Euromoney market

[Finance](#)

Euro Money Market College: Introduction Euro money market is the money market that includes all countries of the European Union. Majority of these countries use the euro as their currency. All tariffs between these member states were abolished to liberalize the region and allow free trade and centralization of European Central Bank's (ECB) monetary policy. However, for non-member states, import duties were instituted to limit their influence on the market. The Euro money market is considered as one of the major sources of finance for international transactions through the Eurocurrency or money market.

Eurodollars refers to the U. S. dollars deposited in banks outside the United States or these are dollars deposited in European banks (Globalization Financial Markets, n. d.). The major sources of the Eurodollars include foreign governments, dollar reserves, oil exporting countries, multinational corporations and business executives with excess cash balance deposits outside the U. S. The users of Eurodollars include commercial banks and governments. Globalization Financial Markets n. d. states that, " many commercial banks have been have been relying mostly on the Eurodollars to make loans to the exporters and importers and domestic companies."

Eurodollars instruments can be categorized into two: Eurodollar deposits, which can be negotiable certificates of deposits with floating interest rates and specified maturity time and time deposits, which have a maturity time of less than a year or Eurodollar loans, which range from $500, 000-$100 million. The later also forms the major source of finance of Eurodollars among all other sources of finance. Globalization Financial Markets n. d. states, " The expansion of Euro dollars is enabled by; private and public depositors keeping their money outside the United States banks and private and public borrowers who take the Euro dollar loans.”

London Interbank Offered Rate (LIBOR) is one of the world’s widely used benchmark for setting short-term interest rates set by sixteen international member banks. The rates were introduced into the financial markets in the year 1986 after two years of conducting test runs. Today, LIBOR rates published by BBA daily places a rough estimate of about $360 trillion rates of financial instruments globally. LIBOR is important, applauded by many participants of the financial markets because it is inclusive, and considers even the less preferred borrowers of money. Either LIBOR has ability to dilute Fed rate cut effects.

The Euro commercial paper is short-term unsecured loan issued by a corporation or bank in the international financial market in a currency different from its domestic currency. Euro commercial papers enable multinational corporations and banks raise funds quickly without Security Exchanges Commissions (SEC) and expensive securities. Because of this advantages Euro commercial paper, it has become one of the most preferred debt instrument in international trade. Current trends indicate that Euro commercial paper is growing steadily among other financial instruments.

Conclusion

Barchart (n. d.) states that, “ banks with higher foreign assets enjoy higher market power at home; holding assets in many foreign countries reduces bank risk, suggesting that the benefits derived from monitoring a large portfolio outweigh the costs in terms of diversification; higher market power is associated with lower risk; the effects of internationalization are heterogeneous across banks.” Therefore, it is evident from this propositions that the benefits associated with internationalization of are much higher than the costs involved.

References

Barchart, (n. d.). Commercial Paper Interest Rates. [Online], Available: http://www. barchart. com/economy/commercialpaper. php [Accessed: 04 Feb 2014].

Global Corporate Finance, (n. d.). International Financial Markets (ch. 9). [Online], Available: http://www. worldscibooks. com/etextbook/8052/8052_chap09. pdf [Accessed: 04 Feb 2014].