# Centrally cleared repo market brief

**Cash volumes rose over the quarter, even as Fed easing continued — material inflows found their way into outright UST investments as net issuance was strong.**

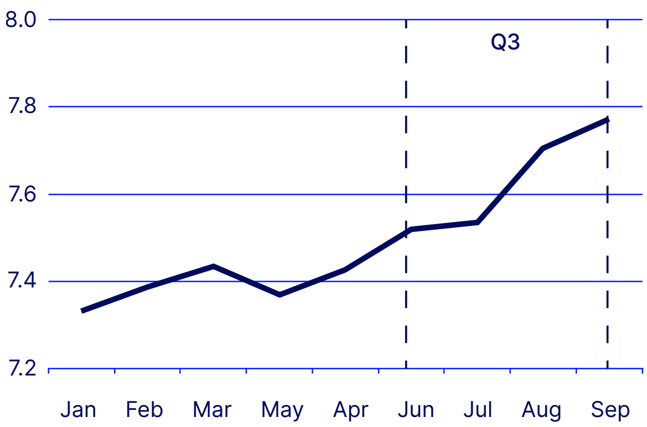
The quarter began with markets expecting a cut in the September timeframe given seemingly moderate inflation and a persistent labor market.

However, uncertainty still remained as inflation was still above target range and downward adjustments to prior job numbers raised doubts about labor market strength.

At the Federal Open Market Committee (FOMC) meeting in late July, the Federal Reserve held rates firm — as expected — and the Fed Chair Jerome Powell's comments were interpreted as hawkish when he hinted that a September rate cut wasn't a given. The market responded quickly, with expectations for a September cut dropping from 63 percent to 38 percent and projections of total 2025 cuts dropping from two to one.

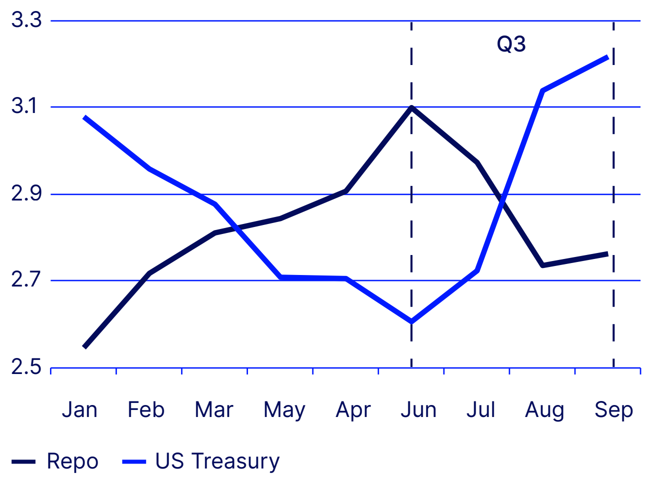
While the Fed did cut rates in mid-September after subsequent market data proved to be dovish, overall uncertainty around Fed activity drove incremental volumes to the short-end.

**Figure 1: MMF volumes (US$T)**




Source: OFR

**Figure 2: MMF holdings (US$B)**



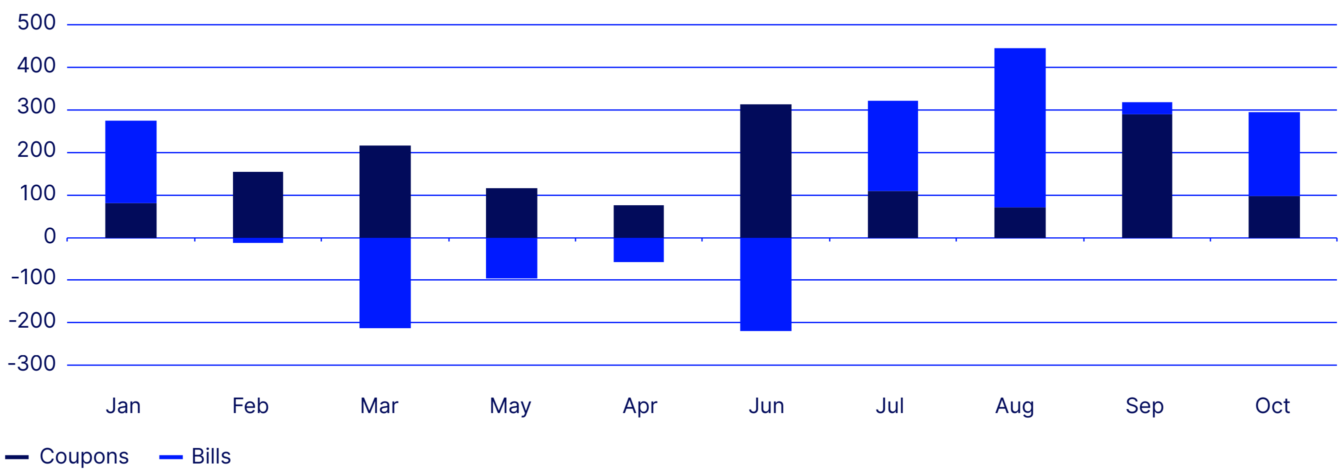

Source: Crane data

Cash volumes rose, continuing the trend seen throughout this year: Money market fund (MMF) volumes increased by US$250 billion in the third quarter and have risen more than US$500 billion year-to-date (see Figure 1). As volumes rose, MMFs allocated more to outright US Treasury (UST) investments versus repo in the third quarter (see Figure 2) in alignment with more overall net UST issuance.

With the debt ceiling resolved in early July, UST bill issuance continued in earnest with more than US$600 billion of net issuance over the quarter and almost US$200 billion in October (see Figure 3). Although allocations to repo ebbed in the third quarter, they remain elevated at over US$2.7 trillion.

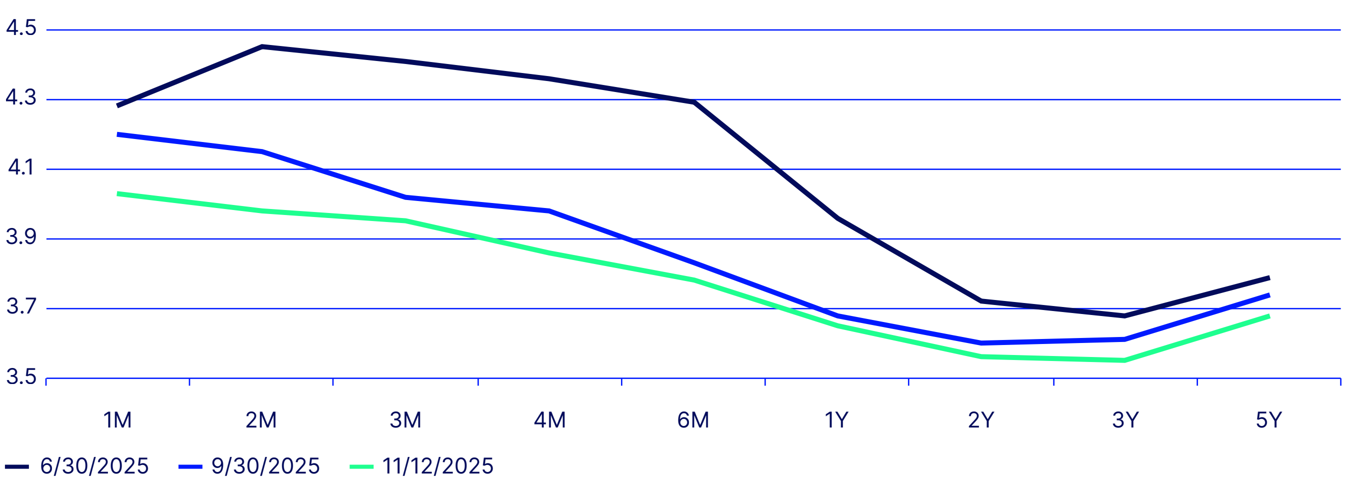
At the time of this writing, the Fed cut rates again in late October and the market is mixed about another cut in December (55 percent chance). The short-end of the UST yield curve has flattened since June but still remains slightly inverted, suggesting a persisting tilt to the front-end (see Figure 4).

### Figure 3: Net UST issuance (US$B)




Source: Treasury direct

### Figure 4: UST yield curve (%)




Source: Treasury

## With short-end volumes rising and net UST issuance strong, Cleared UST repo (FICC Sponsored) volumes continued to rise — particularly amongst cash borrowers (primarily hedge funds) — and spreads widened.

Given significant net UST issuance over the course of the quarter, overnight repo rates (SOFR) traded at elevated levels relative to the Fed RRP level (bottom of Fed range). The average third quarter SOFR – RRP spread was 11 basis points, up from 8 basis points in second quarter.

This spread widened even further in October, rising to 22 basis points on average as almost US$300 billion of net bills and coupons hit the market. This peak was driven by volatility ahead of October month-end (Canadian year-end) when overnight funding markets traded well outside the target range (SOFR at 4.22 percent versus Fed bottom of 3.75 percent).

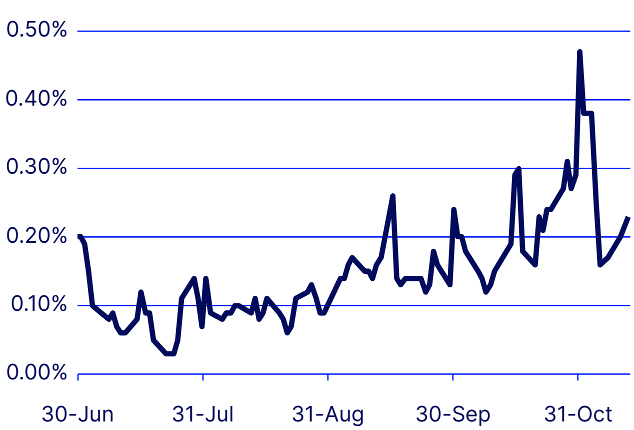
Elevated rates drove volumes toward cleared UST repo (FICC Sponsored) markets. Average Fixed Income Clearing Corporation (FICC) cash provider volumes of US$1.2 trillion rose 8 percent quarter-over-quarter, roughly in-line with the 9 percent increase seen in the second quarter, and have continued to rise into the fourth quarter, standing just under US$1.4 trillion as of mid-November. Fed RRP volumes rose intermittently around October month-end (along with the Fed SFR), but have since dipped down under US$20 billion.

On the cash borrower (primarily hedge fund) side of the market, FICC volumes of US$924 billion rose 16 percent quarter-over-quarter — doubling the second quarter growth rate of 8 percent.

As of mid-November, volumes stand around US$1.2 trillion and are now just under the total FICC cash provider market after a year of rapid growth (up almost 100 percent year-over-year).

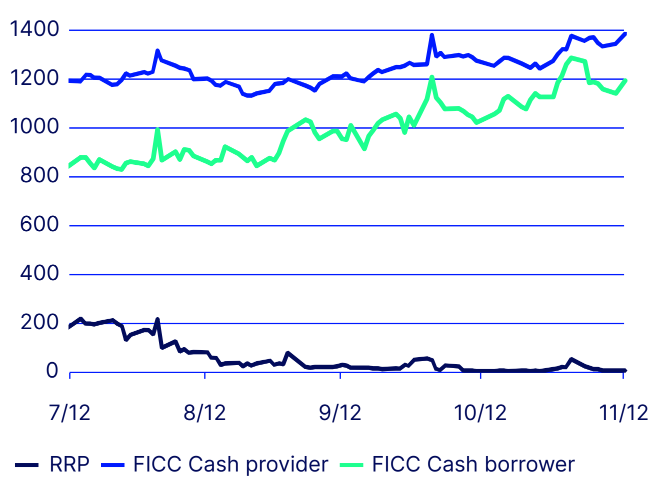
> **This spread widened even further in October, rising to 22 basis points on average as almost US$300 billion of net bills.**

### Figure 5: SOFR – RRP spread (%)




Source: Federal reserve

### Figure 6: Fed RRP vs. FICC (US$B)




Source: DTCC, Federal reserve

## Looking ahead, the path of fed easing and treasury debt issuance will dictate the supply-demand dynamic in short-end markets — although timing remains uncertain.

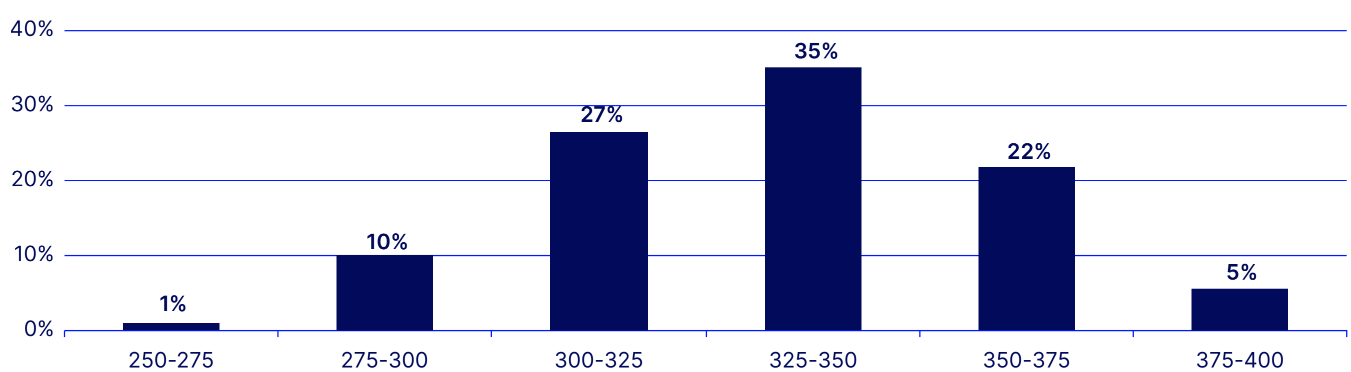
Treasury's updated borrowing estimates – announced on November 3 – project an additional US$659 billion in borrowing by year-end. This figure is slightly lower than originally expected but still significant compared to the first half of this year – before the debt ceiling resolution had been reached.

At the October FOMC meeting, the Fed announced they would cease quantitative tightening (QT) effective December 1. This will reduce market UST supply, all else equal, but the overall effect is expected to be small in comparison to net new issuance, given that QT was already operating a reduced monthly rate. Higher collateral supply in repo markets could serve to bolster repo rates, although the extent of impact depends upon the volume of cash in the short-end. MMF volumes are still at all-time highs and rising.

Continued Fed easing could buck this trend, although uncertainty remains relative to the timeline of Fed activity. The market is mixed about another cut in December (55 percent chance) and there is no clear consensus on where the Fed target range will be by June of next year (see Figure 7).

Amidst uncertainty, market participants continue to prepare for the Securities and Exchange Commission's UST clearing mandate, which will require virtually all UST repo transactions to be cleared by June 30, 2027. A July Fed piece found that the overall scope of the UST repo market is far larger than previously thought. They project an overall gross market size of US$12 trillion (double-sided, borrowers and investors) in 2024. The overall UST cleared repo market is growing rapidly, but a significant amount of activity still needs to move into the cleared space (e.g., FICC) prior to the mandate. Buy-side and sell-side firms alike will need to continue evaluating implications on their activity, and how new indirect access models (beyond FICC Sponsored) may fit into their overall clearing strategy.

**Figure 7: Market expectations for Fed target range after June 2026 FOMC meeting versus current target range of 375-400 (data as of November 13, 2026)**




Source: CME

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