

CHART OF THE WEEK

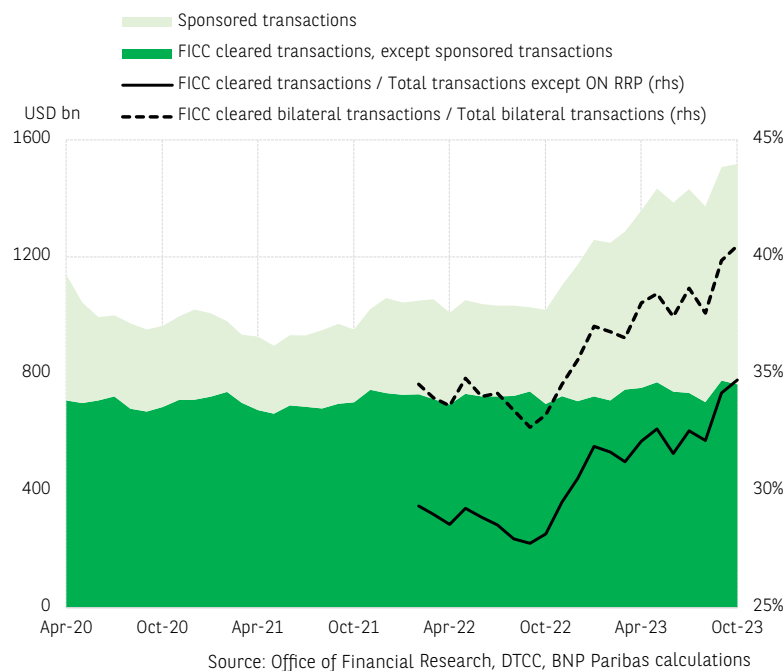


15 November 2023

UNITED STATES: THE CENTRALLY CLEARED REPO SEGMENT EXPANDS

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US: central clearing on Treasury repo markets on the rise



Last October, an average of over USD 1,500 bn was traded daily on the Treasuries repo markets¹ through the Fixed Income Clearing Corporation (FICC), USD 500 bn more than in October 2022. While transactions between FICC clearing members remained relatively stable, sponsored repo loans² rose sharply. This was largely due to the reallocation of money market fund assets. Between September 2022 and September 2023, with a net inflow of USD 1,000 bn, money market funds reduced their repo loans to the US Federal Reserve (ON RRP facility) by USD 740 bn - which had become less attractive - and expanded their portfolios of government debt securities (+USD 670 bn) and repo loans to financial institutions (+USD 1,100 bn, of which +USD 300 bn via FICC).

Outside the scope of central clearing, the volume of transactions on the tri-party market in October 2023 was close to USD 1,800 bn; USD 700 bn if we exclude repurchase agreements conducted by the Fed (ON RRP). Data on the bilateral market, on the other hand, remains patchy. However, transactions carried out by primary dealers in this segment (around USD 2,200 bn) provide an order of magnitude. On this basis, we estimate that the proportion of centrally cleared repo transactions has risen (from 28% to 35% of the total in one year), particularly on the bilateral market (from 33% to 40%); a development likely to satisfy US regulators, who are keen to broaden the scope of central clearing with a view to reinforcing the stability of Treasuries markets³.

¹ A repurchase agreement - a form of temporary disposal of securities - is similar to a secured loan (cash against securities); it is a reverse repurchase agreement (reverse repo) for the lender of the cash, and a repurchase agreement (repo) for the borrower. Repurchase agreements include a commitment to repurchase the securities at an agreed price.

² The FICC allows some clearing members (banks or broker-dealers) to sponsor the "indirect" membership of some of their counterparties (money market funds, hedge funds).

³ In September 2022, the SEC proposed a rule that would require the FICC to take the necessary steps to force its members to submit all their Treasuries repurchase and reverse repurchase agreements to central clearing, with a few exceptions.

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