

Money market outlook 2025: trends and dynamics in the eurozone, US, and UK

We delve into the world of money market funds. Distinct dynamics are at play in the US, eurozone, and UK. In the US, repo rates are more attractive, and bills are expected to appreciate. It's also worth noting that the Fed might cut rates more than anticipated, similar to the UK. In the eurozone, unsecured rates remain elevated



Eurozone: A gradual tightening from the ECB's shrinking balance sheet

There remains a structural tightening trend as the European Central Bank (ECB) shrinks its balance sheet and drains reserves. Up to now liquidity conditions have been ample, and the impact has been mainly felt in repo markets where rates have drifted towards the ECB's deposit facility rate.

Unsecured overnight rates are still fixed noticeably below the depo rate, and thus, counterintuitively, below secured rates – market fragmentation is part of the reason. The minimum level of reserves at which banks want to operate is still some distance off.

US: Term and Repo more in vogue

Absolute rates attainable in the money market funds space remain attractive and will stay this way even if the Fed cuts some more (we think two 25bp cuts in the second half of 2025). Money

curves have generally dis-inverted, which generates the opportunity to term out where feasible, to get today's rates (or at least close to them) for longer. The Fed's reserve repurchase agreement facility will increasingly be used just at turns, broadly ending routine usage. Market repo is more attractive here in relative value terms.

As quantitative tightening concludes by mid-year, idle liquidity is expected to decrease, potentially pushing generic money market rates higher. Although these changes are marginal, they create a more natural environment compared to the peak period in 2022-23, when approximately \$2.5tr was directed to the Fed's reverse repo facility.

UK: Transitioning to a new monetary policy regime

The Bank of England is pursuing a relatively rapid pace of quantitative tightening compared to its peers, but is also focused on assuring adequate liquidity conditions in the system at the right places. A recalibration of the Indexed Long Term Repo facility, for instance, offers relatively attractive liquidity to banks over six-month horizons.

In the meantime, money market rates are mirroring the normalisation of monetary policy and are performing as expected. Overnight deposit rates could, however, remain relatively low-yielding due to market segmentation. The steepening of curves will continue to incentivise investors to move out of money market funds and allocate cash to longer tenors. While overnight rates may still look attractive at first sight, we are already inclined to move further out the curve for better value.

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.