

ICI VIEWPOINTS

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Prime Money Market Funds' Eurozone Holdings Remain Low

Securities of eurozone issuers accounted for 14.0 percent of assets of U.S. prime money market funds in January, up from 11.9 percent in December (chart). This increase was driven by a rise in French assets (up from 3.2 percent to 4.6 percent) and by a rise in asset holdings of other eurozone issuers (up from 8.7 percent to 9.4 percent).

U.S. 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

The European Central Bank's massive long-term refinancing operation on December 22 provided nearly 500 billion euros in three-year liquidity to the eurozone banking system. Market sentiment has improved since this policy action, leading some commentators to suggest that U.S. prime money market funds' increase in eurozone holdings in January reflects a renewed appetite for risk.

A closer look, however, undercuts that argument. In particular, the maturity of prime money market fund holdings of French issuers continued to fall in January. At the end of January, 85 percent of these French holdings matured in seven days or less, up from 78 percent at the end of December. These funds' French holdings are considerably more concentrated at the short end of the maturity scale than are their German or British securities. What's more, these funds' French holdings of securities with maturities beyond seven days were little changed in dollar terms, suggesting that prime money market funds remain cautious.

Prime MMFs Shortened Maturities of French Holdings

Percentage of assets by maturity, month-end

Days to Maturity	Country	Date	1 to 7	8 to 30	31 to 60	91+	France	Nov 11	72	14	12	1									
Dec 11	78	10	11	1	Jan 12	85	10	4	1	Germany	Nov 11	54	29	16	1	Dec 11	59	25	15	1	Jan

12 50 21 25 5 UK Nov 11 58 19 17 7 Dec 11 48 32 16 5 Jan 12 49 30 18 3

With this in mind, the small increase in [prime money market funds' holdings](#) of eurozone issuers should not be viewed as an increase in willingness to take on risk. Instead, the increase probably has more to do with typical year-end effects in December's holdings data.

In [October](#) and [December](#), we discussed how portfolio managers of U.S. prime money market funds have addressed the ongoing debt crisis in the eurozone. As the chart above of U.S. prime money market funds' holdings of eurozone issuers from November 2010 to January 2012 shows, January's increase in eurozone securities to 14.0 percent marked a return to the November level (14.2 percent).

A December drop in eurozone holdings may well be typical and one month's data certainly does not make a trend. While we do not have a long history of prime money market funds' monthly holdings to judge seasonal effects, we do have holdings data going back to November 2010. U.S. prime money market funds' eurozone holdings fell by 2.6 percentage points in December 2010, well before the eurozone debt crisis widened in the second half of 2011—similar to the 2.3 percentage point decline from November to December 2011.

As a result, we would be extremely careful in calling a turning point in prime money market funds' willingness to hold eurozone issuers based solely on January's holdings data. What's probably more significant is that prime money market funds' eurozone holdings remain low and short-dated as fund managers continue to act prudently in the face of the ongoing debt crisis.

Country	Billions of dollars	Percentage of assets	World Total	\$1,368.5	100%	Europe	502.8
36.8 Eurozone	191.2	14.0	France	63.6	4.6	Germany	61.6
4.5 Netherlands	60.1	4.4	Belgium	2.1	0.2	Austria	2.5
0.2 Spain	1.2	0.1	Luxembourg	0.0	0.0	Italy	0.1
0.0 Non-eurozone	311.6	22.8	UK	137.1	10.0	Switzerland	82.1
6.0 Sweden	73.6	5.4	Norway	15.2	1.1	Denmark	3.6
0.3 Americas	627.3	45.8	USA	486.7	35.6	Canada	140.1
10.2 Chile	0.3	0.0	Asia and Pacific	234.7	17.1	AUS/NZ	120.2
8.8 Japan	111.9	8.2	India	0.6	0.0	Singapore	1.8
0.1 China	0.2	0.0	Korea	0.0	0.0	Supranational	1.0
0.1 Unclassified	2.7	0.2					

Note: Calculations are based on a sample of 104 funds, representing an estimated 94.9 percent of prime funds' assets.

Source: Investment Company Institute tabulation of data provided by Crane Data

For more on money market funds, please visit ICI's [Money Market Funds Resource Center](#).