Renewed interest in US money market funds

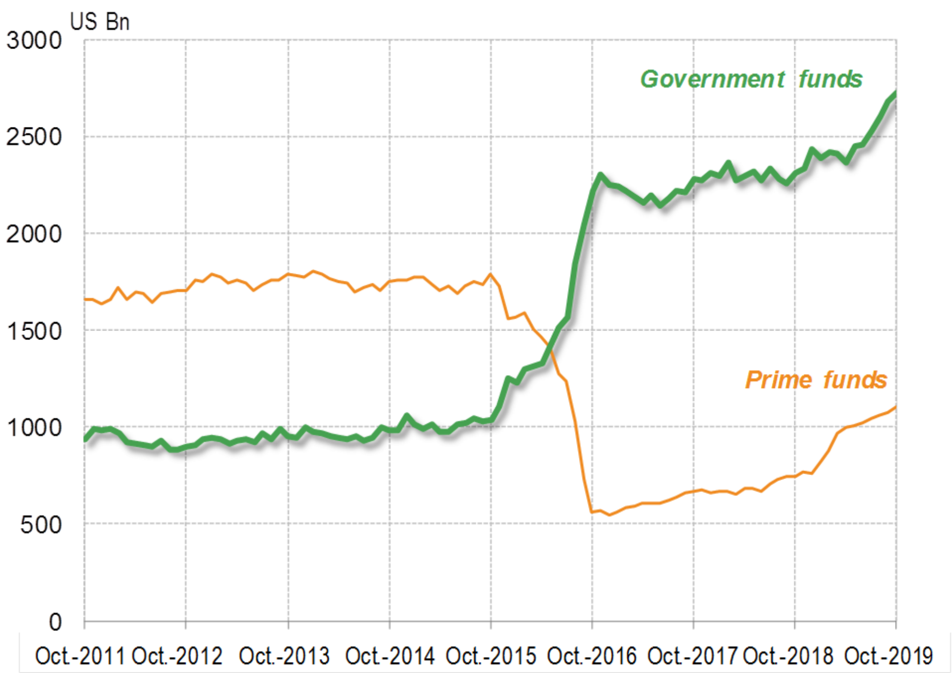
The 2014 reform of US money market funds led to a massive reallocation of cash from funds invested in private debt (prime funds) to funds invested in public debt (government funds)*. Foreign banks, traditional borrowers of prime funds, were deprived access to US dollars, while the US Treasury, federal agencies and American banks attracted fund inflows**.

With the improvement in average returns over the past two years, the savings collected by government funds and prime funds have both increased sharply, up USD 450 bn and USD 430 bn, respectively. Money market funding of foreign banks has swung back to pre-reform levels, but is now characterised by a balanced mix of unsecured financing (commercial paper and certificates of deposit) and secured financing (repurchase agreements collateralised by public debt).

* The reform aimed to limit the scope of US constant net asset value money market funds (CNAV MMFs). Institutional prime funds had to abandon the CNAV model while government funds and retail prime funds retained the ability to provide a guarantee to investors that they would recover all of their original investment.

** See Choulet C., US money market funds and US dollar funding, BNP Paribas, EcoFlash, 16 July 2018

The savings collected by US money market funds



Source: SEC