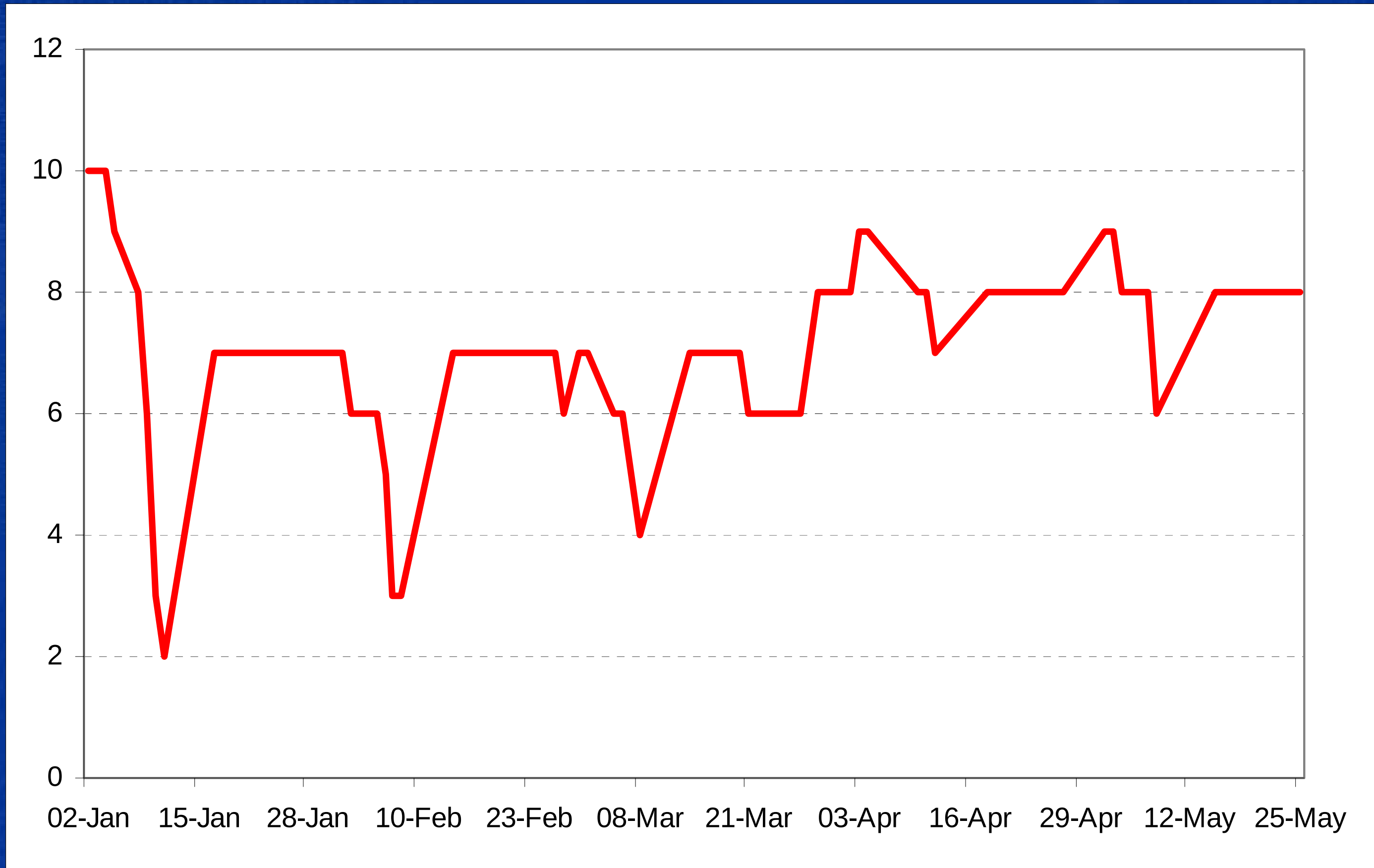
Evolution of implied volatility

[3rd Euribor future contract; currently Dec07]

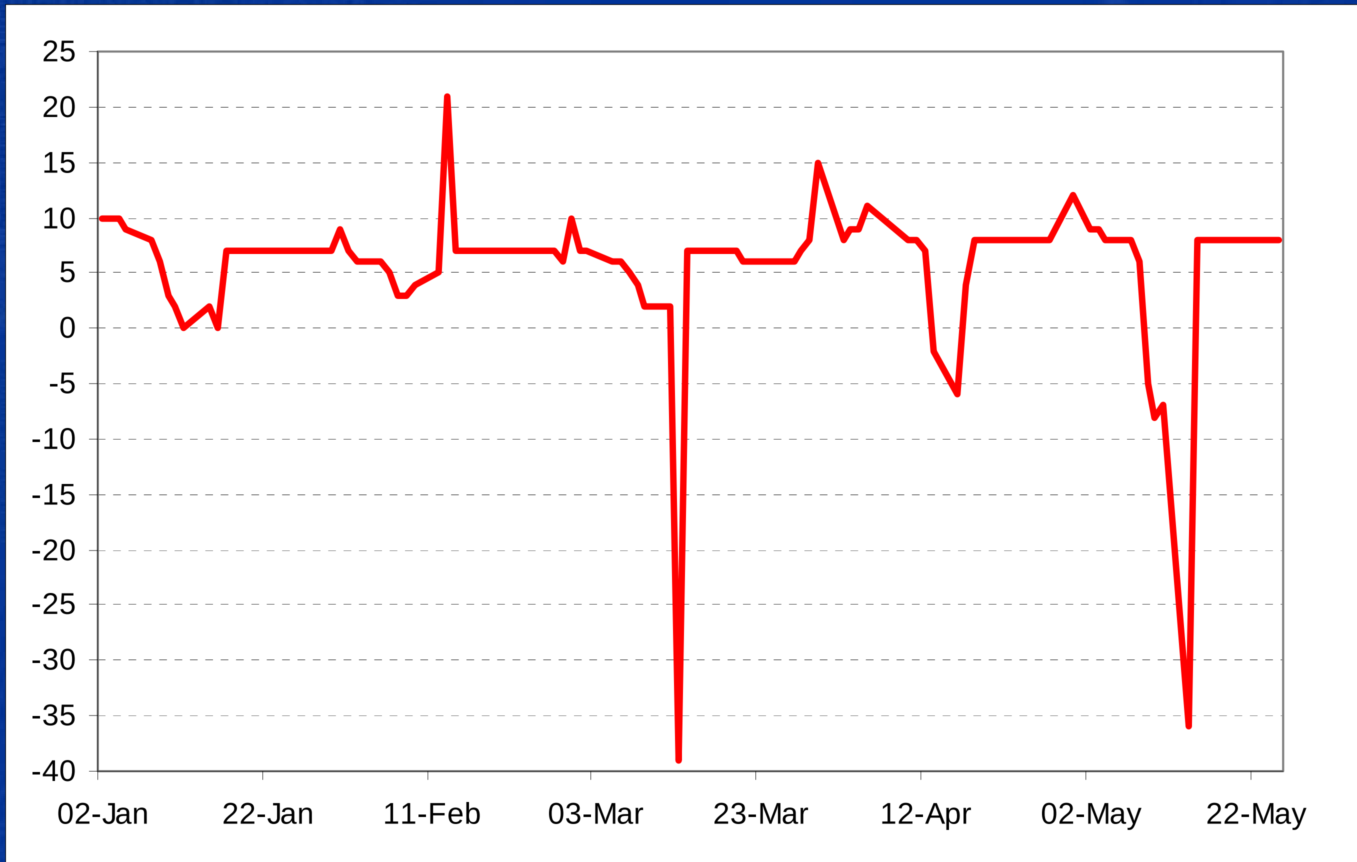


EONIA spread development

[excl. last 3 days of MP and end of month]



EONIA spread development



End of the last 12 reserve periods

	Allotment last MRO	Fine tuning operation	Net recourse to facilities	Excess reserves	Eonia	Spread to MBR
14-Jun	**BM + 2bn**	5 bn absorbing **(only 4.9 bn received)**	0.8bn MLF	0.73	2.50%	0 bps
11-Jul	**BM + 2bn**	8.5 bn absorbing	0.8bn MLF	0.74	2.76%	+1 bps
08-Aug	**BM + 2bn**	18.0 bn absorbing	1.2bn MLF	0.61	2.73%	-2 bps
05-Sep	**BM + 2bn**	11.5 bn absorbing	0.6bn MLF	0.60	3.04%	+4 bps
10-Oct	BM	9.5 bn providing	0.2bn DF	0.67	3.09%	+9 bps
07-Nov	**BM + 1bn**	**none**	2.0bn MLF	0.79	3.32%	+7 bps
12-Dec	**BM + 1bn**	2.5 bn providing	0.6bn MLF	0.68	3.36%	+11 bps
16-Jan	**BM + 1bn**	**none**	0.6bn MLF	0.96	3.50%	0 bps
13-Feb	**BM + 1bn**	2.0 bn providing	0.4bn MLF	0.79	3.71%	**+21 bps**
13-Mar	**BM + 1bn**	10.5 bn absorbing **(only 2.3 bn received)**	7.4bn DF [1)]	0.80	3.11%	**-39 bps**
17-Apr	**BM + 1bn**	22.5 bn absorbing	1.0 bn MLF	0.80	3.79%	+4 bps
14-May	**BM + 1bn**	7.5 bn absorbing **(only 2.5 bn received)**	5.5 bn DF [2)]	0.99	3.39%	**-36 bps**

Potential issues for discussion

- *Potential reasons for the repeated underbidding in the end-of-period fine-tuning operation ?*
- *Anything the ECB could do to prevent this ?*
- *Potential reasons for the continued decline of implied volatilities ?*
  Could algorithmic trading have a role here ?
- *Are these low volatility levels appropriately reflecting the risks of having a large "tail event" ?*

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Thank you for your attention!