

Global Money Dispatch

There are two ways a generously re-priced RRP facility can sterilize reserves: money funds increase their net yields (by passing on the “gift” from the Fed), and pull money away from banks and into the RRP facility, or money funds rotate out of Treasury bills as bills mature (see [here](#)) and into the RRP facility, in which case someone with a bank deposit will have to buy bills instead. Both examples lead to a decline in reserves and an increase in o/n RRP usage (“sterilization”), but the former is accompanied by a higher AuM at money funds and the latter isn’t – the latter shows up only as a rotation from bills to RRP.

Which of these two flows will dominate in coming weeks? We think the latter – money funds don’t seem to be passing on the spoils of the re-priced facility (net money fund yields are practically zero still), so if money moves from banks, it will chase higher bill yields, not higher money fund yields. The map on page 7 shows how reserves will get sterilized through the rotation from bills to RRP.

The next step from here is to figure out how much “space” money funds have to rotate out of bills into RRP. To answer this, we start with data on money fund holdings as of May 31st, which show the use of the RRP facility by individual money funds. Knowing their use, we know how far each fund is from the \$80 billion per counterparty cap, *i.e.* how much “space” they have to rotate out of bills into RRP (see charts on page 4). Next we compare the available “space” to the amount of bills each money fund holds, and choose the smaller of the two – remember that we are after the maximum RRP usage without any inflows.

The first chart on page six shows the results for the largest fund complexes – as of May 31st, the largest money funds had capacity to rotate out of \$1 trillion of bills and place that much more money in the o/n RRP facility – that’s a lot.

The second chart on page six shows that the bill holdings of these money funds will mature by August 31st – that’s a lot in a short period of time. Not included in these charts are second-tier money funds that hold \$350 billion in bills, some \$300 billion of which they have capacity to replace with o/n RRP. Thus, we’re looking at \$1.3 trillion of flows from bills into RRP by the end of August!

These estimates use data as of May 31st, but today is July 1st. Can we gauge how much rotation money funds achieved during June? The Fed’s o/n RRP data – ignoring yesterday’s [surge](#) in use, which was driven by quarter-end flows – tell us the use of the facility is up by about \$300 billion since the RRP rate hike, only half of which came from a decline in reserves and deposits – *i.e.* a rotation from bills to o/n RRP and from deposits to bills. There is a trillion more to go...

Next we’ll discuss how the debt ceiling and bill paydowns affect our story, and how the banks are positioned for surfing the “rotational” waves this summer...

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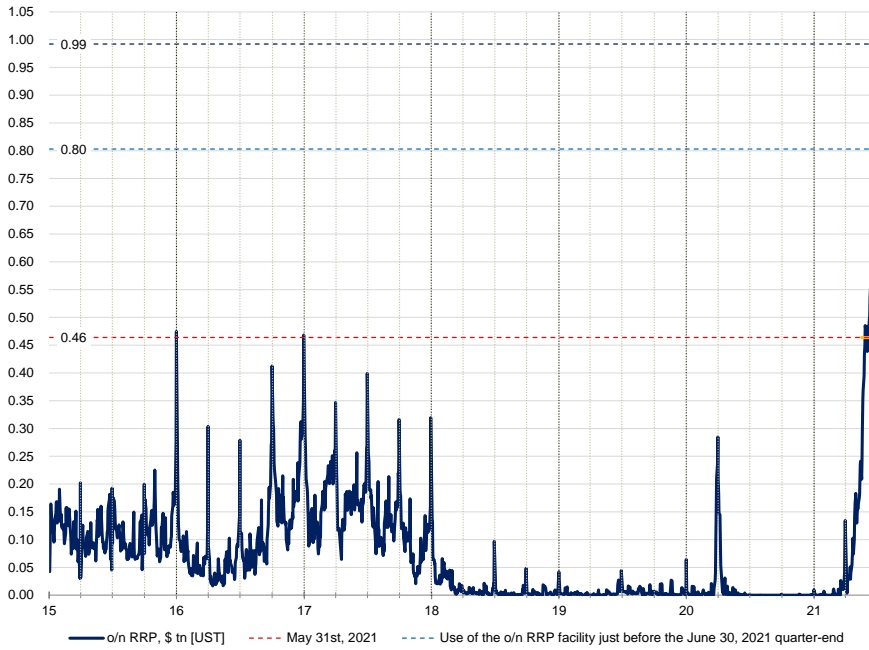
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[Daily]: The Use of the o/n RRP Facility

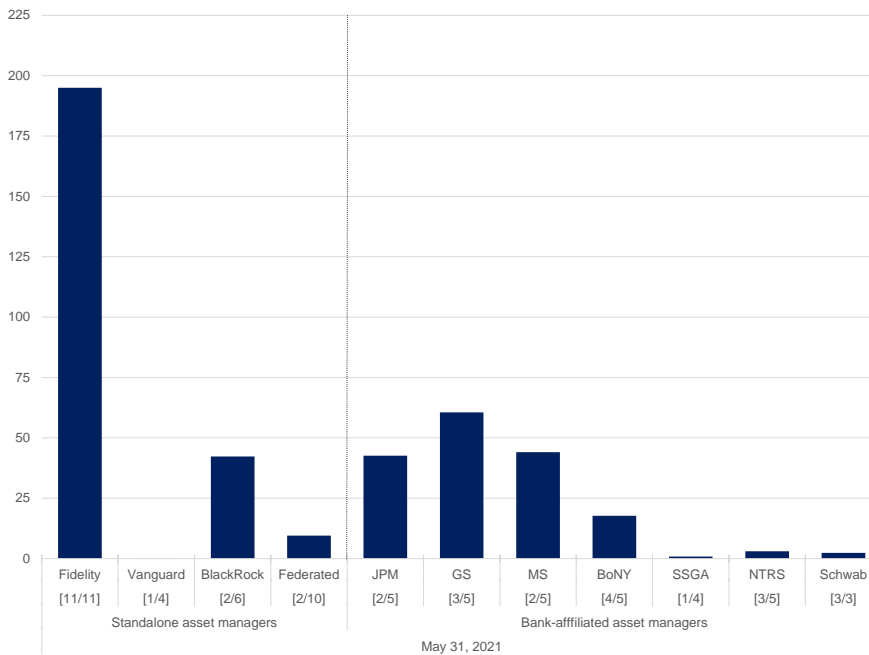
\$ trillion, red marker shows the use of the RRP facility as of May 31st, 2021



Source: FRBNY, Credit Suisse

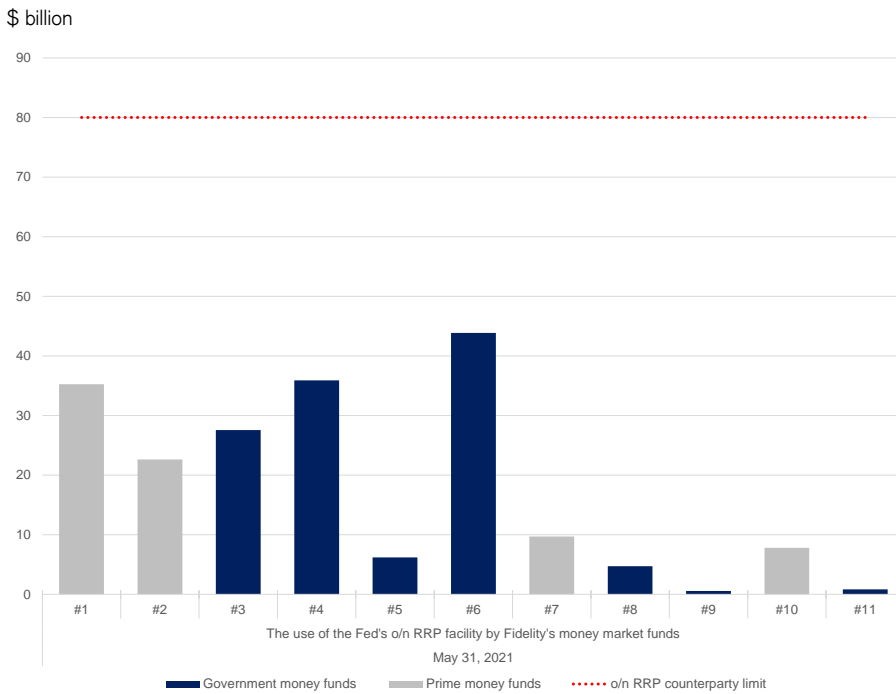
[Monthly]: The Largest Users of the o/n RRP Facility as of May 31st, 2021

\$ billion, numbers below the name of fund complexes show how many funds are using the RRP facility



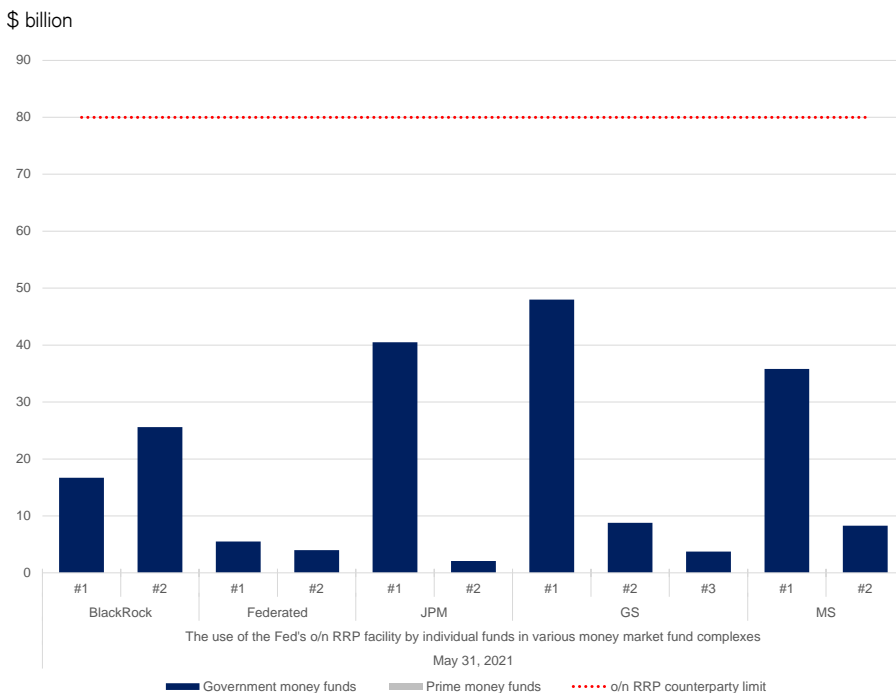
Source: OFR, Credit Suisse

[Monthly]: The Use of the o/n RRP Facility by Individual Money Funds at Fidelity Investments



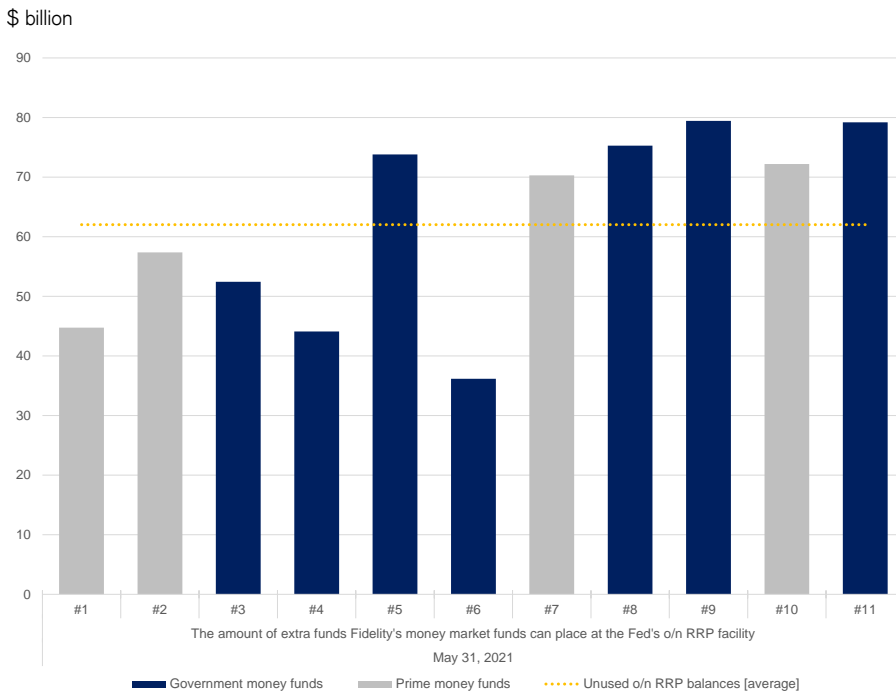
Source: OFR, Credit Suisse

[Monthly]: The Use of the o/n RRP Facility by Individual Money Funds at Other Managers



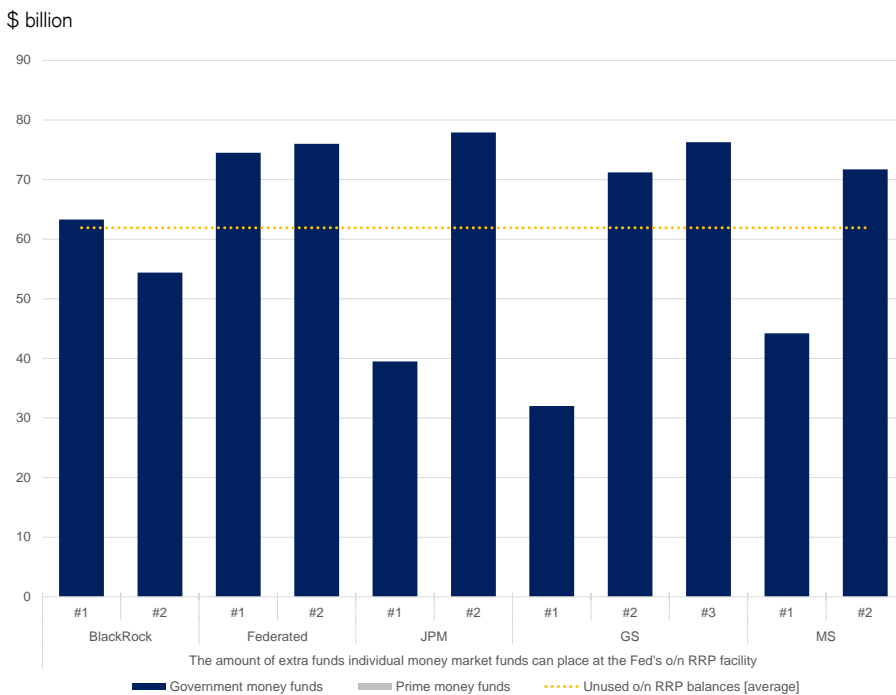
Source: OFR, Credit Suisse

[Monthly]: The Unused o/n RRP Capacity of the Fidelity Money Fund Complex



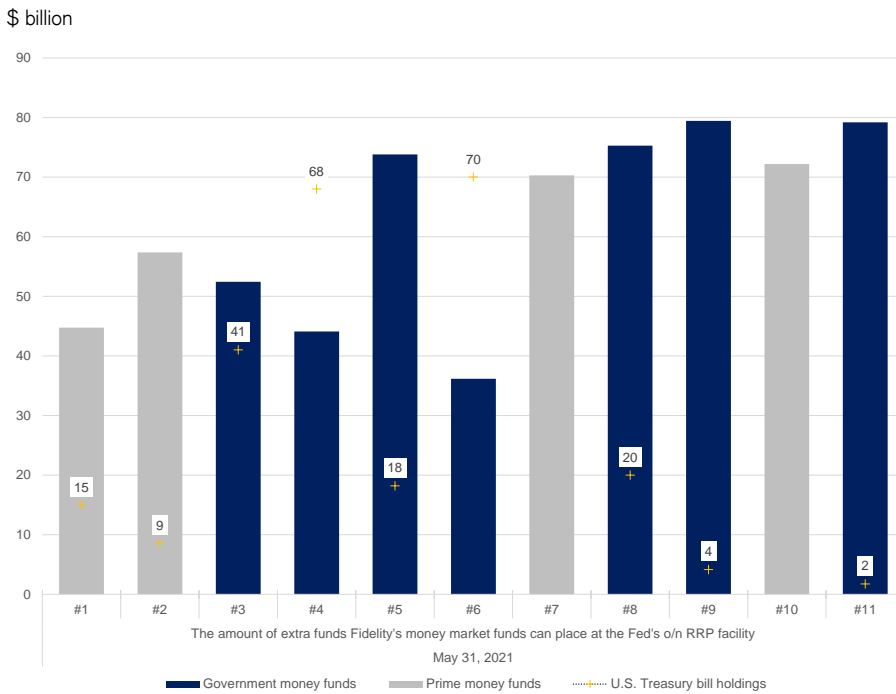
Source: OFR, Credit Suisse

[Monthly]: The Unused o/n RRP Capacity of Other Money Fund Complexes



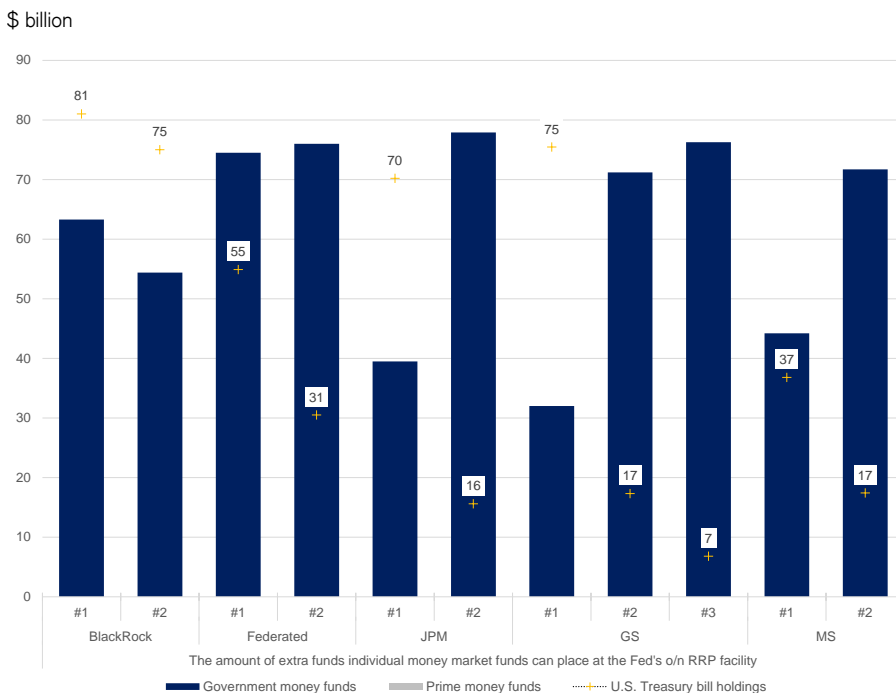
Source: OFR, Credit Suisse

[Monthly]: Unused o/n RRP Capacity vs. Treasury Bill Holdings at Fidelity Investments



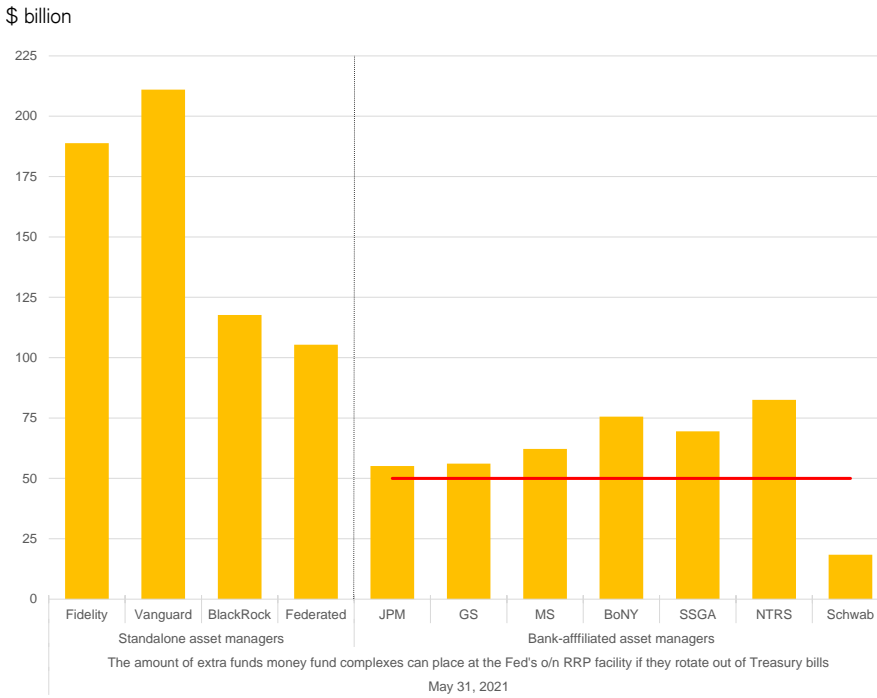
Source: OFR, Credit Suisse

[Monthly]: Unused o/n RRP Capacity vs. Treasury Bill Holdings at Other Managers



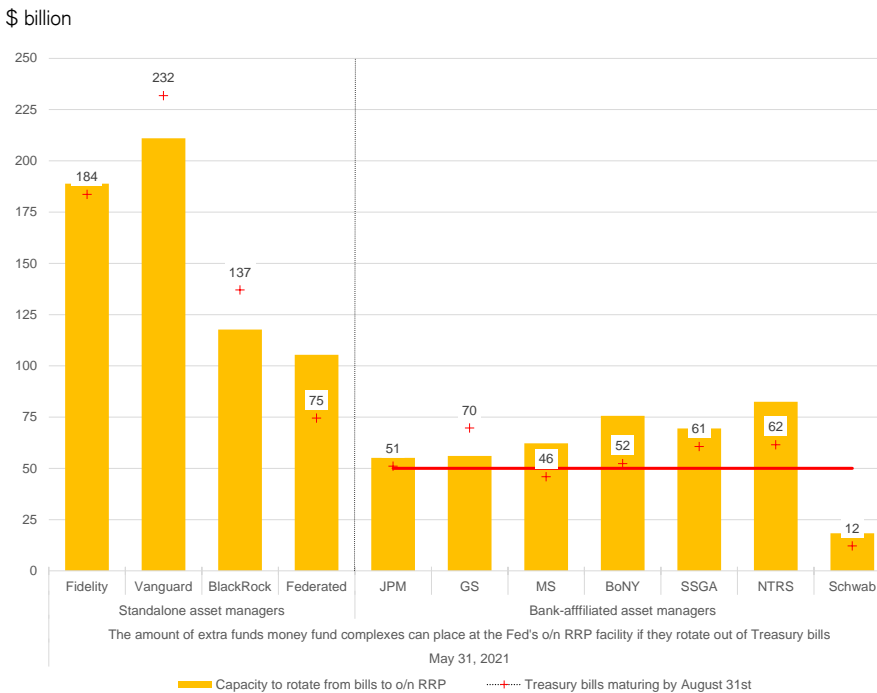
Source: OFR, Credit Suisse

[Monthly]: Capacity to Replace Treasury Bills with o/n RRP by Fund Complex



Source: OFR, Credit Suisse

[Monthly]: Capacity Relative to the Amount of Bills That Will Mature by August 31st



Source: OFR, Credit Suisse

How Government Money Funds' Rotation out of Bills into RRP's Will Sterilize Reserves

	Federal Reserve (FRBNY)	Federal Government (U.S. Treasury)	Clearing Bank (J.P. Morgan Chase Bank, N.A.)	Money Fund (w/ access to o/n RRP)	Institutional Investors (w/ non-operating deposits)
7:00 AM	[1]: [2]:	TGA Reserves	TGA Bills	Reserves Deposits	Deposits
Step 1	TGA ↓ [1B] Reserves ↑ [1C]	[1A] ↓ TGA	Bills ↓ [1H]	[1D] ↑ Reserves Deposits ↑ [1E]	[1G] ↓ Bills [1F] ↑ Deposits
Step 2	Reserves ↓ [2D] RRP ↑ [2E]			[2C] ↓ Reserves Deposits ↓ [2B]	[2A] ↓ Deposits [2F] ↑ RRP
Step 3	Reserves ↓ [3D] TGA ↑ [3E]	[3F] ↑ TGA	Bills ↑ [3G]	[3C] ↓ Reserves Deposits ↓ [3B]	[3A] ↓ Deposits [3H] ↑ Bills
6:00 PM	[1]: [2]:	TGA RRP	TGA Bills		RRP Bills
Intraday:	Reserves, TGA (↑/↓)	TGA (↑/↓)	Bills (↑/↓)	Reserves (↑/↓) Deposits (↑/↓)	Deposits (↑/↓)
End-of-day, net:	Reserves ↓ RRP ↑			↓ Reserves Deposits ↓	↓ Bills ↑ Deposits
	<i>liability swap</i>	<i>no end-of-day balance sheet change</i>	<i>the balance sheet shrunk on both sides</i>	<i>asset swap</i>	<i>asset swap</i>

Source: Credit Suisse

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