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# Global Money Dispatch


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In yesterday's Dispatch, we described how J.P. Morgan Chase & Co. adapted its role as lender of next-to-last resort during the first quarter, when sentiment turned bearish in the bond market: after years of lending reserves to harvest air pockets in the GC repo and FX swap markets, it lent collateral to harvest air pockets in the specials repo market. J.P. Morgan is uniquely positioned to serve both as a cash lender and a collateral lender, as relative to other G-SIBs, it has the most reserves at the Fed and it also has the largest Treasury portfolio. Furthermore, J.P. Morgan's Treasury holdings are spread along the entire curve, while other banks hold only specific bits of the curve (see the last chart here) – this means that J.P. Morgan can harvest specialness across the curve, while other banks can harvest specialness only in specific sectors. In general, the more sectors you own, the more collateral you can lend to harvest the sentiment of a bear market in bonds, which is the reason why J.P. Morgan's repo liabilities rose by $75 billion and $50 billion on a spot and average basis during the first quarter, respectively, while other banks' repos rose much less.

Banks are uniquely positioned to lend collateral to harvest bear market sentiment: real money holders of bonds – bond funds and foreign central banks – aren't incentivized to lend their holdings to short sellers, given that would fan the sell-off and hurt their positions; however, banks tend to buy Treasuries on asset swap and so are agnostic about the market's direction – they are in bonds just for a spread. That spread can go both ways: a spread over IOR as an owner of bonds, and a spread below IOR as a lender of bonds. For J.P. Morgan, the lending spread was 20 to 30 bps below IOR during the first quarter, which is much better than taking deposits at zero and parking reserves at IOR for a spread of only 10 bps – lending bonds in the specials market is like taking deposits at negative rates, but a bank needs to own lots of on-the-run Treasuries to be able to do that...

So here is the first of four market implications of all this: if we go from a regime where the marginal trade was to buy bonds and fund them via FX swaps or repo, to a regime where the marginal trade is to short bonds and source them by flooding the repo market with cash ("turning GC into specials"), then bank CIOs go from being marginal lenders of reserves and borrowers of GC or € or ¥, to being marginal lenders of U.S. Treasury collateral and borrowers of reserves. Sentiment between bond bulls and bears will shift, and those shifts will dictate whether reserves or collateral are trading special. J.P. Morgan's bank portfolio is dominated by reserves, so it's more positioned to backstop a bond bull regime than a bear regime. J.P. Morgan might decide to trade reserves for Treasuries, which would support U.S. rates and auctions, until the next shift in sentiment...


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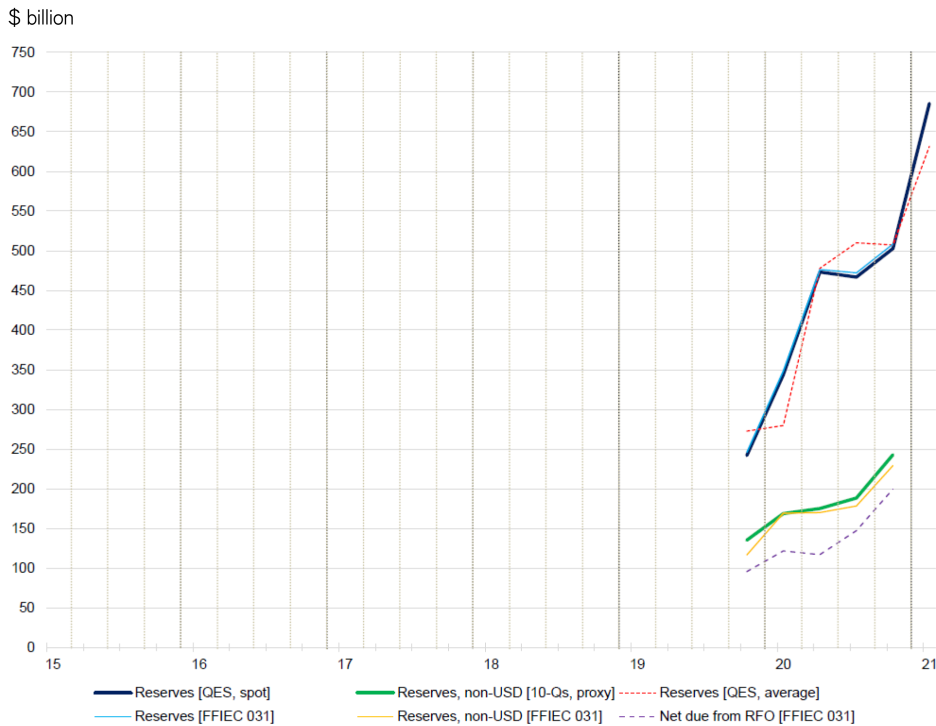
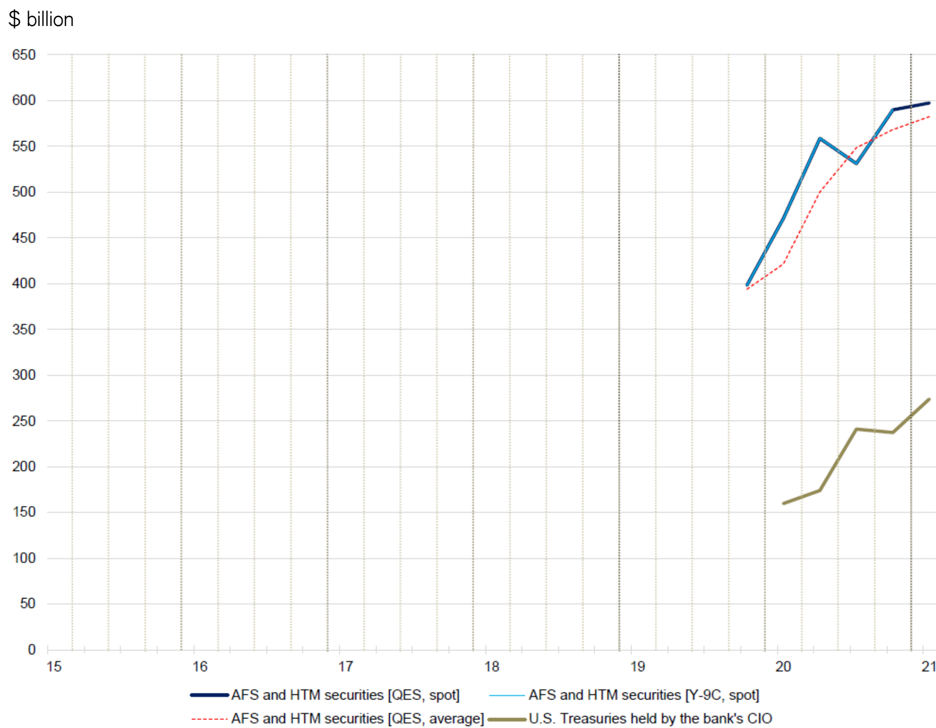
## [Quarterly]: Does J.P. Morgan Own Too Many Reserves…




Source: Quarterly earnings supplements, FFIEC 031, 10-Qs, Credit Suisse

## [Quarterly]: …and Not Enough U.S. Treasuries?




Source: Quarterly earnings supplements, Credit Suisse

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