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MARKETS | FINANCIAL REGULATION

Demand For Fed's Repo Program Surges, Aided By Money-Market Fund Rules

Fed program Wednesday took in $272 billion from banks and money-market funds, seventh-highest volume since 2013

By **KATY BURNE**

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The Federal Reserve Bank of New York is seeing earlier than normal demand for its overnight "repo" facility in part thanks to new rules impacting money-market funds, indirectly lifting a key measure of short-term borrowing costs on Wall Street.

The rush to put money in the repo program, which the Fed designed to soak up excess cash in money markets and help the central bank control interest rates, is sucking cash from the private market for the overnight loans known formally as repurchase agreements.

The cost of one type of repo loan used by securities dealers, against batches of general government bond collateral, on Wednesday reached 0.85%, according to Scott Skyrm, managing director in fixed income financing, futures and rates at broker dealer Wedbush Securities Inc. It averaged 0.51% from Sept. 1 to Sept. 26, he said.

The interest rate on the Fed program is fixed, but in the private repo market, cash going to the central bank facility means there is less money available on Wall Street to finance the same amount of securities.

The Fed's facility is a boon to money-market funds, many of whom are choosing to convert to holding government only securities in advance of new rules taking effect October 14. The Fed facility helps them because it pays participants interest on their cash and gives them U.S. Treasury bonds as collateral overnight out of the Fed's portfolio.

Demand for the program also comes as banks are reining in their activities around month- and quarter-end dates to make their balance sheet snapshots appear safer under postcrisis regulations.

The Fed's overnight repo program on Wednesday, two days before quarter end, took in $272 billion from banks and money-market funds eligible to trade with the New York Fed, its seventh highest volume since the Fed began testing it in 2013.

Some traders said the day's tally alone wasn't as surprising as how many days firms have been preparing for quarter-end compliance with the regulations by parking their cash at the Fed facility early. The Fed program, nicknamed the "RRP," has seen in excess of $200 billion from participants every day this week.

Typically, the days immediately preceding quarter end are higher than average but not suggestive of a quarter end date in themselves, said Mr. Skyrm. "Today is trading like a quarter end," he said.

Russ Certo, a managing director at investment banking boutique Brean Capital LLC, wrote in a research note that the total was the "highest ever for a non-quarter end" and some market participants have "very few alternatives."

The volumes also are notable because at various points earlier in the year the overnight repo program had fallen out of favor. The lower demand, particularly in the spring, came even as the Fed lifted its daily limits on the program to $2 trillion from $300 billion in December 2015 in anticipation of higher usage.

The facility itself was introduced by the Fed three years ago to help it control interest rates. The interest rate the Fed pays on cash invested through it is 0.25%, marking the bottom of the target rate for its benchmark federal-funds rate, while another program paying deposit-taking banks 0.5% in interest on their reserves sits at the top of the range.

The repo program's highest ever day was December 31, 2015, at $474.6 billion. The day before, on Dec. 30, it took in $277.4 billion. This year, the volume for March 30 at the end of the first quarter was $303.8 billion and for June 30 it was $278.8 billion, but preceding days in both cases were only about half of that amount.

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