

Global Money Dispatch

Since the Fed raised the o/n RRP rate by 5 bps, the use of the o/n RRP facility has increased by \$320 billion. Half of this came from a drop in pre-existing reserves, \$80 billion came from the GSEs shifting cash from their unremunerated accounts, \$40 billion from reserves freshly minted via QE since the rate adjustment, and the remaining \$30 billion came from a drop in the Treasury's general account.

Foreign central banks moved cash from their unremunerated deposit accounts to the o/n foreign repo pool too (second chart), which suggests that the Fed adjusted the rate on the foreign repo pool as well, presumably to 5 basis points, such that the interest rates on the two reverse repo (RRP) facilities are aligned.

So money is on the move (see [here](#)), and the generously re-priced RRP facilities will reduce money funds' and foreign central banks' interest in Treasury bills. Others – with hoards of non-operating deposits at banks – will have to buy bills instead. The net impact of this will be banks losing deposits and reserves ("[sterilization](#)"), which is what happens when rates on collateral-providing facilities are set above rates that are available in the bill market. We saw this before when the foreign repo pool was priced too [generously](#) relative to bills in 2019.

How will money funds' and central banks' reduced interest in bills play out?

Not through sales. The 5 bps hike to the o/n RRP rate came as a surprise, so the bill curve shifted higher a bit more than anticipated. Bills are thus "underwater" – which means they can only be sold at a loss – so money funds won't be selling them now to re-invest the proceeds in the RRP facility at a higher rate.

If the rotation from bills to RRP won't happen quickly, in real time, via sales, it will happen over time and so a bit slower as bills mature. But happen it will...

In turn, if the rotation happens through maturities as opposed to outright sales, we can figure out precisely how long it will take for the rotation to run its course, and the amounts that will be involved. In other words, we can confidently gauge how high the use of the o/n RRP could get and, on the flipside, the amount of reserves the banking system would lose to a generously re-priced RRP facility, and whether these flows would be large enough to disrupt rates market dynamics.

We will explore this topic in a series of Dispatches this week.

Looking at the weighted average maturity of government money fund holdings, the rotation will fully run its course by the end of August, so we are looking at a summer where a trillion of reserves will move from banks to the RRP facility, and where a trillion of deposits will move from deposits to bills. Ongoing QE and a decline in TGA balances due to the debt ceiling will offset some of these drains, but it's worth exploring whether the net flows will risk a change in the behavior of the [lender of next-to-last resort](#) and the [buyer of next-to-last resort](#) this summer...

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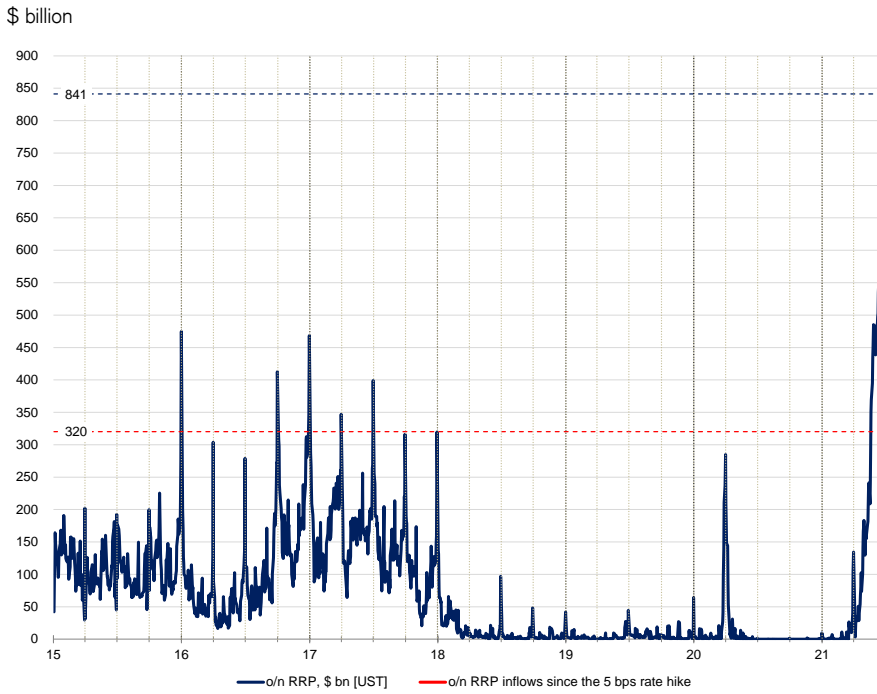
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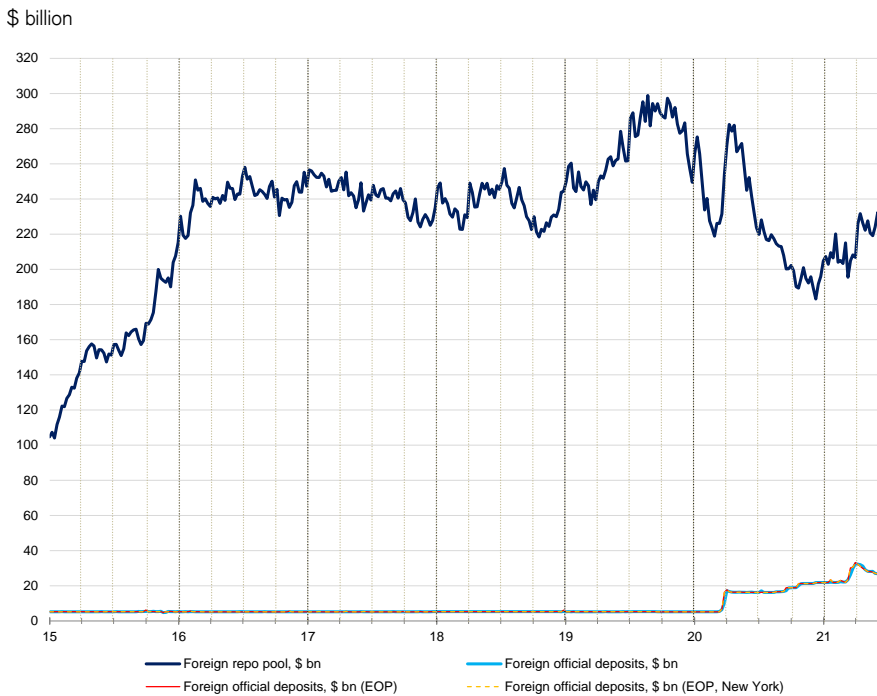
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[Daily]: The Use of the o/n RRP Facility



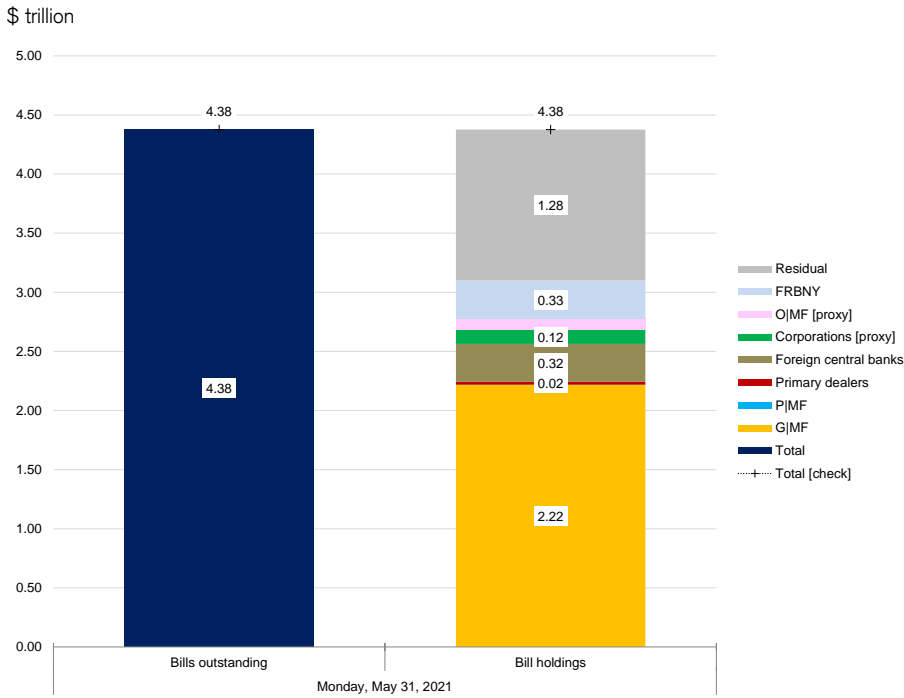
Source: FRBNY, Credit Suisse

[Weekly]: Foreign Central Banks Shifted Funds to the Foreign Repo Pool



Source: Federal Reserve, Credit Suisse

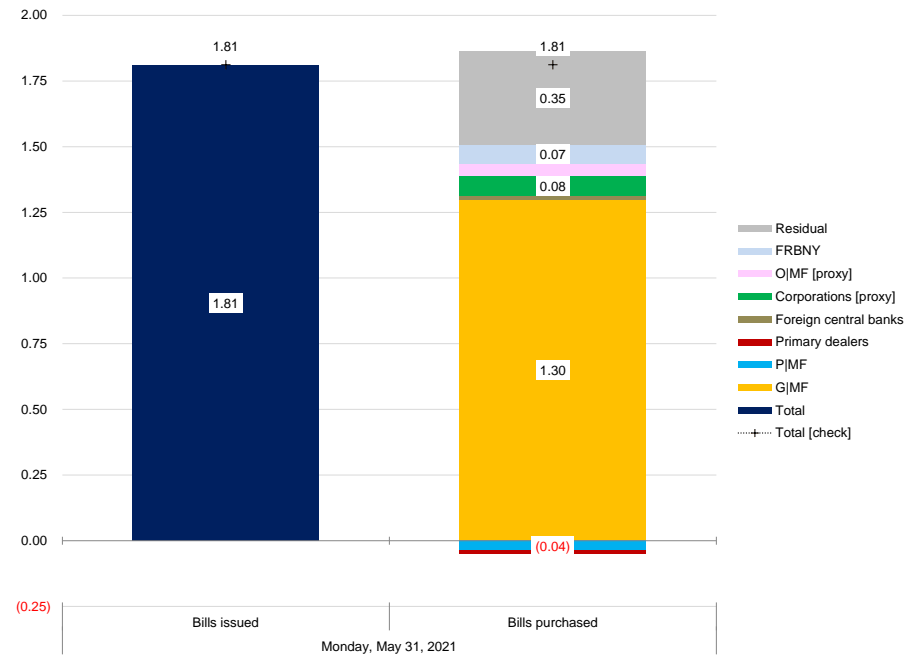
[Monthly]: Government Money Funds Dominate Demand for Bills (1)



Source: U.S. Treasury, Federal Reserve, ICI, Credit Suisse

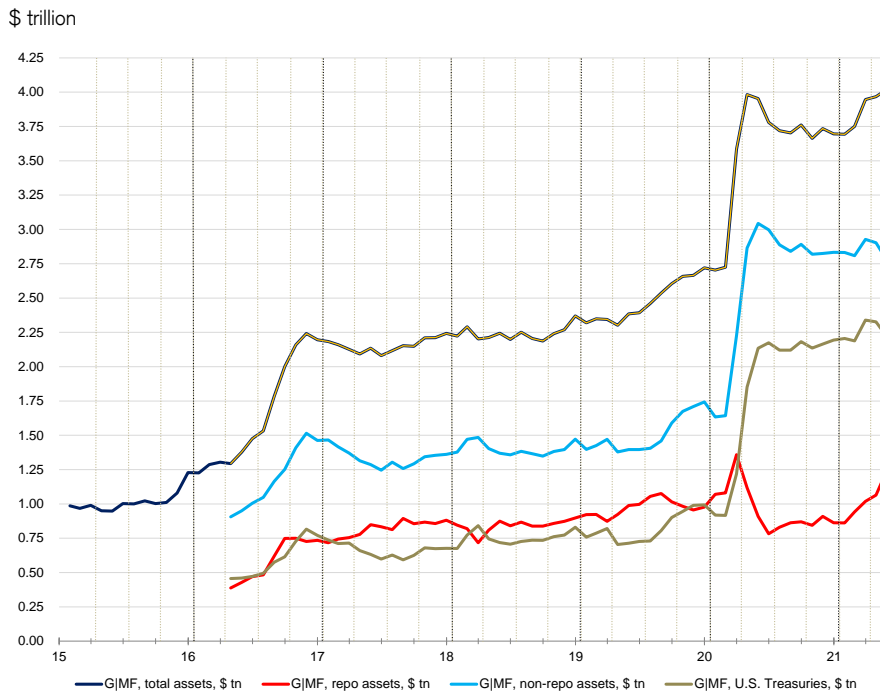
[Monthly]: Government Money Funds Dominate Demand for Bills (2)

\$ trillion, change since February 2019, i.e. since the beginning of the Covid-19 pandemic



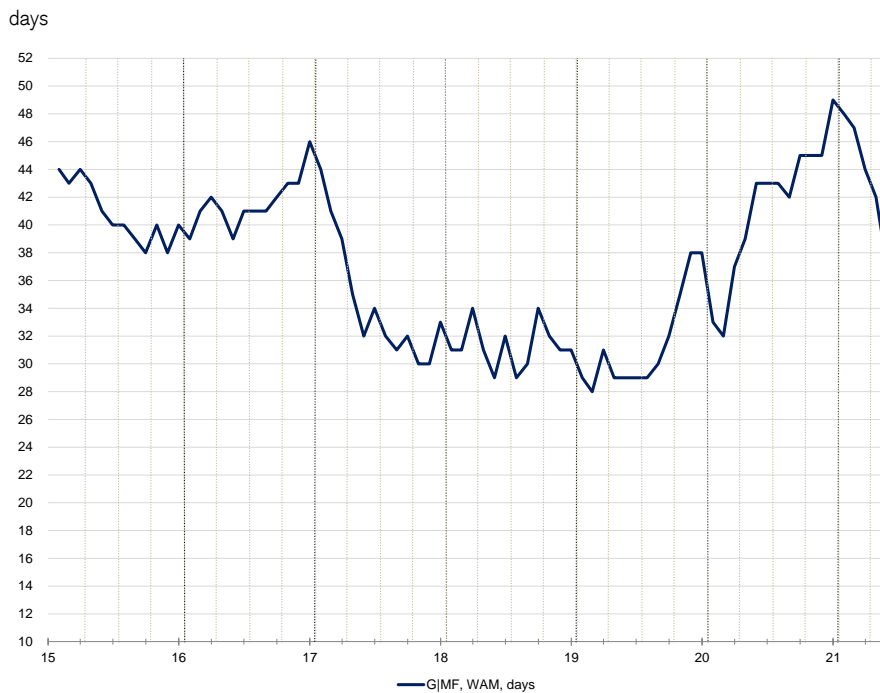
Source: U.S. Treasury, Federal Reserve, ICI, Credit Suisse

[Monthly]: Government Money Funds' Repo and Treasury Bill Holdings



Source: ICI, Credit Suisse

[Monthly]: The WAM of Government Money Funds' Holdings



Source: ICI, Credit Suisse

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