7 July 2021
Investment Solutions & Products
Global

Credit Suisse Economics

Global Money Dispatch

CONTRIBUTORS

Zoltan Pozsar
212 538 3779
zoltan.pozsar@credit-suisse.com

The quantity "guideposts" for the summer are as follows (see the first chart):

The use of the o/n RRP facility will get to at least $1.3 trillion by September as QE progresses at $120 billion per month and TGA balances fall to $450 billion due to the debt ceiling. Banks will "deflect" reserves from QE into the facility, while money funds will reinvest the proceeds from maturing bills into the facility. This means that the use of the RRP facility will get to levels where TGA balances were at the beginning of the year – close to $1.5 trillion – and so what we're looking at here is just a gigantic rotation in who will "warehouse" excess cash: Treasury will warehouse less in the TGA, and money funds more in the RRP facility.

No market themes so far. Congress provided collateral (bills), and the debt ceiling hath taken it away; praised be the RRP facility for giving collateral another way. Collateral traded around 5 bps last year, crashed to zero bps this spring, and is now back around 5 bps once again. The price "guideposts" for the summer are:

If bill yields settle below 5 bps – that is, below the rate on the RRP facility – money funds will source collateral through the facility, not at bill auctions, and bills will be bought by others by spending non-operating deposits (see here).

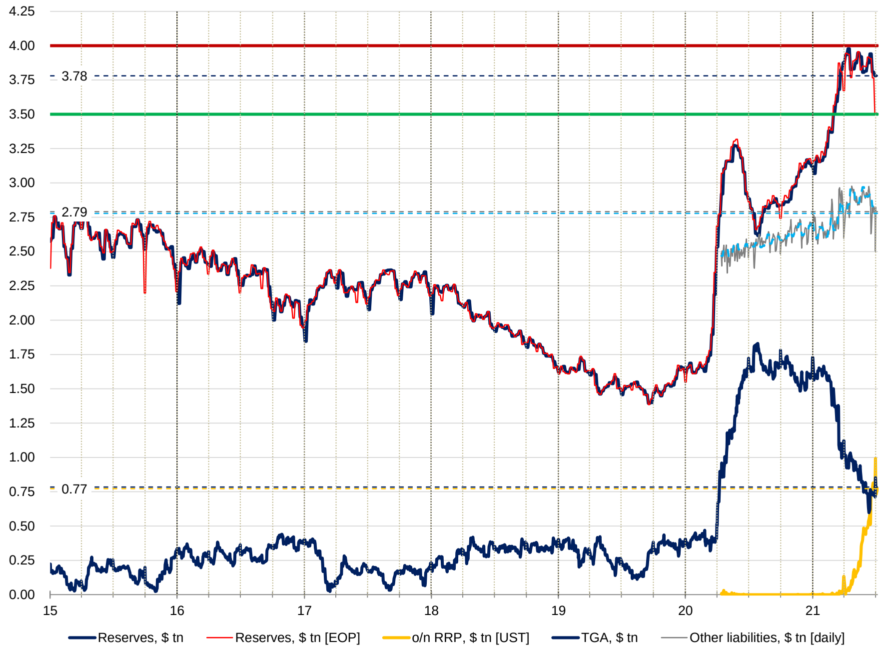
If bills yields settle above 5 bps – that is, above the rate on the RRP facility – money funds will keep buying bills, as they yield better than RRPs with the Fed, and non-operating deposits will stay put. We are not trying to be facetious, but collateral should trade near 5 bps this summer, at times above, at times below, but never too far. Sterilization will be strongest when bills trade just below 5 bps, and go away when bills trade just above 5 bps. Think of the inner workings of a toilet tank – if the water gets to a certain level, water stops coming into the tank, and if the water does not get to the required level, the water keeps running…

If reserves in the banking system fall to $3.50 trillion (see the thick green line), we'll know that sterilization is on. Sterilization can be $400 billion at most (see here), and will mostly hit the deposit base of two banks (see here). If sterilization happens, it will be less of a funding market "issue" and more of a long-term rates "issue" – any funding market issue will involve mostly FX swaps, but there is plenty of excess cash to fill a vacuum that J.P. Morgan might leave, not to mention Wells Fargo's portfolio (see here); finding someone to substitute Bank of America's presence in Treasury and MBS markets is more complicated.

Worry about these once the use of the RRP facility is north of $1.3 trillion and if reserve balances in the banking system get down to $3.50 trillion. Even then, we are looking at transitioning from one marginal lender/buyer to another – a transition that should be smooth, but maybe not. None of this is worth much in terms of FRA-OIS. Let's move on. The next thing to crack is the year-end turn.

[Daily]: The Quantities to Keep Watch on This Summer

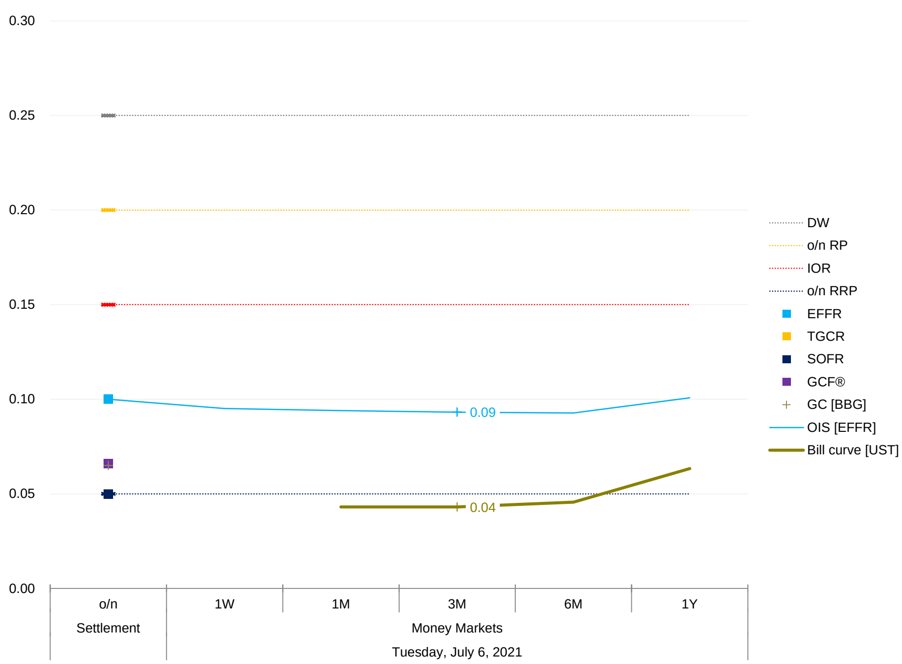
$ trillion



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

[Daily]: The Prices to Keep Watch on This Summer

percent



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Additional Important Information

This material has been prepared by the Investment Strategy Department personnel of Credit Suisse identified in this material as "Contributors" and not by Credit Suisse's Research Department. The information contained in this document has been provided as general market commentary only and does not constitute any form of personal advice, legal, tax or other regulated financial advice or service. It is intended only to provide observations and views of the Investment Strategy Department, which may be different from, or inconsistent with, the observations and views of Credit Suisse Research Department analysts, other Credit Suisse departments, or the proprietary positions of Credit Suisse. Observations and views expressed herein may be changed by the Investment Strategy Department at any time without notice. Credit Suisse accepts no liability for losses arising from the use or reliance on of this material. This material is not for distribution to retail clients and is directed exclusively at Credit Suisse's institutional clients.

FOR IMPORTANT DISCLOSURES on companies covered in Credit Suisse Global Markets Division research reports, please see http://www.credit-suisse.com/researchdisclosures. To obtain a copy of the most recent Credit Suisse research on any company mentioned please contact your sales representative or go to http://www.credit-suisse.com/researchandanalytics.

This material does not purport to contain all of the information that an interested party may desire and, in fact, provides only a limited view of a particular market. It is not investment research, or a research recommendation for regulatory purposes, as it does not constitute substantive research or analysis. This material is provided for informational purposes only and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned.

The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation or investment advice. While it has been obtained from or based upon sources believed by the trader or sales personnel to be reliable, each of the trader or sales personnel and Credit Suisse does not represent or warrant its accuracy or completeness and is not responsible for losses or damages arising from the use or reliance on of this material.

Where distribution of this material is subject to the rules of the U.S. Commodity Futures Trading Commission ("CFTC"), it is a "solicitation" of derivatives business only as that term is used within CFTC Rule 1.71 and 23.605 promulgated under the U.S. Commodity Exchange Act (the "CFTC Rules") where applicable, but is not a binding offer to buy/sell any financial instrument. The views of the author may differ from others at Credit Suisse Group (including Credit Suisse Research).

Credit Suisse is acting solely as an arm's length contractual counterparty and not as a financial adviser (or in any other advisory capacity including tax, legal, accounting or otherwise) or in a fiduciary capacity. Any information provided does not constitute advice or a recommendation to enter into or conclude any transaction. Before entering into any transaction, you should ensure that you fully understand the potential risks and rewards and independently determine that it is appropriate for you given your objectives, experience, financial and operational resources, and other relevant circumstances. You should consult with such advisers (including, without limitation, tax advisers, legal advisers and accountants) as you deem necessary.

Credit Suisse Securities (Europe) Limited ("CSSEL") and Credit Suisse International ("CSI") are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority under UK laws, which differ from Australian Laws. CSSEL and CSI do not hold an Australian Financial Services Licence ("AFSL") and are exempt from the requirement to hold an AFSL under the Corporations Act (Cth) 2001 ("Corporations Act") in respect of the financial services provided to Australian wholesale clients (within the meaning of section 761G of the Corporations Act) (hereinafter referred to as "Financial Services"). This material is not for distribution to retail clients and is directed exclusively at Credit Suisse's professional clients and eligible counterparties as defined by the FCA, and wholesale clients as defined under section 761G of the Corporations Act. Credit Suisse (Hong Kong) Limited ("CSHK") is licensed and regulated by the Securities and Futures Commission of Hong Kong under the laws of Hong Kong, which differ from Australian laws. CSHKL does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services. Credit Suisse Equities (Australia) Limited (ABN 35 068 232 708) ("CSEAL") is an AFSL holder in Australia (AFSL 237237). In Australia, this material may only be distributed to Wholesale investors as defined in the Corporations Act. CSEAL is not an authorised deposit taking institution and products described herein do not represent deposits or other liabilities of Credit Suisse AG, Sydney Branch. Credit Suisse AG, Sydney Branch does not guarantee any particular rate of return on, or the performance of any products described.

This material is distributed in the European Union by Credit Suisse Securities, Sociedad de Valores, S.A. ("CSSSV") regulated by the Comision Nacional del Mercado de Valores.

If this material is issued and distributed in the U.S., it is by Credit Suisse Securities (USA) LLC ("CSSU"), a member of NYSE, FINRA, SIPC and the NFA, and CSSU accepts responsibility for its contents. Clients should contact sales coverage and execute transactions through a Credit Suisse subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise. Investment banking services in the United States are provided by Credit Suisse Securities (USA) LLC, an affiliate of Credit Suisse Group. CSSU is regulated by the United States Securities and Exchange Commission under United States laws, which differ from Australian laws. CSSU does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services. Credit Suisse Asset Management LLC (CSAM) is authorised by the Securities and Exchange Commission under US laws, which differ from Australian laws. CSAM does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services.

If this material is issued and distributed in Japan, it is issued and distributed in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association.