

Global Money Dispatch

We're having a plumbing *déjà vu* moment.

During September 2019, we [argued](#) that the system was running out of reserves – too much Treasury collateral was entering the system and we needed a fixed-price, full allotment o/n repo facility to absorb all the excess collateral. Banks' binding constraint was intraday liquidity, which constrained their ability to lend into the o/n repo market. When their lending stopped, repo popped...

Today, the banking system is running out of balance sheet, and money funds are running out of collateral. Soon there will be too much cash in the system; TGA balances will decline from \$1.6 trillion to \$500 billion by the end of June.

This roughly \$1 trillion decline will occur either through waves of fiscal spending, which will expand deposits and reserves at large banks (see the map overleaf), or, if spending is too slow to meet the \$500 billion target, through bill paydowns (see the eight scenarios we've mapped out [here](#) and [here](#)). Coupon issuance will be \$1.4 trillion over the first half, and depending on whether the spending or paydowns scenario dominates, coupons will be bought mostly by banks, or shadow banks according to the steps that we mapped out in detail [yesterday](#).

Whether the spending or paydown scenario will dominate, we don't know, neither do we know the timing. But through our [bottom-up work](#), we know this:

Banks don't have the balance sheet at the bank operating subsidiary level to add \$1 trillion of deposits, reserves, and Treasuries: J.P. Morgan can't grow more due to G-SIB constraints; Citibank flat-lined its balance sheet growth already; Bank of America has the capacity to add only \$150 billion of deposits and HQLA; and Wells Fargo's \$500 billion capacity is constrained by its asset growth ban.

Unless we get SLR relief at the [bank opco. level](#), or Wells Fargo's ban is [lifted](#), banks will have to turn away wealthy households' and institutions' deposits, which will then go to money funds. But money funds will face a constraint too: the marginal asset they will direct inflows into – the o/n RRP facility – is capped; each money fund can place only \$30 billion into the facility, which is too little.

Banks' balance sheet constraint becomes a collateral constraint for money funds, and collateral constraints may surface in both the spending and paydown scenarios. Collateral supply from coupon issuance will absorb this cash [over time](#) (see [here](#)), but money markets react to what happens [now](#), and with \$1 trillion of new cash, there may be many pockets of collateral scarcity as these flows play out in real time.

The Fed can hike the o/n RRP rate to 100 bps, but unless it uncaps the facility, bills and repo can still go negative. Next, we'll discuss implications for FRA-OIS.

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Treasury Spends TGA Balances on Stimulus, Money Market Investors Don't Lose Bills

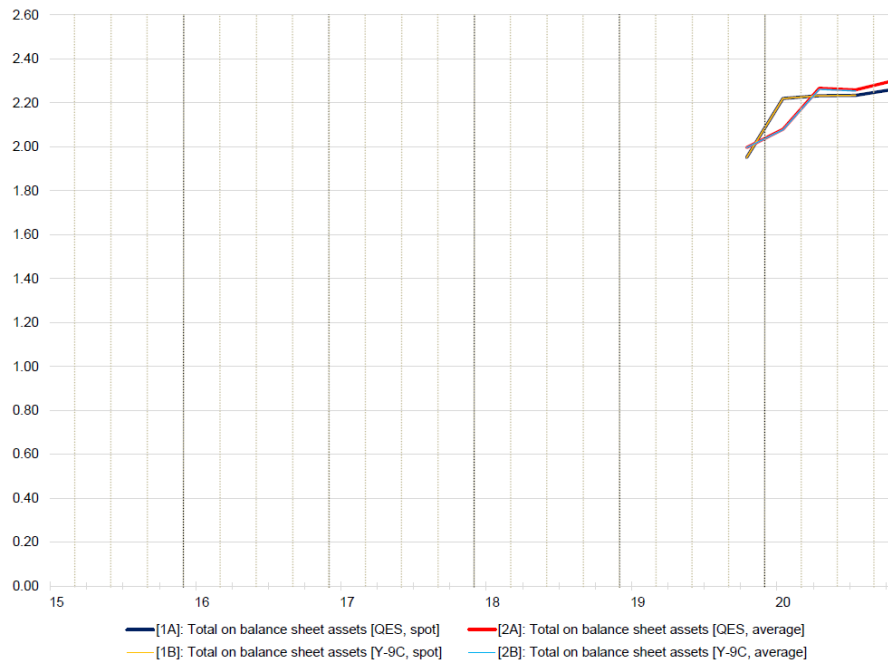
	Federal Reserve (FRBNY)	Federal Government (U.S. Treasury)	Bank (J.P. Morgan)	Foreign Central Bank (SAFE or SAMAs)	Money Fund (w/ access to o/n RRP)	Money Fund (w/ no access to o/n RRP)
7:00 AM	TGA	TGA	Bills	Bills	Bills	Bills
9:00 AM	TGA ↓ [1B] Reserves ↑ [1C]	[1A] ↓ TGA	[1D] ↑ Reserves			[1E] ↑ Deposits
6:00 PM	Reserves	Bills				
Intraday:						
End-of-day net:	TGA ↓ Reserves ↑ liability swap	↓ TGA	↑ Reserves			↑ Deposits the balance sheet increased on both sides

*the closing transaction to this loop, transaction [1F], is a household getting a deposit (not shown)

Source: Credit Suisse

[Quarterly]: Citigroup Inc. Has Flat-Lined Its Balance Sheet Already

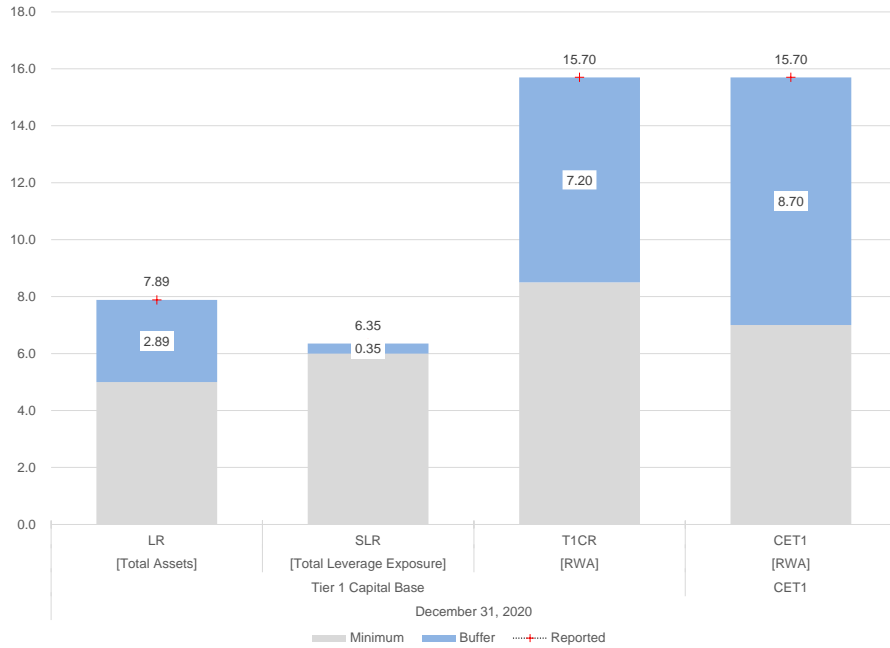
\$ trillion, data as of the fourth quarter of 2020



Source: Quarterly earnings supplements, Y-9C, Credit Suisse

[Quarterly]: J.P. Morgan Chase Bank N.A.'s Ratios

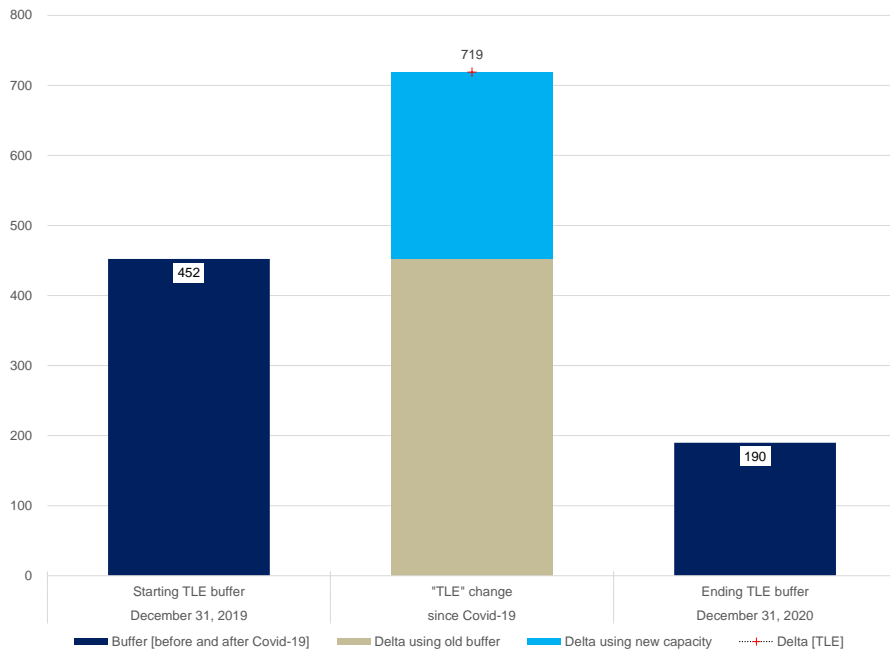
percent, data as of the fourth quarter of 2020



Source: FFIEC 031, Credit Suisse

[Quarterly]: J.P. Morgan Chase Bank N.A.'s TLE Capacity Before Considering G-SIB Scores

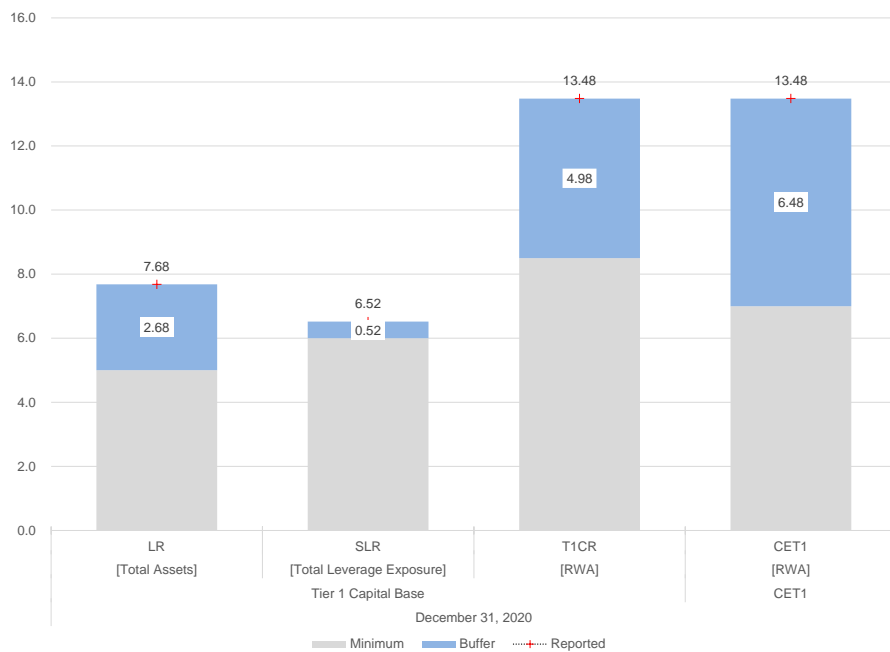
\$ billion, data as of the fourth quarter of 2020



Source: FFIEC 031, Credit Suisse

[Quarterly]: Bank of America N.A.'s Ratios

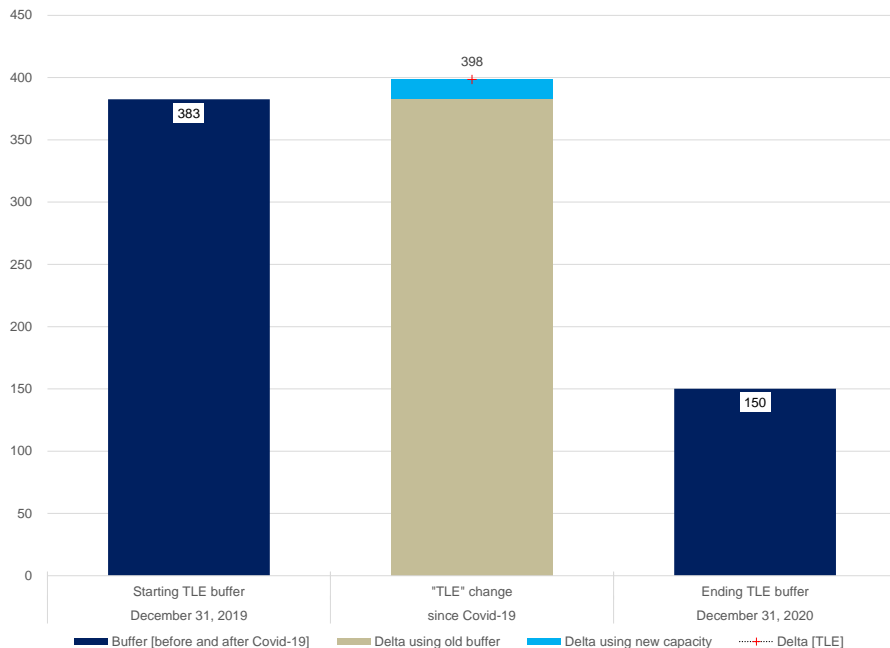
percent, data as of the fourth quarter of 2020



Source: FFIEC 031, Credit Suisse

[Quarterly]: Bank of America N.A.'s TLE Capacity

\$ billion, data as of the fourth quarter of 2020



Source: FFIEC 031, Credit Suisse

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