Money Market Outlook: Our latest for the eurozone, US and UK

We examine diverging money market developments in the eurozone, the US and the UK. The optics of stability seem to be there, but there are, in fact, quite a few differing liquidity drivers and likely outcomes in play

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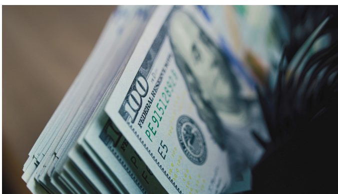
EUR Money Markets: Gradually less comfortable

The ECB's 'good place' looks less comfortable, though no policy change remains the baseline

By Benjamin Schroeder



US Money Markets: Calm as you like on bills buying

Liquidity circumstances are set to improve further in the coming few weeks and months, and money market funds remain popular

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By Michiel Tukker

Article | 3 February 2026

EUR Money Markets: Gradually less comfortable

The European Central Bank's 'good place' is looking less comfortable as FX dynamics pressure the inflation outlook, although the baseline remains no policy change for the foreseeable future. The money market impact of declining reserve levels is visible but remains gradual. Nonetheless, some scenarios see levels becoming tight already this year

Geopolitics and a stronger euro have markets pricing a 20–25% chance of a year‑end rate cut

ECB looks a little less comfortable in its ‘good place’

The ECB still finds itself in a ‘good place’ after having lowered rates to 2% in June last year. Risks and uncertainties around the outlook are still substantial, and explain why under the surface there is still divergence within the ECB Governing Council around the nature of inflation risks in particular.

Market expectations are largely aligned with the view that the ECB will very likely not change policy rates this year and will probably remain on hold next year as well. This is also our economists' baseline scenario. Only on the back of recent geopolitical turmoil and then the strengthening of the EUR exchange rate has market pricing turned towards further cuts again, pricing in a 20% to

25% probability for another rate cut by year-end.

At least for the coming months, we would also subscribe to the view that the balance of risks is tilted towards more easing from the ECB. But we think that the balance will shift in the other direction when the effects of the planned fiscal stimulus out of Germany, in particular, start to show in the second half of the year.

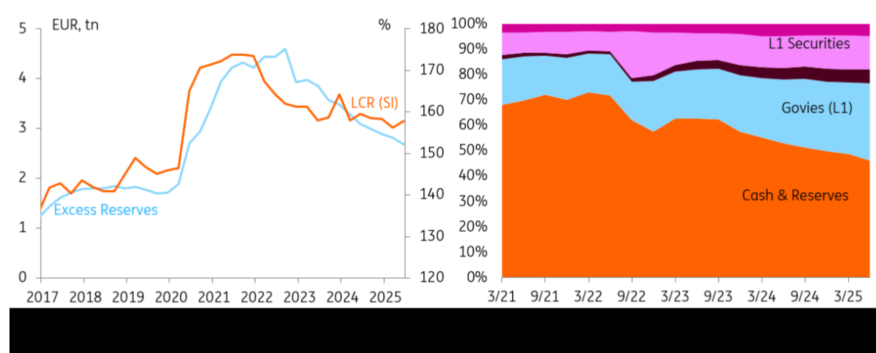
Liquidity still well above banks' desired level

The level of reserves in the banking system remains on a declining trajectory as the bonds mature from the ECB's policy portfolios. This is a process that Isabel Schnabel coined as 'quantitative normalisation' in a speech last November, rather than the commonly used term of 'tightening' for the shrinking of the balance sheet.

It perhaps better captures automatism as the ECB slowly transitions to its new ways of implementing monetary policy. Recall, the new operational framework was initially revealed in 2024, with implementation focusing more again on the ECB's lending operations but also acknowledging the changed role that central bank reserves are playing in the financial system – the ECB's balance sheet is set to become more responsive to banks' liquidity demand.

The duration of the transition crucially depends on the level of reserves that the banks demand on top of their minimum reserve requirement and the liquidity needed to cover for the so-called autonomous factors – mainly banknotes in circulation. That level is commonly estimated to lie around €1.5tn, but as we already outlined in our last publication, the range is quite wide. In her speech, Schnabel also provided scenarios developed by ECB staff, which they make dependent on banks' choices for their Liquidity Coverage Ratio (LCR) and for the share of reserves in the High Quality Liquid Assets (HQLA) portfolios underpinning this ratio.

Banks choose stable liquidity ratios, replacing reserves with other liquid assets



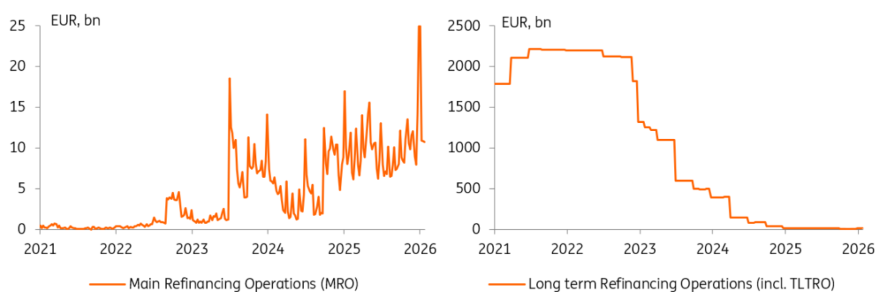
Source: ECB, ING

The ECB staff scenarios range from a level of €600bn to €2.2tr, and these levels would mark the point when banks' would need to obtain liquidity via the ECB's lending operations to maintain them. Extrapolating the trajectory from a current level of around €2.5tn with €501bn maturing this year, this could happen as early as mid-2026 or as late as 2029. Currently, it appears that banks

are keen to maintain their higher LCR levels, but we do not know to what extent they will continue to replace declining reserves with government bonds in their portfolios.

By design, as one approaches the threshold liquidity levels, one would observe market repo rates approaching the main refinancing operations (MRO) rate. Once reached, the relative attractiveness of the ECB's lending rates would see demand in the central bank's operations start to increase. The ECB encourages the use of its operations as an integral part of banks' day-to-day liquidity management and Schnabel even argues that usage should also extend to funding banks' repo desks. At the end of last year, the ECB 'invited' banks last year to regularly access the lending operations to test operational readiness. It is likely also a means to ease any remaining 'stigma' attached to the operations. In any case, the number of participants – not so much the volume if bid amounts remain symbolic – could start to rise more noticeably from an average of around 50 participants if banks follow suit.

ECB seeks more MRO/LTRO participation, but banks see little need for now



Source: ECB, ING

Apart from a spike over year-end, weekly MRO participation remains at volumes just above €10bn. The median expectation reflected in the ECB's survey of monetary analysts from December – a survey conducted with bank treasuries ahead of every ECB meeting – sees take-up volumes double by the end of the year to €20bn and another doubling only by 2028. Similarly, the aggregate 3m LTRO volume is expected to grow from currently around €12bn to €30bn by end of the year and €50bn by 2028.

Upward pressure on market rates remains very gradual

For now, repo rates remain more closely aligned to the ECB deposit facility rate, reflecting the still high level of excess reserves in the system of around €2.5tn. But in December we have already seen episodes where the GC pooling rate, for instance, has ventured more noticeably above the depo rates by up to 4bp amid elevated market volumes. German CG term repo rates remain close to the deposit facility rate but over the course of the past year the term premium has continued to rise gradually, although we have seen spreads tighten since the start of the year.

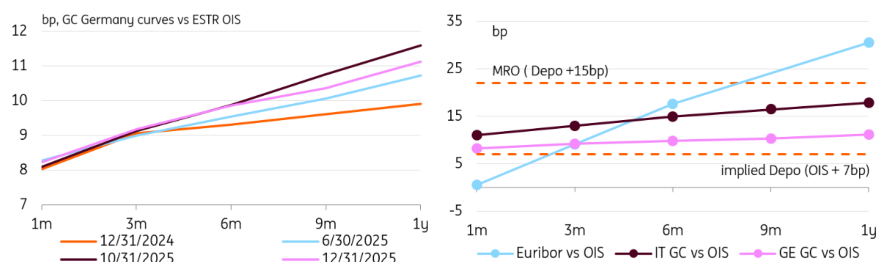
The unsecured overnight ESTR is also experiencing gradual upward pressure, fixing on average a little less than 7bp below the depo rate so far this year. We do believe it should stay below the deposit facility rate given the charges that banks apply for their intermediation with sectors that

do not have access to the ECB facilities.

Spreads of unsecured term funding rates over ESTR OIS have been relatively stable within their ranges. Still, with the 6m Euribor having inched up to 23bp above OIS in the early weeks of 2026, it does sit at the upper end of what we have seen over the past half year or so, but there hasn't been any real trend over that period. That said, the basis of 2y swap rates (vs Euribor) over OIS points to some widening expectation – it is now close to 26bp and has been trending gradually wider since October last year.

Note that this year the ECB is set to review the operational framework. Given the range of scenarios as outlined previously, providing more clarity about the design – size, pricing etc. – of the structural liquidity operations it intends to offer, should not only help guide the dynamics of term-premia in money markets, but could also help alleviate the stigma of the ECB operations itself.

Year-end money market snapshot: term premia still have upside as liquidity is gradually withdrawn



Source: Refinitiv, ING

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US Money Markets: Calm as you like on bills buying

With the Fed buying bills and a chunk of the Treasury cash balance to be paid down, we'd expect a further easing in repo conditions as we progress through the coming weeks. SOFR should begin to trade back below the effective funds rate, eventually pulling it lower. The SLR easing coming too will be impactful. And money market funds are still seeing good inflows

Money market funds remain in vogue and we don't expect that to change soon

All change at the Fed – what does it mean?

The nomination of Kevin Warsh as Federal Reserve Chair is mildly hawkish, as he's not the outright dove that Kevin Hassett could have been. But then again, Warsh could be seen as less Trump-impacted, and thereby more impactful. Even if Warsh did turn out to be a MAGA dove, it's still unlikely that the overall FOMC turns MAGA dovish. At best, President Trump could turn four board members MAGA dovish – Warsh, Jerome Powell's replacement (only if he leaves), Lisa Cook's replacement (only if she is fired) and one retirement later in 2026. That's four at the very best. The rest, which is eight out of 12, would be pure data watchers. Overall, the maths suggests that the data will decide on rates, not the president.

As it is, there are about two rate cuts discounted, and we agree with this – it's been our view since the beginning of the year. But nothing for the foreseeable future. Chair Powell was, in our view,

remarkably balanced in his commentary at last week's FOMC meeting, and is in no mood to cut (nor hike). He could well go through the rest of his term without changing rates again. We then have two 25bp cuts expected in June and September, and that's it for the cuts. The macroeconomy is vulnerable, but displaying enough resilience to avert a recessionary tendency through 2026.

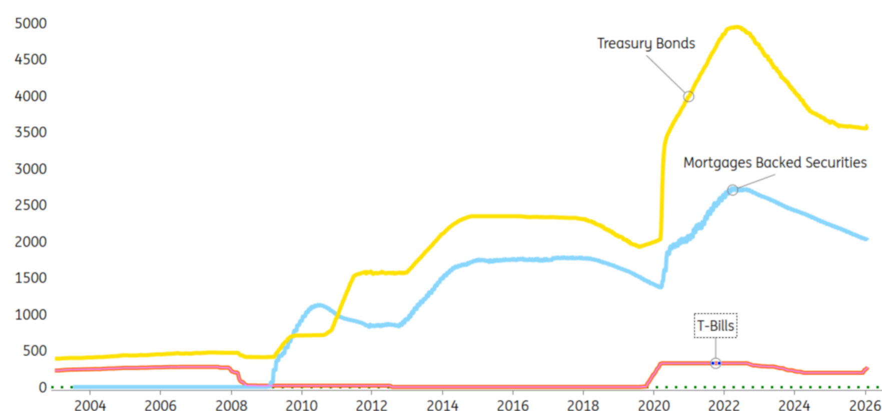
The interesting dynamic from the liquidity-plumbing perspective is talk of balance-sheet reduction. The current FOMC members tend to hold their collective noses and prefer to maintain the excess bank reserves system. It's easier to stick with it, and tough to undo. But it seems that Kevin Warsh intends to make a go of it. If so, we'd need to be on alert to some potential liquidity hiccups along the way, and certainly some teething issues. We'll opine more on this as we see a clearer plan of action.

Fed buying bills is doing its job and acting to support bank reserves

Since the Fed re-ignited its bill-buying programme, some $80bn has been added. Total bill holdings are now at almost $275bn. Over the same period, some $30bn of mortgage-backed securities have rolled off the balance sheet. The latest data also shows a rise in government bond holdings. All in all, in net terms, there has been a $60bn build in the Fed's holdings of securities since mid-December 2025. That has been partly offset by an increase in the Treasury cash balance due to tax inflows. It leaves bank reserves at or around around $3tr.

The Fed's bond and bills holdings

USD, billions



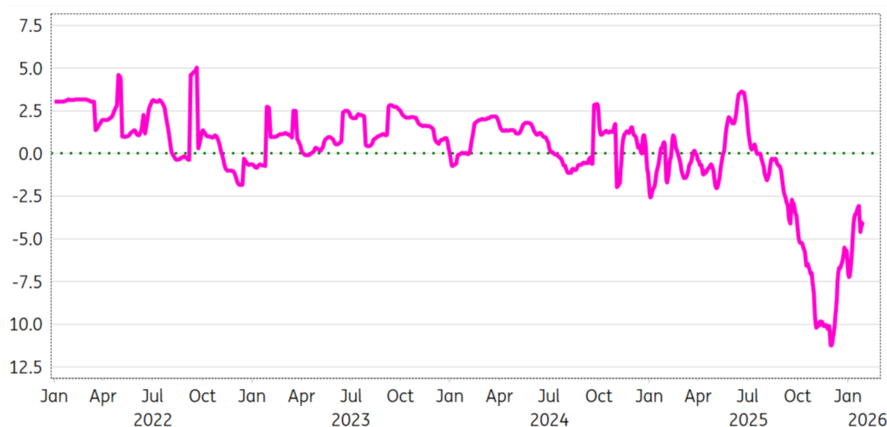
Source: ING estimates, Macrobond

The genesis of the renewed bill-buying programme was to calm the perception of liquidity tightness that had emerged. That said, the effective fed funds rate remains elevated relative to where it was. It had been 8bp above the fund rate floor. It's now 14bp above. That may not seem like much, but it is an irritation for the Fed. In fact, it was this drift higher that really prompted the Fed into bill-buying action. Ideally, the Fed would like to see the effective fund rate drift lower again.

As it is, the effective funds rate is just 1bp below the rate paid on excess reserves, which in fact should act as a ceiling for the effective funds rate. The Fed will still likely declare recent developments as positive, and there has certainly been a net calming in repo circumstances. Ahead, we think that SOFR can and should trade back through the effective fed funds rate. That in turn can act to pull it back down and away from the rate paid on excess reserves. The impending easing in the Supplementary Leverage Ratio (SLR) will be impactful too (see more on this further below).

Fed funds rates versus the SOFR rate

(Fed funds rate *minus* SOFR rate)



Source: ING estimates, Macrobond

SOFR has eased. It will ease lower on Treasury cash payouts

SOFR has continued to trade a tad tight, all things considered. Theoretically, it should trade through the effective funds rate, as the former is a secured funding rate. Going forward, we expect SOFR to richen versus the effective fund rate as the T-bill programme continues to act to add to bank reserves. Also, importantly, there should be a paydown of some USD150bn from the Treasury cash balance, which is currently elevated in the wake of recent tax receipts.

Treasury cash balance at the Federal Reserve

Amount that effectively sucks liquidity from bank reserves

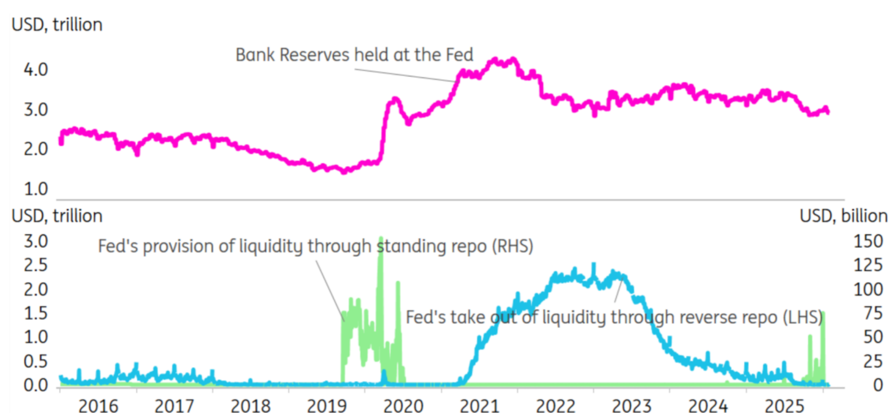
Source: ING estimates, Macrobond

Currently, the Fed is neither providing nor withdrawing liquidity from the system to any significant extent. This suggests a degree of balance in the system.

The follow-on question is what level of bank reserves are comfortable? Far from perfect, but one thing we can do is make a judgment on reserves based on a percentage of GDP. The current level of bank reserves is around $3tr, so we're in a comfort zone of 9% to 10% of GDP. The Fed is now likely to build reserves at a similar pace to the expansion of nominal GDP (2-5% per annum). That is until or unless Kevin Warsh's Fed engages in balance sheet reduction – to be seen.

Bank reserves at the Federal Reserve

Alongside the Fed's repo (adding liquidity) and reverse repo facilities (taking out liquidity)



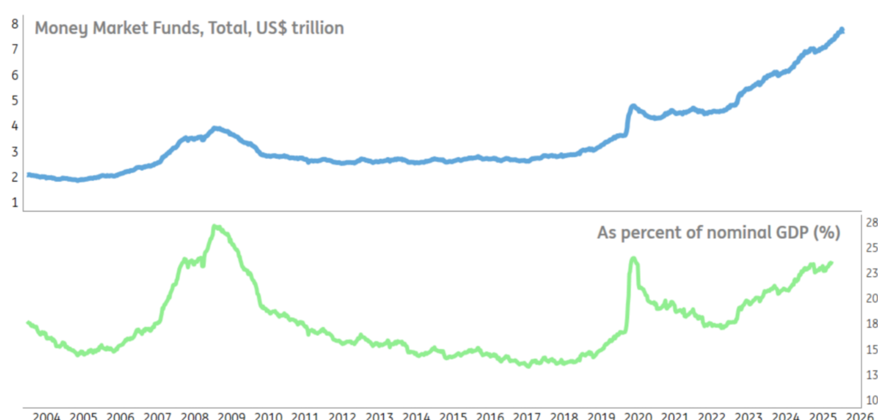
Source: ING estimates, Macrobond

Money market funds remain very much in vogue, and little to suggest any change in that

Inflows to money market funds remain firm, with both institutional and retail participating. Prime funds continue to see their fair share of the increase. As a percentage of GDP, total money market funds are now approaching 25%, not far off the previous high of 27% in 2009. So far, the rate-cut narrative has not been a material issue, mostly as a return of 3-4% still represents a decent return on what is effectively a 'zero risk' product.

Money market funds remain on the rise

Also on the rise as per cent of nominal GDP



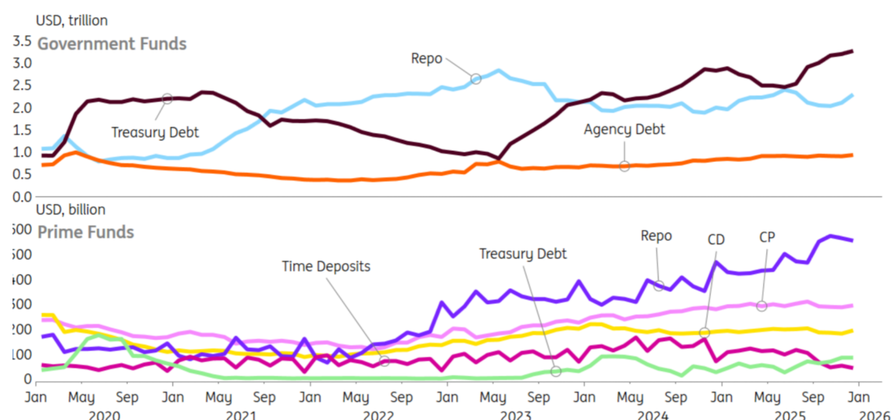
Source: ING estimates, Macrobond

In terms of specific exposures, Government Funds have seen a renewed rise in holdings of Treasury Debt (effectively bills). Extra bills are being issued to take pressure off coupon issuance. This should help maintain a concession in bills. Repo has been downsized relative to Bills' holdings as a result, although repo has been on the rise recently.

In Prime Funds, repo (reflecting equity repo) exposures remain elevated. Exposure to commercial paper (CP) has been gradually rising, while certificates of deposit (CD) and ordinary deposits have been steadier to a tad lower. Bank deposits have been on the slide, mostly because there are better terms in alternative buckets.

Money market fund holdings

Government funds on top, and prime funds on the bottom



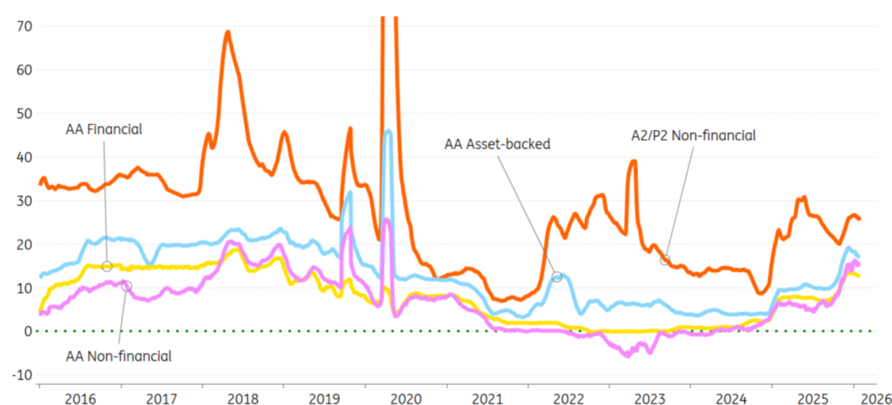
Source: ING estimates, Macrobond

Terming out is a viable means to adding yield, especially if added to a credit extension

In terms of attainable rates, the entire spectrum of overnight commercial paper rates remains comfortably above the Federal Reserve's reverse repo rate. This has reflected past relative tightness in repo, which acted as an upward drag on other rates from a relative value perspective. And on a concessionary T-bills environment.

Commercial paper alternatives

As spreads above the Fed's reverse repo rate (bp)

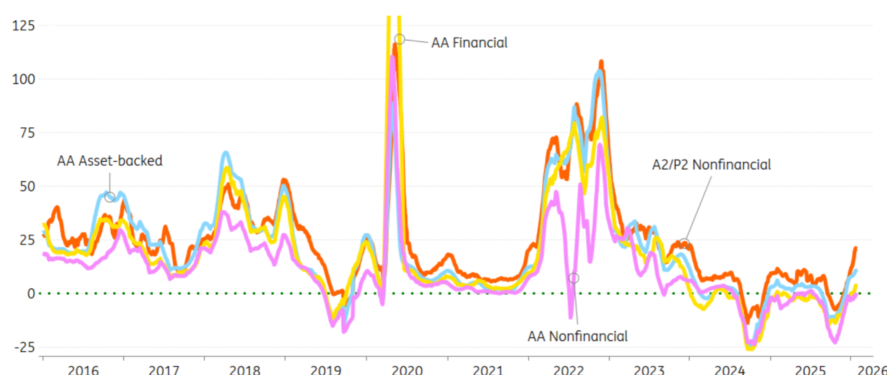


Source: ING estimates, Macrobond

With the Fed still technically in a rate-cutting mode, we should see a mild concession when terming out. But that concession has recently reverted towards a premium, especially for the lower-rated product. If the Fed is to cut rates later in the year, then terming out in spread product at current levels looks to be a decent play.

Terming out

From overnight (o/n) to three months (3mths), bp



Source: ING estimates, Macrobond

The supplementary reserve ratio is also set to be eased in the coming months

As an important aside, proposed changes to the Supplementary Leverage Ratio (SLR) for big US banks can boost demand for Treasuries and Repo. It's in fact effective from 1 April 2026, with an earlier opt-in possible. There could be further changes ahead of April, as Stephen Miran had been looking to exclude Treasuries and reserves. The skew ahead on balance sheets will be gradual. Banks are lenders first, and credit hasn't been notably constrained.

Is this impactful for Repo? We think so, yes. Most players have easy access to liquidity, but from time to time there are liquidity shortages. It's a bit phoney as there is ample liquidity in the system. However, those holding the liquidity often don't want to, or cannot, participate. Ease the SLR and that can change. It's confirmed, and coming.

See more here.

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GBP Money Markets: Stable liquidity conditions in 2026

Reserves in the system have held steady in the past few months, supported by a strong increase in the Bank of England's liquidity facilities. Stabilising bank reserves should help prevent a material drift higher in short-term funding spreads. Treasury bill spreads are still trading range-bound and most recently look to be at the lower end of the range

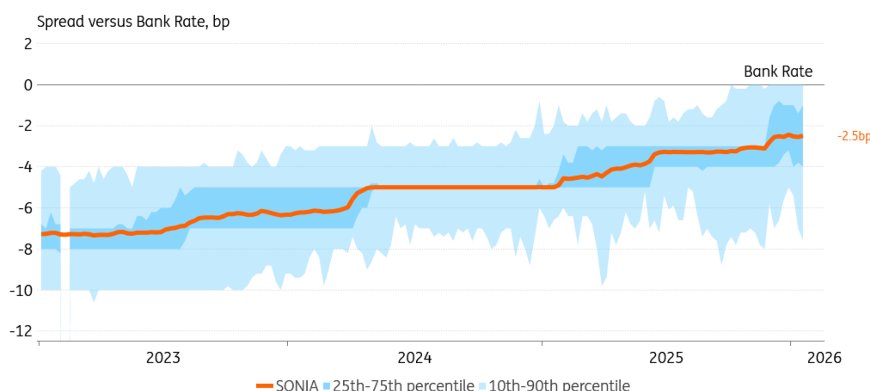
The increase in bank reserves can be attributed to a strong pickup in the BoE's liquidity facilities

Bank reserves remain ample but overnight deposit costs continue to increase

The continuous quantitative tightening (QT) by the Bank of England (BoE) has pushed deposit rates relatively higher over the past years, but the impact may be more limited this year. When we look at the Sterling Overnight Index Average (SONIA) rate, we see a slight increase in the relative costs for banks attracting overnight funding over the past few months. In December, the spread between SONIA and the Bank Rate jumped by around 0.5bp, but has now settled around 2.5bp below the Bank Rate.

A significant number of banks pay close to the Bank Rate for overnight deposits, suggesting the competition for liquidity has increased. The 90th percentile of transactions is now even on the Bank Rate. Aggregate bank reserves are still around £650bn, well above the £460bn in 2020 before the restart of the BoE's bond purchasing programme. But with stricter liquidity regulation in place, we expect the demand for bank reserves to remain structurally higher. As such, the preferred amount of reserves in the system to maintain healthy liquidity could be much higher than pre-Covid.

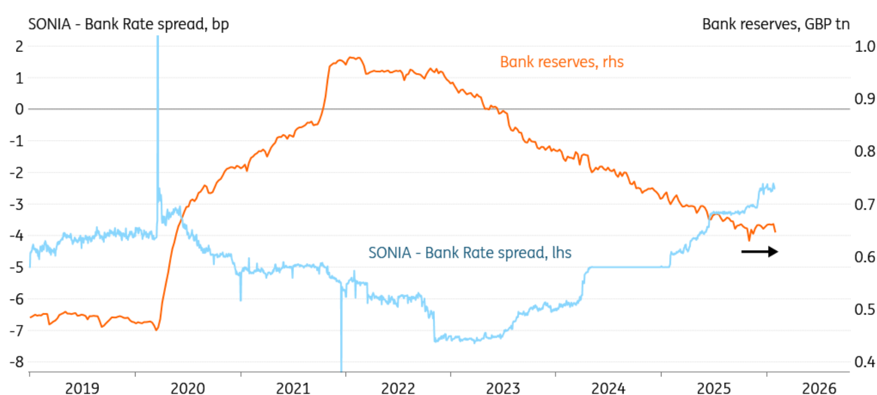
SONIA close to the Bank Rate, with some banks already paying the Bank Rate



Source: ING, Macrobond

Despite the continued unwinding of the BoE's balance sheet, we find that bank reserves have increased since October last year. The increase in bank reserves improves liquidity conditions and should help keep short-term funding rates range-bound. That also means that we might not see a material increase in SONIA this year. A side note hereby is that liquidity is not evenly balanced throughout the system, and some borrowers may still have to start paying more to attract short-term funding.

Bank reserves have increased since October

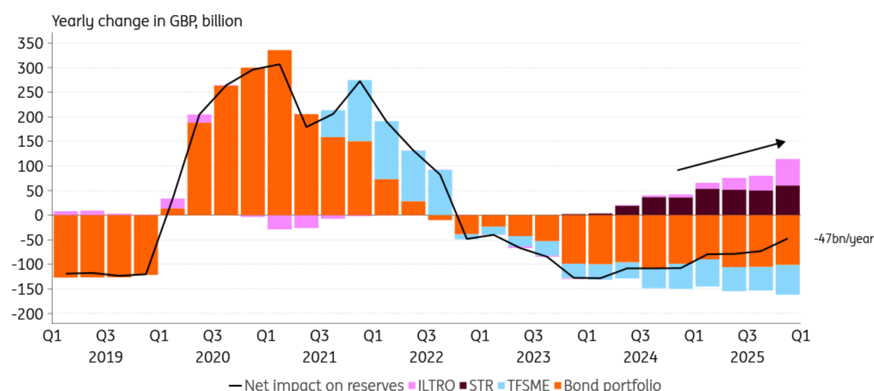


Source: ING, Macrobond

The increase in bank reserves can be attributed to a strong pickup in the BoE's liquidity facilities,

which is designed to keep liquidity ample. The short-term repo (STR) facility has now passed the £100bn mark and the long-term repo (ILTRO) facility is now above £70bn. Together they added £110bn of bank reserves in 2026, which is more than the reserves withdrawn because of QT. These facilities also help prevent sudden liquidity shocks as they are readily available against a range of collateral.

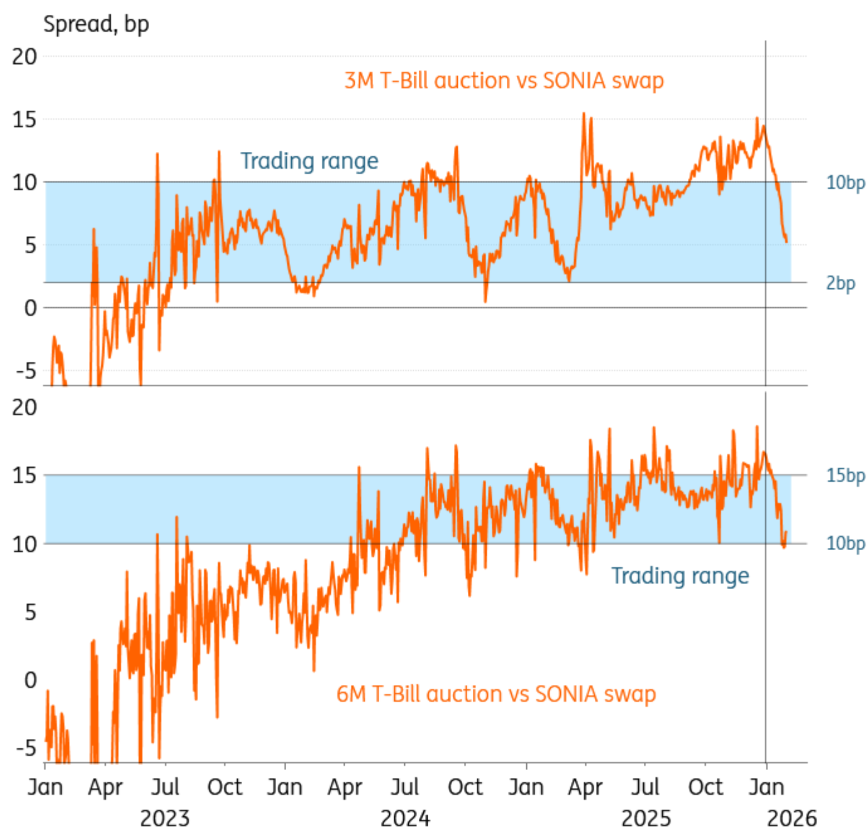
The BoE's liquidity facilities are offsetting the reserve drain from QT



Source: ING, Macrobond

With bank reserves stabilising, or at least falling less quickly, we can expect other money market rates to see more range-bound trading, too. When looking at Treasury bills, we can identify ranges that capture most of the spread pickup versus SONIA swaps. After the year-end, we see that spreads on 3M and 6M T-bills have come down somewhat, back to their trading ranges from most of 2024 and 2025. Being closer to the lower bounds, we do expect to see a bit of a rebound higher in spreads, especially for the 6M tenor.

Money market rates are settling in trading ranges



Source: ING, Macrobond

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