Centrally cleared repo market brief

Repo markets were primarily range-bound as cash continues to sit in the front-end due to continued uncertainty on the Fed rate cut timeline.

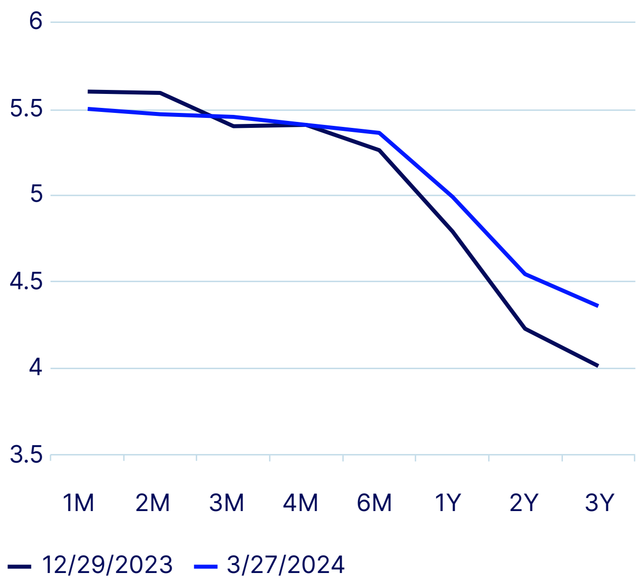
On a quarter-over-quarter basis, the Treasury yield curve flattened slightly on rising long-term yields but remained inverted – suggesting a persisting front-end focus **(Figure 1).**

Mounting uncertainty around the Fed's timeline for cuts this year has kept investors biased toward the short-term.

MMFs saw inflows of $160B and overall holdings hit a high of over $6T **(Figure 2).**

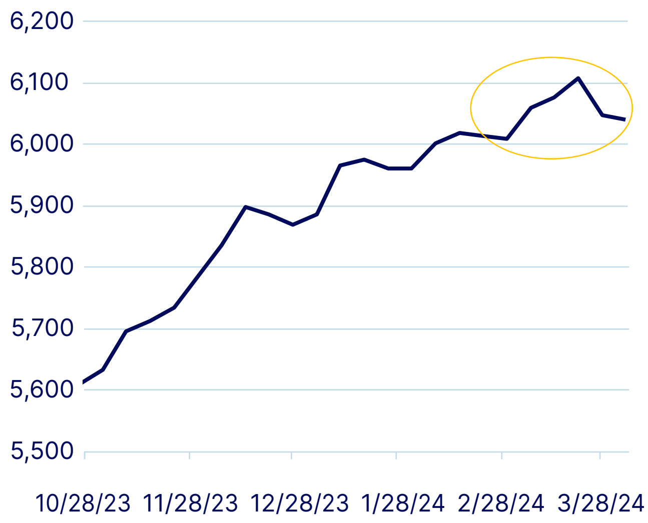
While MMFs are still gradually shifting out of repo and into outright Treasury buys, the pace cooled this quarter. Outright Treasury holdings by MMFs increased 13% QoQ, down from the 27% increase in Q4 of last year. Roughly $2.4T in MMF cash still lingers in repo, down from the >$3T peak seen at the middle of last year but still high at almost 40% of overall MMF holdings. The result is a front-end sitting in relative stasis as market participants await conviction on the true timeline of a Fed shift this year.

Figure 1: Yield curve (%)



Source: US Treasury

Figure 2: MMF balances ($B)



Source: Bloomberg

Heavy front-end cash compressed rates slowed the trend of volumes draining out of the Fed's RRP facility.

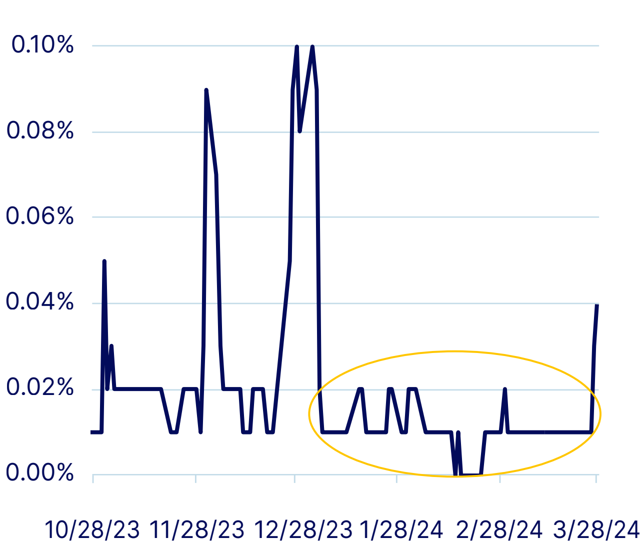
Cash sitting in the front-end softened rates for most of the quarter, driving a range-bound repo market with limited rate volatility. Even >$350B in net new bill issuances did little to meaningfully affect the rate dynamic. The SOFR-RRP spread hovered around 1-2 bps and saw little upward pressure until quarter-end – in stark contrast to the rampant volatility of Q4'23 when spreads spiked into the 8-10 bps range **(Figure 3).**

With repo rates sitting at the RRP level, growth in the FICC Sponsored repo market leveled out to begin the quarter. Average FICC cash balances sat around $580B in January and February, in line with levels seen in December of '24.

The Fed's RRP facility continues to see outflows (down 44% on average QoQ); however, balances have leveled out in the $400-500B range given the compressed rate environment **(Figure 4).**

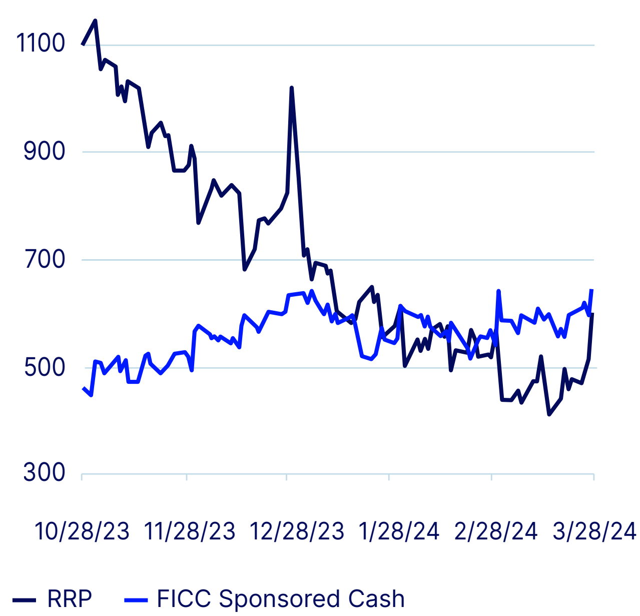
Despite a soft beginning to the quarter, volatility around quarter-end drove rising averages balances in March (up 33% from February). At the time of this writing, FICC cash balances have spiked to $634B in early April on the back of a hotter than expected March CPI print. Evidently, softer rates have not kept market participants out of the FICC Sponsored market – in fact, the market has continued to grow as uncertainty on Fed timeline drives incremental cash to the front-end.

Figure 3: SOFR – RRP spread (%)



Source: Bloomberg

Figure 4: Fed RRP vs FICC Sponsored Cash ($B)



Source: DTCC, Federal Reserve

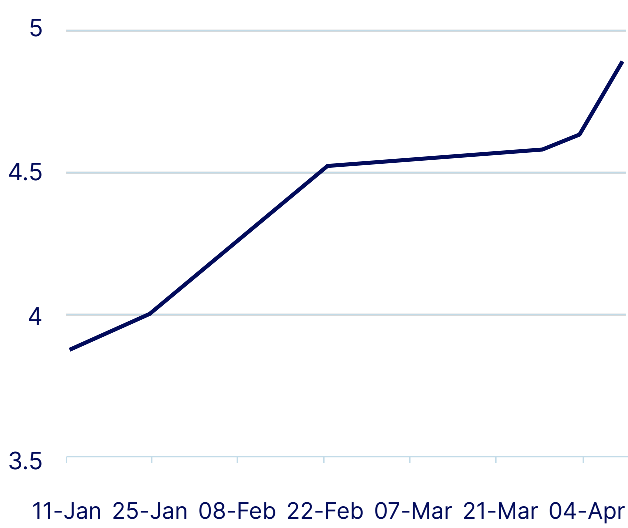
Market sentiment skewed hawkish this quarter as inflation remains above the Fed's target range and the timeline for cuts continues to be pushed out.

The market started the year significantly more dovish than the Fed, pricing in six total cuts for '24 compared to the three cuts signaled by the Fed at the December FOMC meeting. As the quarter progressed, hot economic data and hawkish Fed sentiment drove market uncertainty on expected Fed activity for the year.

The market implied year-end rate rose from just under 4% in early January to almost 5% in early April, suggesting the evaporation of market expectations for four total '24 cuts over the course of the quarter.

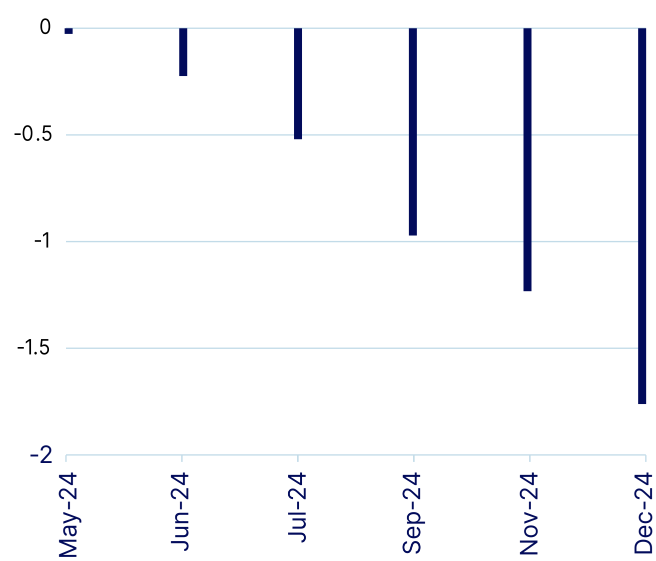
At the time of this writing, March CPI printed above expectations and further pushed out market expectations of a first cut to late Q3 **(Figure 6)**.

Figure 5: YE'24 Market implied rate (%)



Source: Bloomberg

Figure 6: Number of cuts priced in market – 4/10/24



Source: Bloomberg

Looking ahead, the market will continue to keep an eye on economic data to calibrate views on the Fed's timeline for long-anticipated easing. Continued market uncertainty may keep heavy cash in the front-end and suppress volatility in repo markets (similar to Q1'24), even as new issuances and QT continue. That being said, transition into an easing regime more quickly than expected could pull cash out of overnight markets and drive pressure on repo. Bill paydowns ($128B expected in April) will add cash to the market, although the usual outflow of cash around tax season could offset this impact.

Ultimately, the supply-demand dynamic in repo markets will hinge upon upcoming economic data over the next quarter. Amidst this backdrop, the final rulebook proposal for the upcoming SEC Clearing mandate (effective for repo in mid-2026) was released in March.

As market participants continue to assess implications of the final proposal and move into compliance, activity in cleared repo is expected to grow.

$128B

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State Street Corporation
One Congress Street, Boston, MA 02114-2016

www.statestreet.com

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Expiration date: 12/31/2024