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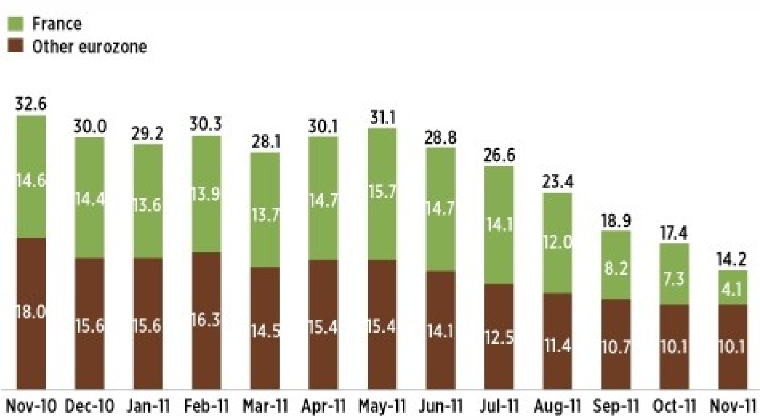
Money Market Funds Continued to Reduce Eurozone Holdings in November

By Sean Collins and Chris Plantier

Over the last year, U.S. money market funds have significantly reduced their holdings of debt securities issued by banks and other businesses headquartered in the 17 countries that use the euro as their currency. That trend continued in November.

Prime Money Market Funds' Holdings of Eurozone Issuers

Percentage of prime funds' total assets, end of month



Note: Data exclude prime money market funds not registered under the Securities Act of 1933.

Sources: Investment Company Institute tabulation of publicly available Form N-MFP data prior to May 2011; ICI tabulation of data provided by Crane Data thereafter.

For the first time, ICI is issuing estimates of money market funds' European holdings in dollar terms. We estimate the total exposure of money market funds (including prime and government and agency funds) to European-domiciled issuers to be less than $800 billion in November. However, as explained below, a sizable fraction of those assets represents repurchase agreements with the U.S. operations of European-headquartered banks, and another portion represents securities issued by entities in European countries outside the eurozone. Taking these factors into account, we estimate that U.S. prime money market funds' holdings of eurozone securities fell to $204 billion by the end of November.

As we have discussed in previous posts, portfolio managers of U.S. money market funds have effectively zeroed out their direct holdings in the countries most affected by the eurozone government debt crisis. These funds have also gradually trimmed their holdings of issuers in other eurozone countries that might be negatively affected by the debt crisis. As a result of these portfolio adjustments, U.S. money market funds hold virtually no securities issued in Italy, Spain, or the other eurozone "periphery" countries.

Funds' exposure to French-domiciled banks continued to fall sharply in November. Prime money market funds reduced their holdings of French issuers to 4.1 percent of their assets under management in November, down from 7.3 percent in October and the peak level of 15.7 percent in May. As the chart shows, holdings of non-French eurozone issuers remained roughly steady at 10.1 percent in November. Altogether, securities of eurozone issuers accounted for 14.2 percent of total assets of U.S. prime money market funds at the end of November, down from 17.4 percent in October and 31.1 percent in May.

Dollar Estimates of U.S. Money Market Funds' Exposure

An overall decline in prime money market fund assets since May accounts for some of the shift away from the eurozone. From May to November, prime fund assets declined by $214 billion. During that period, prime funds' holdings of French assets fell by an estimated $200 billion, while other eurozone assets declined by an estimated $109 billion. At the same time, money market funds have increased their holdings of European issuers outside the eurozone. In November, the top three European countries for U.S. prime money market funds' holdings were the UK, Sweden, and Switzerland, none of which use the euro as their currency.

Some commentators have suggested that U.S. money market funds' exposure to Europe totals almost $1 trillion. This calculation is based on a number of misconceptions:

- First, the only way to reach an estimate of $1 trillion is to apply estimates based on prime money market funds' European exposure to the total assets for all money market funds. Commentators cite Fitch Ratings Service, which on November 22 estimated that European bank securities comprised 34.9 percent of the assets of the 10 large money market funds in its sample at the end of October. But, as Fitch clearly states, the funds in its sample are all prime funds—and prime funds account for only $1.45 trillion, or just over half, of total money market fund assets. To approach a $1 trillion estimate, Fitch's percentage estimate must be applied to the $2.68 trillion assets of all money market funds, including Treasury funds, U.S. government agency funds, and tax-exempt funds—all of which have far less exposure to European securities than prime funds.
- Treasury and government agency money market funds do hold some securities issued by European-domiciled issuers—primarily European-headquartered banks with U.S. operations. We estimate the total exposure of money market funds (including prime and government and agency funds) to European-domiciled issuers to be less than $800 billion in November.
- However, much of that exposure—some $355 billion—represents short-term repurchase agreements (repos) with European-headquartered banks. The vast majority of these repurchase agreements are collateralized by U.S. Treasury and agency securities that the European banks must pledge.
- Finally, much of the European exposure of prime and government money market funds is to issuers *outside* the eurozone, notably to banks in the UK, Sweden, Switzerland, and Norway. Market participants generally view European banks outside the eurozone as somewhat more insulated from the eurozone debt crisis.

Taking all these factors into account, we estimate that the total exposure of U.S. prime and government money market funds to eurozone issuers is $305 billion, of which almost half is in short-dated repurchase agreements.

Prime Money Market Funds' Holdings by Home Country of Issuer

	Percentage of total assets	
Country	**May 2011**	**November 2011**
World Total	**100%**	**100%**
Europe	**53.0**	**37.2**
Eurozone	*31.1*	*14.1*
France	15.7	4.1
Germany	7.1	5.1
Netherlands	5.8	4.4
Belgium	0.8	0.3
Austria	0.2	0.2
Spain	0.7	0.0
Luxembourg	0.1	0.0

Italy	0.7	0.0
Non-eurozone	*21.9*	*23.1*
UK	11.5	10.8
Switzerland	4.2	5.2
Sweden	4.1	5.5
Norway	1.3	1.3
Denmark	0.8	0.3
Americas	**35.0**	**45.9**
USA	27.3	35.1
Canada	7.7	10.8
Chile	0.0	0.0
Asia and Pacific	**11.3**	**16.2**
AUS/NZ	6.7	8.1
Japan	4.6	7.9
India	0.0	0.0
Singapore	0.0	0.1
Korea	0.0	0.0
Supranational	**0.1**	**0.1**
Unclassified	**0.7**	**0.7**

Note: Calculations are based on a sample of 95 funds, representing an estimated 87 to 95 percent of prime funds' assets for May and November, respectively.
Source: Investment Company Institute tabulation of data provided by Crane Data

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