USD Funding Conditions

September 2020

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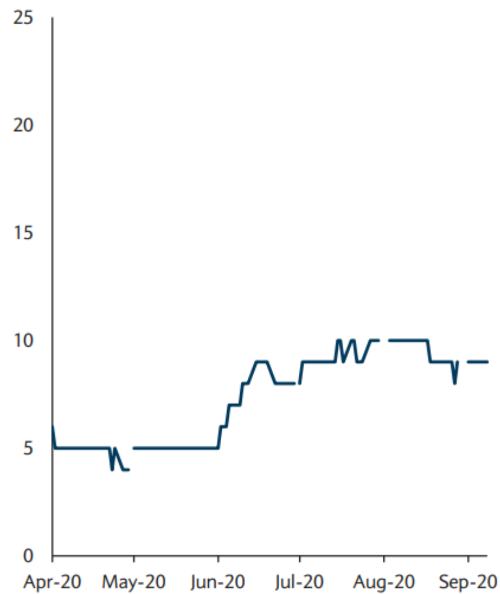
Short-term rates

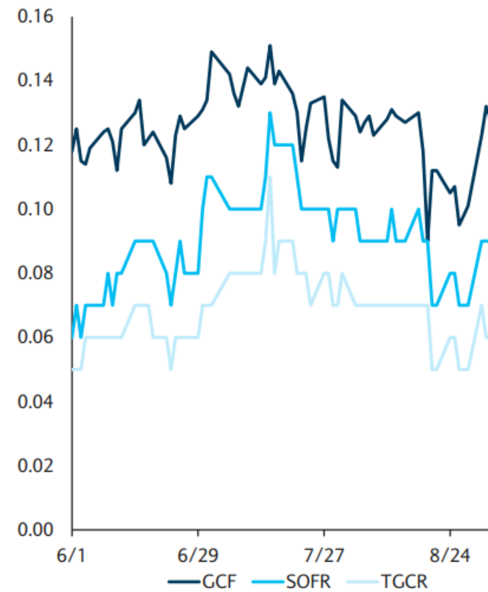
- Short-term rates are holding steady as Congress debates another stimulus package.
  - The fed funds rate has been pinned between 9 and 10bp since the beginning of July
  - Overnight repo rates have traded within a 4bp range since June
  - Bill rates have come in as issuance has cooled
- The Treasury built up an enormous cash balance at the Fed last quarter, and has yet to whittle it down. The Treasury expects to end Q3 with $800bn on deposit at the Fed , but this is dependent on a new stimulus bill being approved
- The Fed's expanding balance sheet and reserve growth is expected to pull the funds rate lower, as well as overnight repo rates
- At the September FOMC the Fed left interest rates near zero and signaled it would hold them there through at least 2023

Fed funds less lower band (bp)



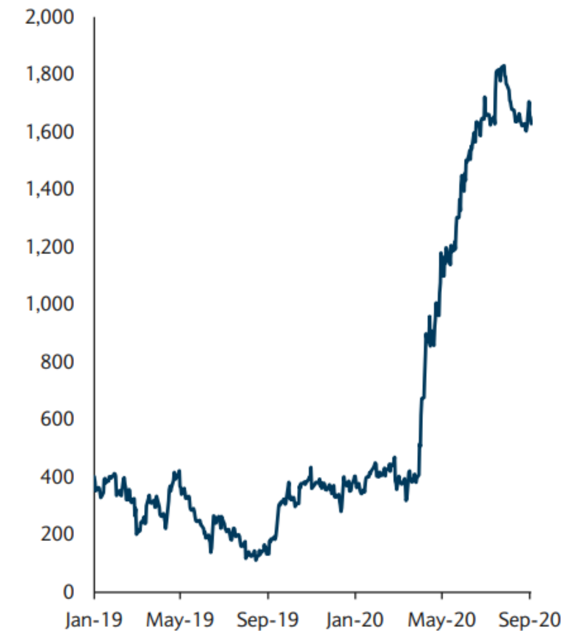
Note: We have clipped the y axis to show the Fed's target band. Month-ends excluded. Source: Federal Reserve, Barclays Research

Repo rates (%)



Source: Federal Reserve, Barclays Research

Treasury cash balance ($bn)



Source: Federal Reserve, Barclays Research

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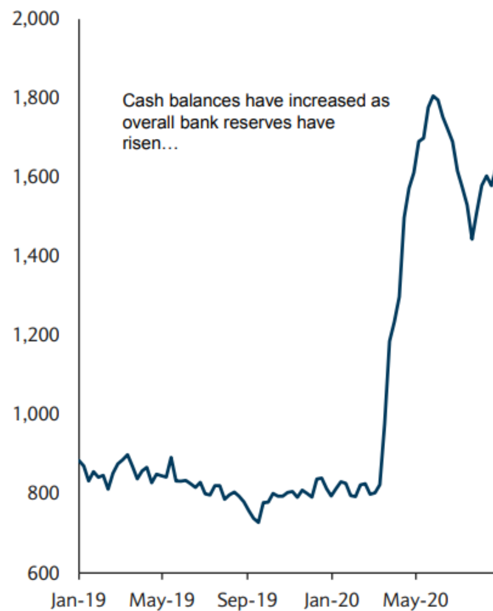
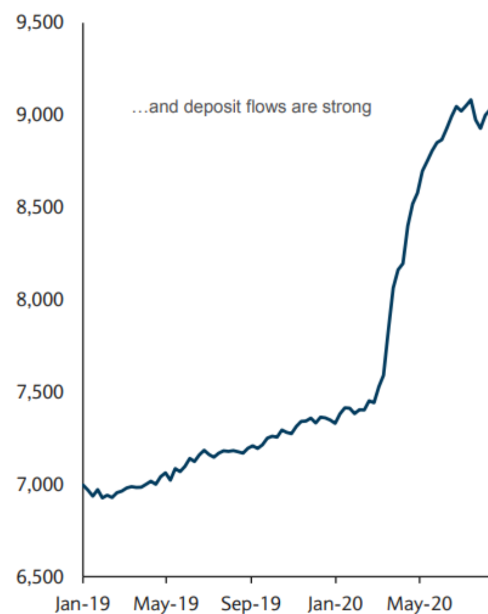
Unsecured Funding Rates & Bank Balances

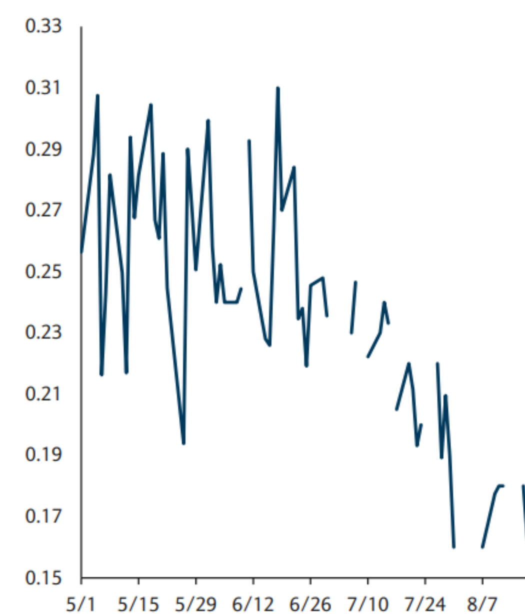
- 90d bank unsecured funding rates[1] have moved lower. Strong deposit growth has reduced the need for banks to raise short term unsecured funding
- The Fed's CB swap lines reduced the potential for spikes in non-US bank dollar levels. Usage of these lines continues to reduce



Source: Federal Reserve, Barclays Research



Note: Other deposits include transactions and operating balances at large domestic banks.
Source: Federal Reserve, Barclays Research



Notes: Missing values reflect an absence of trades. Source: DTCC, Barclays Research

[1] Includes secondary market trading in CP and CDs

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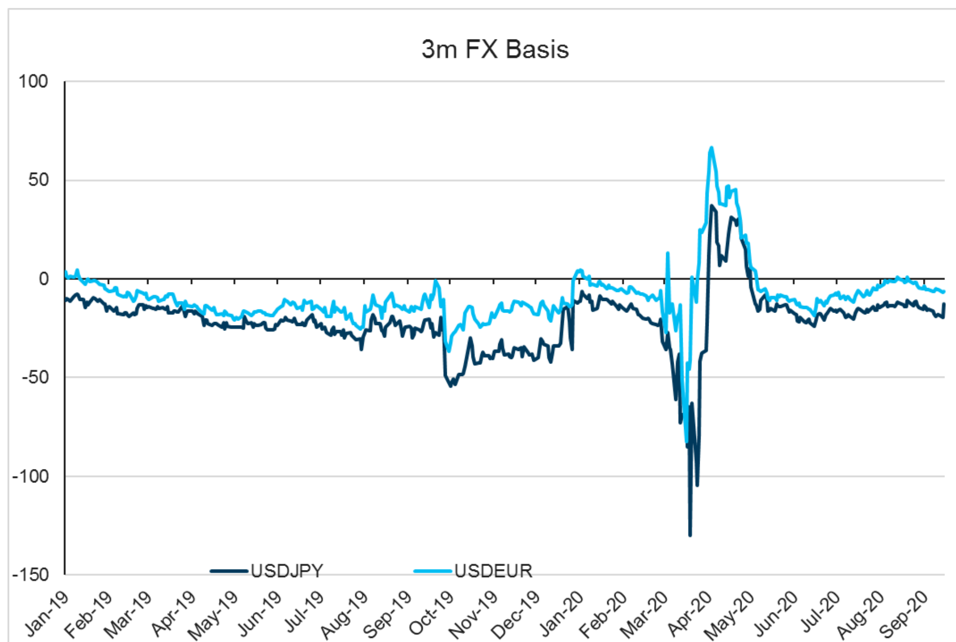
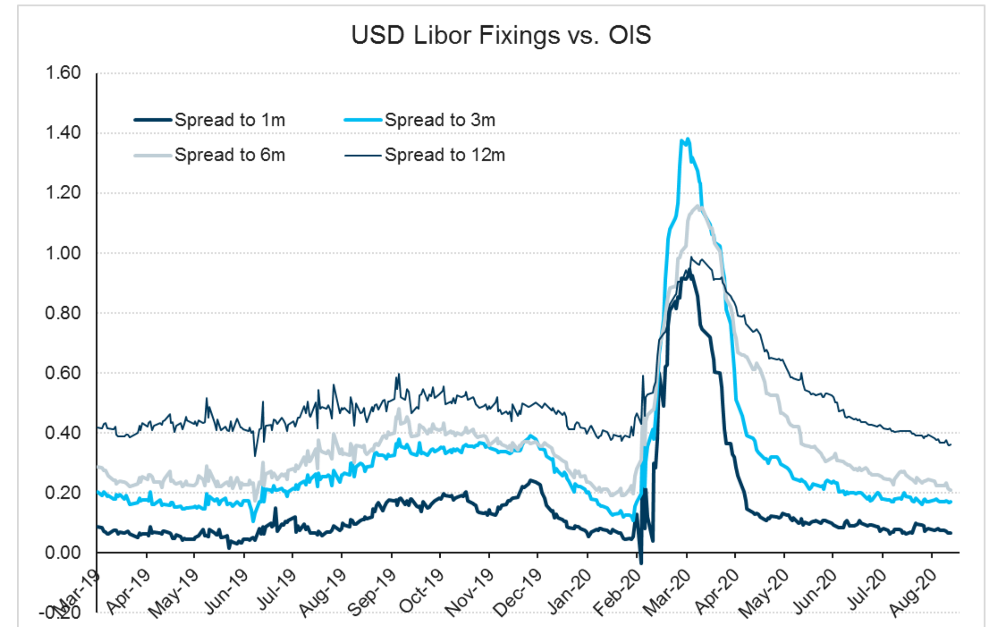
Impact of FED Increasing QE

The significant surplus USD in the financial system due to QE from the Fed has led to USD funding risk indicators being at historical lows:

- Xccy basis in JPY and EUR have returned to pre-COVID levels, both in LIBOR or OIS terms
- LOIS has narrowed by more than 120bps from the highs of March-20. 3 month Libor fell to 0.22738% on 17th Sept, its lowest since June 14.





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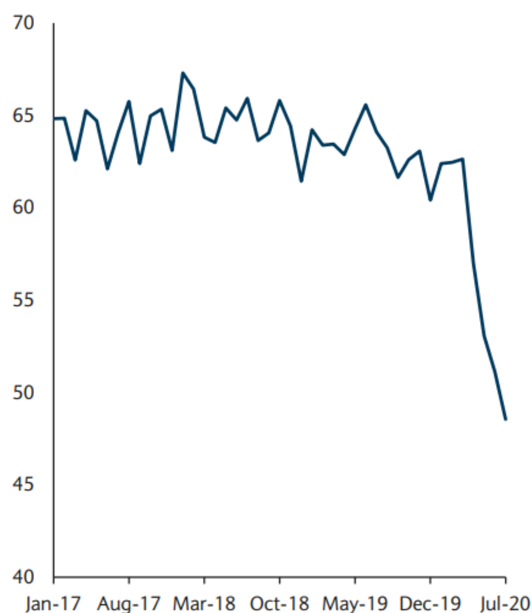
Prime Fund Exits & Reduced Commercial Paper Activity

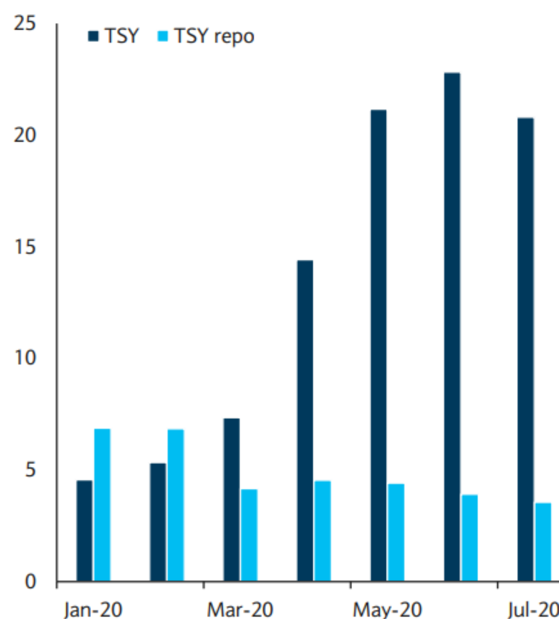
- Since May, three large money fund complexes have made changes to their prime funds – either converting to government only or liquidating
- Generally, all prime funds have been reducing their holdings of CP and CDs, and increasing their holdings of Treasury bills. Bank reserves set to expand further as the Fed pursues forward guidance driven asset purchases
- None of these changes has had any noticeable effect on LOIS or other bank rates as yet, which continue to grind lower. However, longer term, a permanently smaller industry could mean that bank credit spreads to SOFR are wider and more volatile

Prime fund holdings CP & CD (%)



Source: ICI.org, Barclays Research

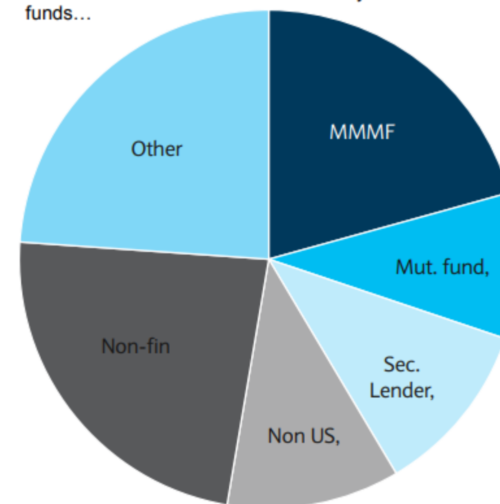
Prime fund (% total)



Source: ICI.org, Barclays Research

CP investors (%)

Cash rich non-financial companies hold about the same amount of CP as money funds…



Note; Q1'2020. Source: Federal Reserve, Barclays Research

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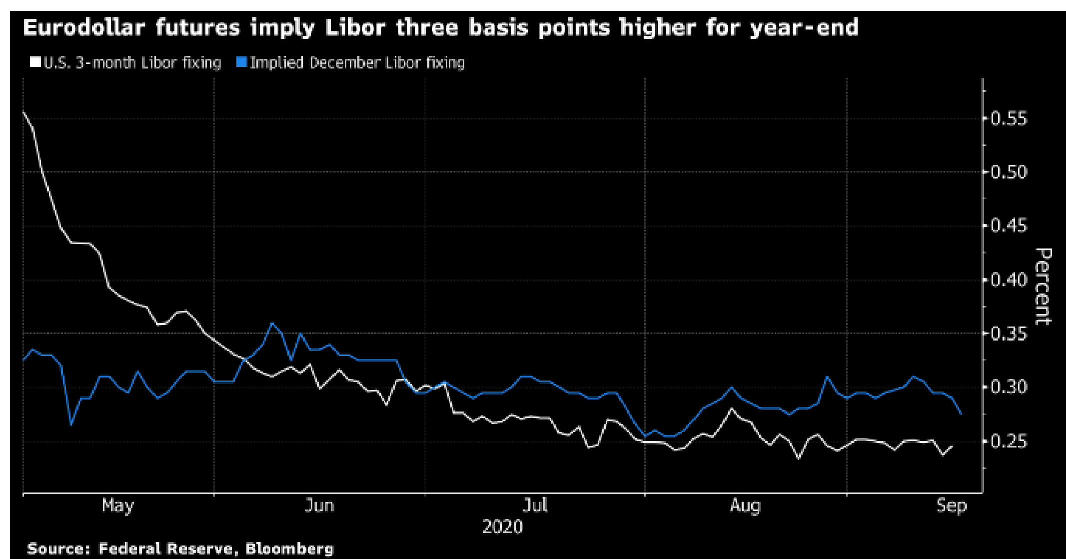
Year End USD Supply

- Potential for banks not needing to reduce market making activities to manage G-SIB surcharge
- Market research reversing their stance on USD supply at year end. Previous expectations of a USD year-end funding stress have reversed
- December Eurodollar futures implying benign year end



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