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

The market turmoil from the US-Iran war is also leaving a mark on global money markets, but liquidity conditions overall appear resilient. The biggest moves stem from a repricing of central bank paths, which continue to be almost entirely driven by oil prices. Below, we dive deeper into the dynamics for the US, the eurozone and the UK

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By Michiel Tukker

Article | 9 April 2026

EUR Money Markets: Stirred, not shaken

The Iran conflict and energy price surge have shaken ECB rate expectations, causing market uncertainty and shifts to safer assets. Money and funding markets show limited stress, but as overall activity focuses more on very short dates, longer Euribor spreads, in particular, have seen higher volatility

Euro rates have shown resilience in the face of the Middle East conflict and higher inflation

Oil price spike pushes ECB out of its 'good place'

The short ends of the interest rate curves have been the most impacted by the Iran conflict and the energy price spike, as fears of a 2022 repeat swept through the market. A rate-cutting bias has morphed into expectations of as many as three European Central Bank (ECB) rate hikes by the end of the year. While a ceasefire has calmed the situation, the ECB signalling a readiness to act on any signs of second-round effects taking hold, keeps the possibility of a first rate hike as early as April still in play.

We think that the additional information that the ECB will have at that point will be rather limited, arguing for a wait at least until June. If we follow our base case scenario, we think the ECB will continue to signal vigilance, but will eventually manage to keep rates steady. But we also have to acknowledge that at this stage, ECB policymaking is more about managing expectations. For now, the picture presented by longer-term inflation swaps remains relatively benign. But this can still change as the crisis evolves.

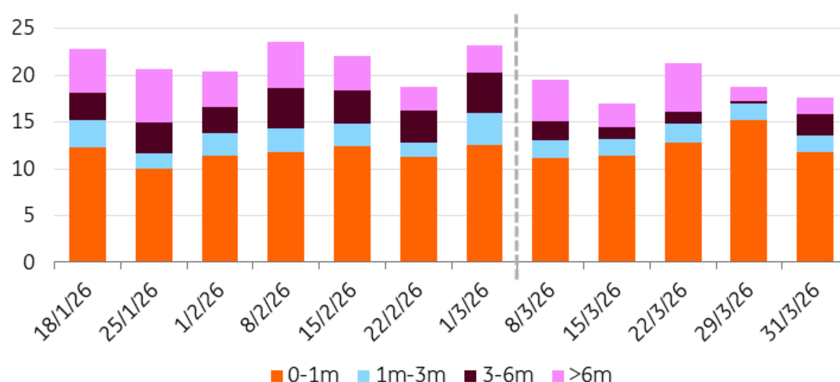
Uncertainty leaves its marks in money markets, but no signs of stress

The overall uncertainty and risk aversion in the market have also left their mark on money markets. We have seen the 2y German Schatz start to outperform more noticeably versus swaps as the conflict escalated further. That is a classic sign of flight-to-quality, although there was also a directional component to it over the past month.

There has been a shift to shorter maturities amid the uncertainty around the crisis and the ECB's policy response. Signs of actual strains in money markets and the functioning of funding markets, however, remain limited.

In repo markets, the overnight GC pooling rates had dipped back to the ECB deposit facility rate for the latter part of March, having previously sat around 1-2bp above. The quarter-end itself, however, appeared more driven by liquidity demand this time around, as the rate did not show the usual spike lower that we had observed around previous month and quarter-ends. German government GC is now back to basically flat with the depo rate again after quarter-end, after having dipped to slightly below before. Italian GC briefly widened towards 5bp above the depo rate at the beginning of March and again at the start of April, but for the most part it sat around 2bp, which is even at the low end of the range just prior to the conflict.

European banks' weekly CP/CD issuance volumes shifted to shorter tenors



Source: CMD, ING

In unsecured markets, we have also observed that for commercial paper, volumes from banks shifted to predominantly tenors of 1m and shorter, reflecting the change in investor appetite.

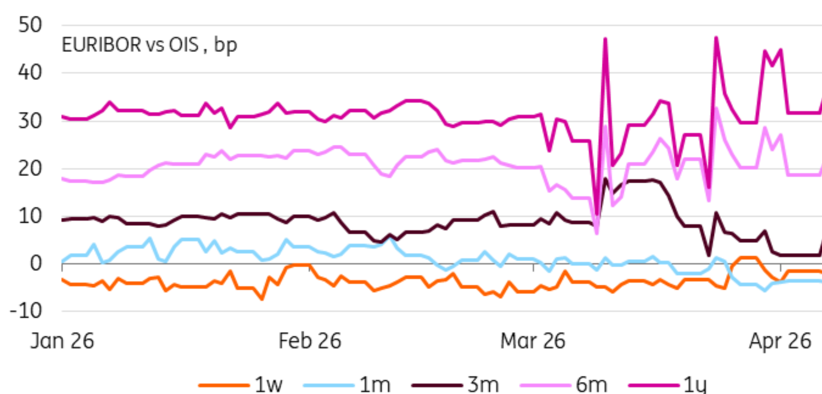
Ahead of quarter-end, the 1m Euribor fixing dropped even more noticeably below ESTR OIS, reflecting low desire to take on funding that does not add to fulfilling regulatory ratios but only expands the balance sheet.

There was a brief widening of the 3m Euribor OIS spot spread, but this was more related to the technicalities of the fixing and its fallback calculations rather than a change in credit perceptions. The spike reversed quickly, and the spot spread even reached its lowest print since the end of 2024.

However, the volatility in the spread over OIS is most striking in the longer tenors, where the 12m Euribor OIS spread has been anywhere from 10bp to 45bp since the onset of the conflict. Prior, the spread had been hovering in a range of 30bp to 35bp since last September.

Away from the spot fixings, FRA/OIS spreads briefly widened as an impact reaction, but also pared a good part of that widening. They do remain a tad wider by about a basis point, but one has to keep in mind that the FRA/OIS strip previously had shown a very gradual widening trend. This reflects the underlying ECB run-down of its balance sheet and the resulting decline in excess reserves in the banking system.

EURIBOR spread volatility in longer tenors



Source: Refinitiv, ING

To recap, Euribor fixings represent the rate at which banks can borrow in the unsecured money market. To ensure 'robustness' and 'representativeness', the calculation of the fixing is grounded to the extent possible in actual transaction data.

For that purpose, a hybrid methodology using a waterfall structure has been developed. At the first level, actual transactions are used to calculate the fixing. If a contributing bank does not have enough transactions to support this Level 1 calculation, it can resort to a Level 2 calculation that progressively employs anything from interpolation from adjacent tenors to using prior-day contributions alongside market adjustment factors.

The drawbacks, especially in more volatile times, become clear when looking at the transparent data that the benchmark administrator supplies with some lag. In February, for instance, a transaction volume of over €130bn underpinned the 1-week fixing. But in the tenors of 1m to 12m, volumes amounted to only €5bn to €10bn that month. This meant that for the 1-week, Level 1 calculations were used 65% of the time, while the 3m fixing saw Level type calculation using prior dates being employed in 70% of cases.

ECB liquidity recourse see no fundamental change amid geopolitical turmoil

Banks' actual recourse to the ECB liquidity operations has briefly spiked to a still modest €17bn, but

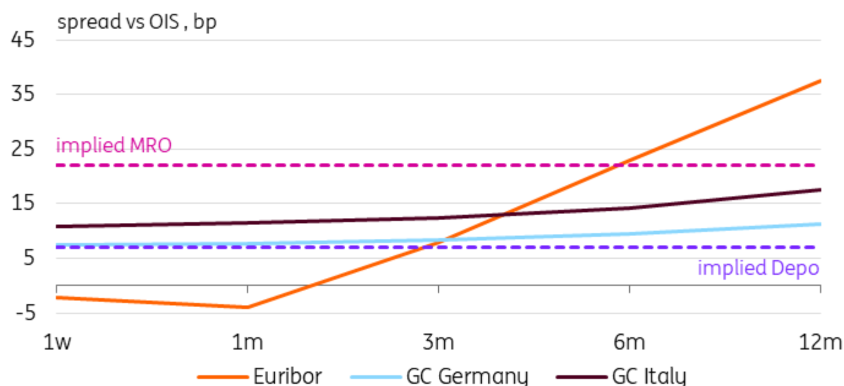
even this was more related to the quarter-end than anything else, and volumes subsequently returned to the €11bn area we have become accustomed to.

If the fallout from the war in the Middle East were to become more severe, there is also a scenario where the ECB might have to rethink its current balance sheet reduction on autopilot. For instance, a more forceful policy response in key rates could adversely impact European government bond spreads. In light of an uneven transmission of monetary policy, it could then be an option to at least pause the process of quantitative tightening.

For now, bond spreads have been relatively well-behaved. And while we have seen some widening on the back of spiking volatility, the overall levels remain not too far off from where last year ended. The hardest hit so far has been Italy, but even the 10y BTP spread over Bunds is currently only a bit more than 10bp above levels from last December following the more optimistic news out of the Mid East.

In a recent blog post looking at how banks have adjusted to the gradual decline of excess reserves, the ECB concluded that money markets were functioning smoothly and liquidity was redistributed efficiently even as a greater share of banks were operating closer to desired reserve levels. As that share is set to increase further, there will also be more upward pressure on funding rates. Eventually, this will also lead to a structural increase in the recourse to ECB liquidity operations, but for now, market funding remains mostly cheaper than going to the central bank.

Market funding still cheaper than the ECB



Source: Refinitiv, ING

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US Money Markets: Slow calm to steady state

With the Fed buying bills and bank reserves steady-to-rising, repo circumstances have slowly tamed. The effective funds rate remains elevated, though, and the war had pushed a small basis premium into the US dollar. Flows into money market funds remain, and bank deposit inflows have been strong. The prognosis is still for lower rates

Inflation expectations are keeping rates elevated, but longer term we do see rates coming down

Money markets and the Iran war – rates ultimately end up lower

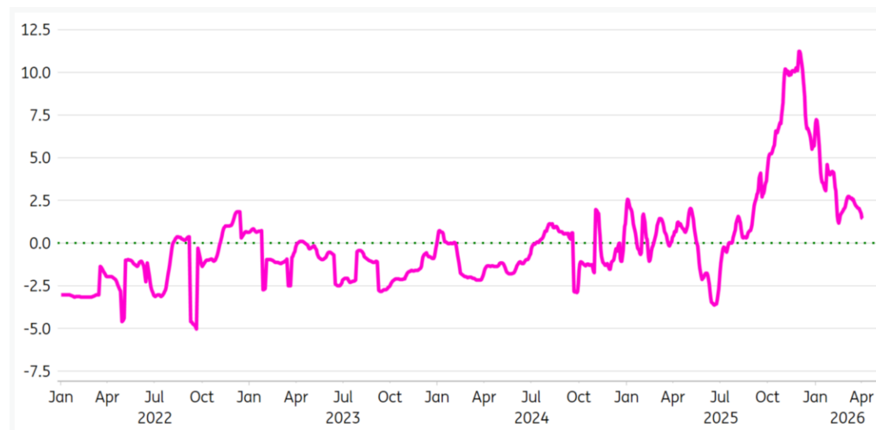
The Iran war manifested in a material elevation in short-term inflation expectations. The US 2y break-even (market inflation) rate is around 3.1%, and to hit that break-even average, there is the threat that actual inflation heads for 4%. Given that, the Federal Reserve is unlikely to cut rates. And the Fed could even come under pressure to hike rates to help face down rising inflation expectations.

On the assumption that the war winds down in the next couple of weeks, and the flow of vessels through the Strait of Hormuz shows a material pickup, our central view is that the Fed does not hike, and instead eventually cuts in the coming quarters. Taking all into consideration, our thinking sees the funds rate unchanged for the immediate few months, with the next big moves still more

liable to be lower.

Fed funds rates versus the SOFR rate

SOFR *minus* effective Fed funds rate)



Source: Macrobond, ING estimates

SOFR has become less tight, but the effective funds rate is still refusing to edge back down

The effective funds rate used to trade just 8bp above the funds rate floor. The ratchet higher to 14bp through September/October 2025 prompted the policy of renewed T-bills buying. The backstory saw bank reserves dip below US$3tr, and repo had shown a marked tendency to tighten, with bank reserves at sub-US$3tr. That repo tightness, in a relative value sense, was the genesis of the rise in the effective funds rate. Rate cuts have dominated, of course, but the issue is the rise in the effective funds rate within the (25bp) funds rate range.

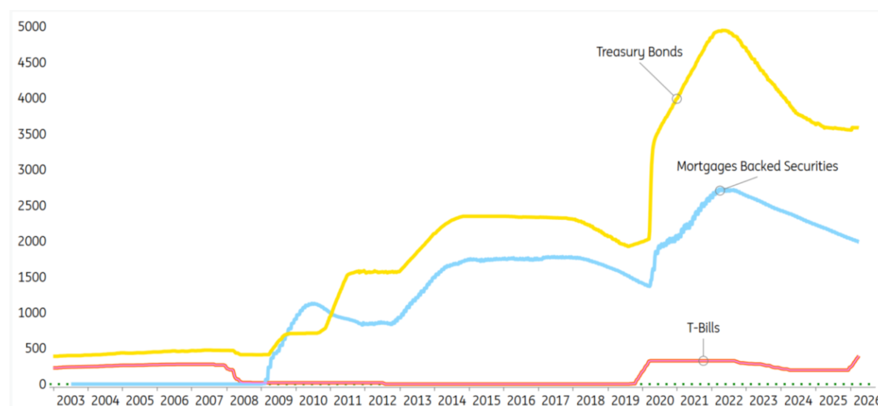
The effective funds rate has refused to budge from the 3.64% level. And by the way, that's just 1bp below the rate paid on reserves (3.65%). It's actually tough to get to 3.65%, as then eligible counterparties have a choice between two windows (reserves vs funds rate). It should not go above, though.

The other competition for avenues for market liquidity is repo, as encapsulated by the SOFR rate (basically an amalgamation of repo rates). Different players in the market with varying rights in the reserves bucket or the reverse repo bucket will see SOFR as an alternative rate that gets deployed from a relative value perspective. This is important for framing where the effective funds rate actually sits. SOFR should, in theory, trade below the effective funds rate, as it is a collateralised rate. So there is a whole relative value trade going on in this space.

And in the funds market, we also need to account for the Federal Home Loan Banks. They provide funds to typically smaller banks. The Federal Home Loan Banks cannot post in the Fed's reserves bucket, but they can post at the Fed funds rate. In fact, they tend to be dominant players in the current funds rate market, especially as the commercial banks will prefer to post at the higher excess reserves rate. Bottom line, they are effective funds rate influencers.

The Fed's bond and bills holdings

USD, billions

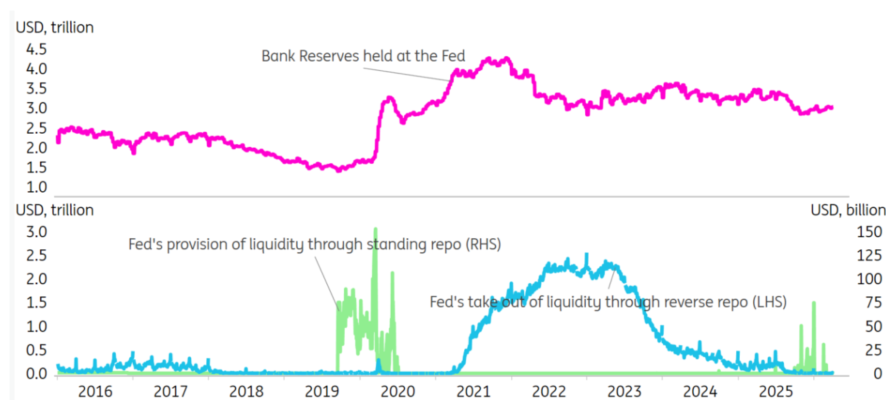


Source: Macrobond, ING estimates

Since the Fed re-commenced T-bill buying in mid-December 2025, it has bought a cumulative US$200bn. Overall, the Fed's holdings of all securities (including bills) are up US$155bn, to US$6.3tr. That has coincided with a rise in bank reserves by US$180bn, to just over US$3tr (helped by a moderate spend down in the Treasury cash balance). Given the net balance sheet expansion, the Fed should be disappointed that the effective funds rate has not eased lower, even if only by a few basis points.

Bank reserves at the Federal Reserve

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



Source: Macrobond, ING estimates

Bank reserves are steady now that the Fed is back in the business of buying bills

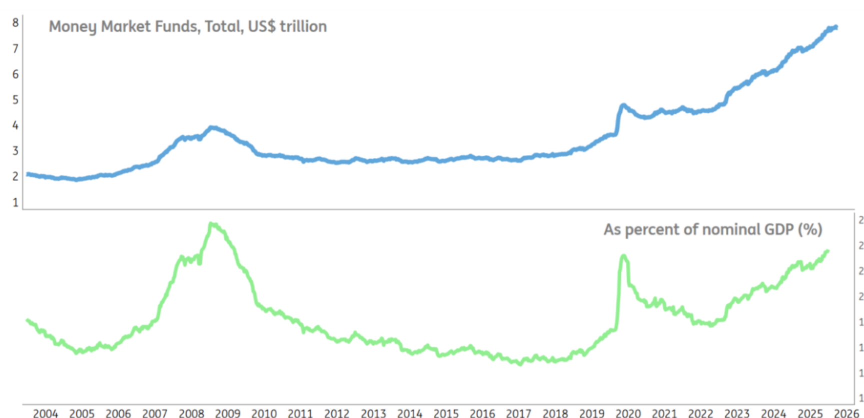
Then there is the complication of a transition from the current excess reserves environment, potentially back towards a "scarce reserves" environment, as indicated by Kevin Warsh (but without specifics). Selling the bonds is relatively straightforward; far less straightforward is how to get back to the prior regime for reserves management and how the funds rate is set, along the way, and in the future.

One aspect that can help here is the revision to the leverage ratio requirements as of 1 April 2026. The fact that the larger banks will, as a result, have more capacity to buy Treasuries and/or engage in repo is potentially a huge benefit. The weak link in the current structure has been the capacity for tightness in repo to bully the effective funds rate higher, primarily on a relative-value play. Larger banks in the game could and should tame the tendency for repo to over-tighten at times.

There is a link here with reserves, too, as the Federal Reserve has reverse-engineered a logic that repo tightness was associated with the fall in excess reserves to a level that exacerbated repo tightness. While a clear link between the two is not necessarily obvious, one does exist. We saw the same when the Fed went through its first quantitative tightening exercise in 2019, which culminated in a brief but severe repo tantrum. It was calmed through a Fed decision to buy bills to help add bank reserves. Fast-forward to 2025, and we saw the same, as the Fed resumed buying bills on repo tightness (since mid-December 2025, and ongoing).

Money market funds remain on the rise

Also on the rise as per cent of nominal GDP



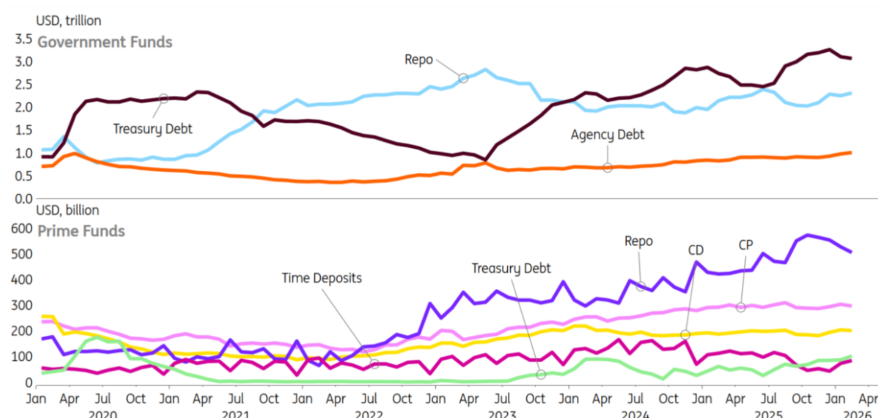
Source: Macrobond, ING estimates

Money market funds are maintaining holdings while bank deposits are on the rise

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. The latest data shows money market funds holding steady, while large bank deposits have seen some decent inflows. At the margin, there have been some moderate institutional outflows from money market funds, while retail is holding steady. Not particularly big moves.

Money market fund holdings

Government Funds on top, and Prime Funds on the bottom



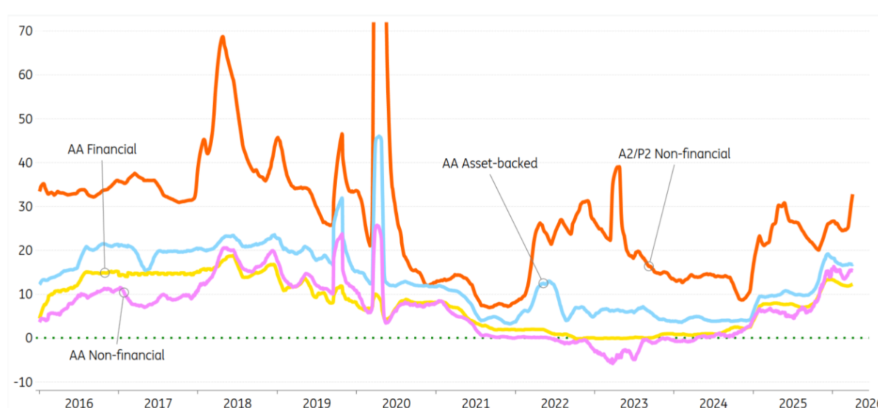
Source: Macrobond, ING estimates

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, albeit off prior highs. 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 seen resumed rises, mostly into the larger banks (less so into the small banks).

Commercial paper alternatives

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



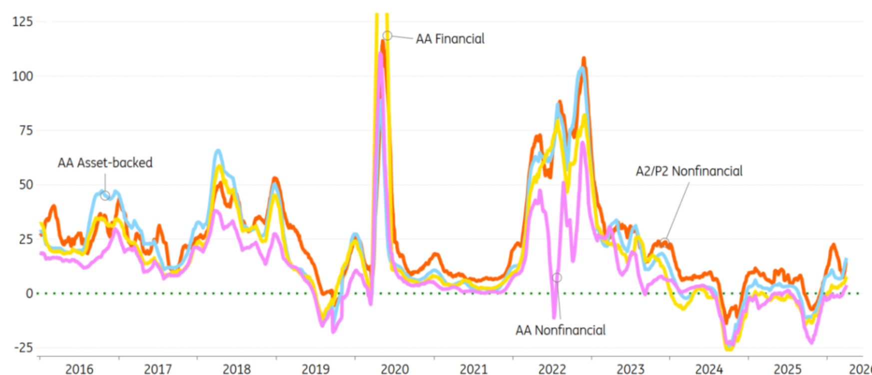
Source: Macrobond, ING estimates

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 has acted as an upward drag on other rates from a relative-value perspective, and on a concessionary T-bills environment.

With the Fed still technically in 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 products at current levels could be seen as a decent play.

Terming out

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



Source: Macrobond, ING estimates

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GBP Money Markets: Liquidity holding amid turmoil

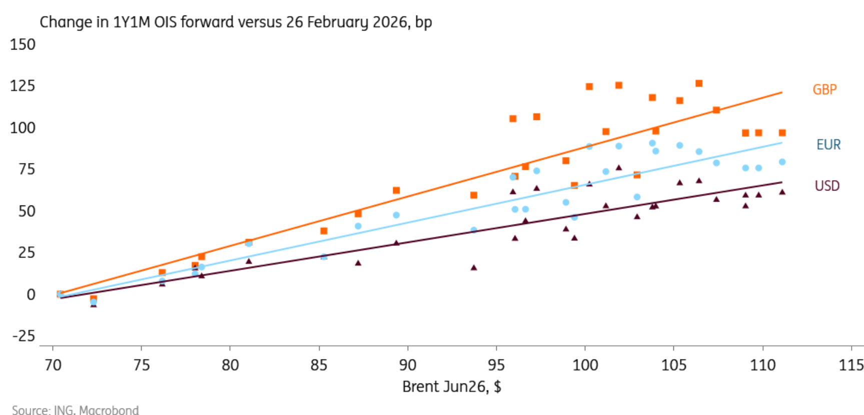
Higher oil prices led to a significant repricing of money market curves, but whilst money market spreads have shown some movement since the start of the Iran conflict, the overall picture looks benign. A stable SONIA and no increase in the uptake of central bank liquidity suggest still ample reserves to satisfy demand

With oil prices in the driver seat, it can be seen in money market spreads, but the impact remains well contained overall

Oil in the driver seat brings great uncertainty

Markets have been driven almost entirely by the rising energy prices stemming from the Middle East conflict, and GBP money markets are no exception. Whilst two rate cuts were priced in at the end of February, the current curve implies around 30bp of hikes before the end of this year. The Bank of England (BoE) repricing has been relatively more hawkish than the Federal Reserve and the European Central Bank, but we think markets are running a bit ahead of themselves. And the BoE seems to agree with us, as its communication is pushing against a steep hiking cycle. Having said that, the narrative continues to be written by the oil price, which implies we still have plenty of uncertainty ahead.

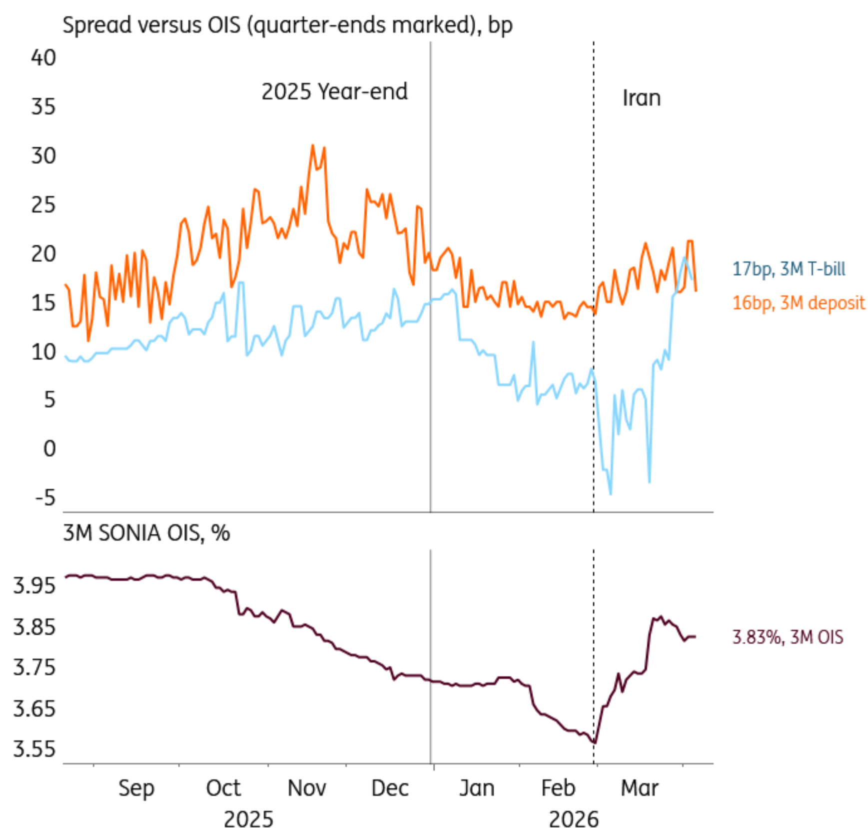
GBP rates markets are more sensitive to oil than peers



Source: ING, Macrobond

The market shock since the start of the Iran conflict is evident in money-market spreads, but the impact remains well contained overall. The 3-month spread between SONIA OIS and bank deposits rose by a few basis points during March, but remained much tighter than most of 2025. The widening might be attributed to increased demand for liquidity from banks, but given the relatively benign moves, we don't deem this disconcerting. The sharp moves in 3-month Treasury bill spreads can be explained by the volatility in swap rates, and the general picture does not raise alarm bells.

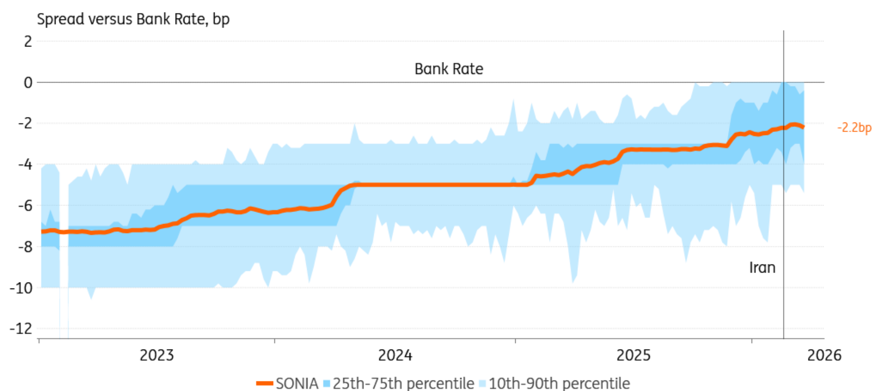
The Iran conflict is triggering some volatility, but nothing concerning



Source: ING, Macrobond

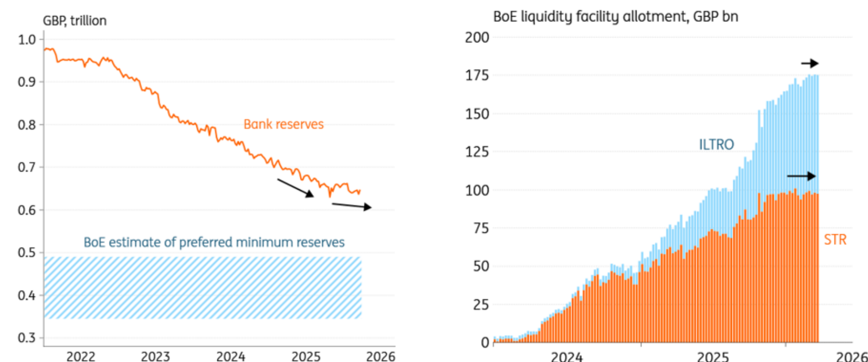
When looking at alternative indicators for liquidity in the financial sector, we also don't find signs of significant market stress. SONIA, for instance, still trades at around 2bp below the Bank Rate, which means banks' demand for reserves has not risen materially. This is also consistent with the relatively muted uptake of the BoE's liquidity facilities. Both the Short-Term Repo (STR) and Indexed Long-Term Repo (ILTR) saw a stable uptake throughout March.

SONIA continues to trade around 2bp below the Bank Rate



Source: ING, Macrobond

Banks did not increase uptake of central bank liquidity



Source: ING, Macrobond

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