Centrally cleared repo market brief

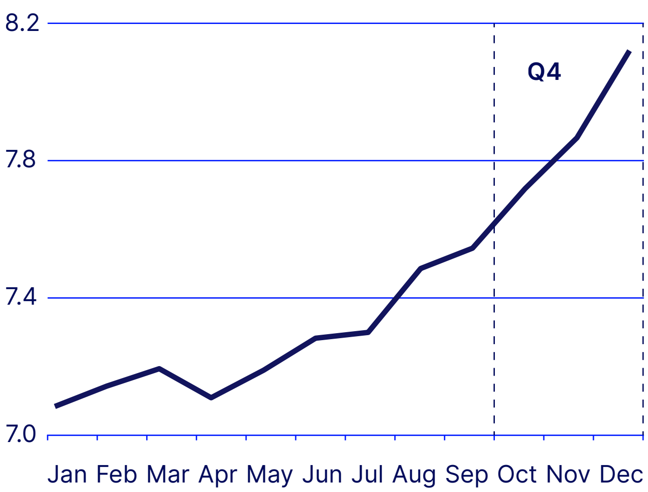
Volatile rate expectations and uncertainty fueled by the government shutdown drove incremental cash to the short-end, even as the Federal Reserve cut rates three times in the second half of 2025.

The quarter began with the government shutdown as Congress could not reach an agreement on funding. This led to delayed and even cancelled economic data releases that drove uncertainty in markets throughout the quarter.

The October Federal Open Market Committee (FOMC) meeting generated mixed sentiment: while the Fed cut rates, Chair Jerome Powell called a subsequent December cut into question, indicating that inflation remained persistent — partly due to tariff policy.

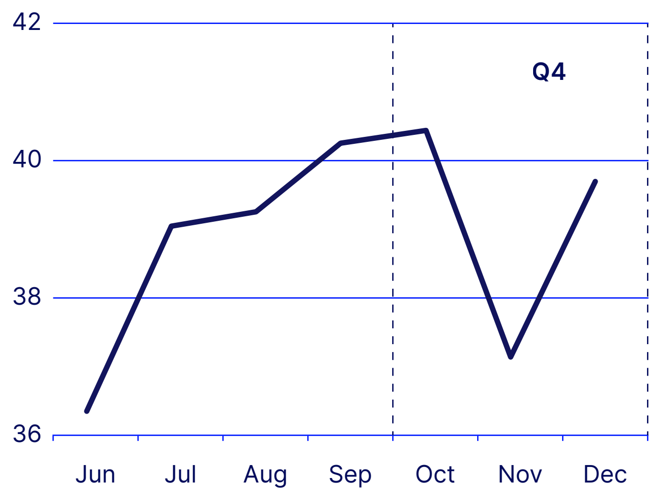
Markets priced a 60 percent chance of a December cut in early November; however, odds quickly dropped to 30 percent by mid-month as markets rallied on the back of the government re-opening.

Figure 1: MMF volumes (US$T)



Source: Crane data

Figure 2: Weighted average maturity (Days)



Source: Crane data

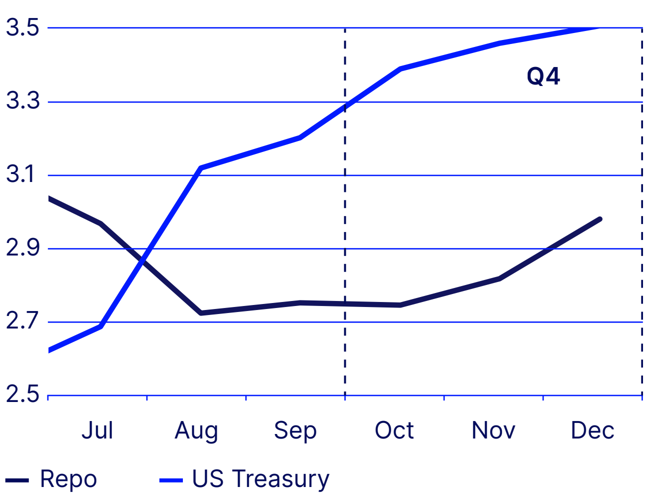
Sentiment quickly reversed again after September jobs data (released late on November 20) signaled a cooling labor market, with unemployment of 4.4 percent at its highest level since October 2021. Market expectations for a December cut spiked to over 80 percent, and the Fed ultimately delivered a final cut of 2025 on December 10.

Volatility in short-end expectations and uncertainty around economic data drove defensive cash positioning. Money market funds (MMF) continued to see inflows, rising by over US$300 billion quarter over quarter to now more than US$8 trillion in assets under management (AUM) — even as the Fed cut short-end rates twice (see Figure 1). MMFs also slowed the pace of extension out on the curve: Overall portfolio weighted average maturity (WAM) actually dropped in November and has since crept back up toward early fourth quarter levels (see Figure 2).

Allocations to outright United States Treasury (UST) investments and repo both rose to approximately US$200-US$300 billion quarter over quarter (see Figure 3). At year-end, MMFs parked US$2.9 trillion of cash in repo. US$1.9 trillion of this activity was UST repo — of which US$1.1 trillion was cleared (Fixed Income Clearing Corporation [FICC] Sponsored) repo, up 14 percent quarter over quarter.

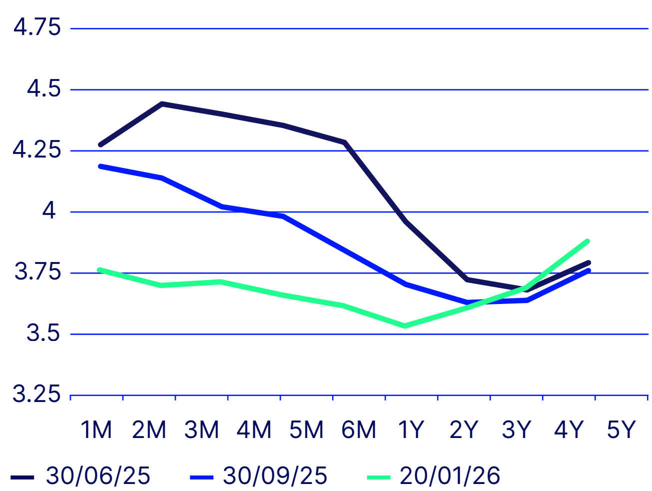
At the time of this writing, the short-end of the UST yield curve has mostly flattened out compared to 2025, suggesting that the bias towards the front-end seems to be waning (see Figure 4). The market does not expect another cut until the June/July timeframe at the earliest.

Figure 3: MMF holdings — Repo vs UST (US$B)



Source: Crane data

Figure 4: UST Yield curve (%)



Source: Treasury

With short-end volumes rising, strong net UST issuance and year-end funding pressures ramping up, Cleared UST repo (FICC Sponsored) volumes continued to rise, and cash borrower (primarily hedge fund) activity continued to be a major growth area.

Net UST issuance was strong quarter over quarter at more than US$600 billion despite material bill paydowns in December (see Figure 5). New collateral supply entering repo markets along with typical year-end funding pressures drove elevated overnight repo rates (SOFR). SOFR traded 22 basis points above the Fed's bottom of target range (RRP rate) on average in the fourth quarter, up from 11 basis points in the third quarter (see Figure 6). Elevated rates drove volumes toward cleared UST repo (FICC sponsored) markets.

Average FICC Cash provider volumes of US$1.4 trillion rose 13 percent quarter over quarter, up from the 8 percent rise in the third quarter (see Figure 7).

Fed RRP volumes languished in comparison at just US$9 billion in average fourth quarter volumes. On the cash borrower side of the market — primarily hedge fund — FICC average volumes of US$1.2 billion rose 29 percent quarter over quarter, almost double the already strong rate of 16 percent from the third quarter.

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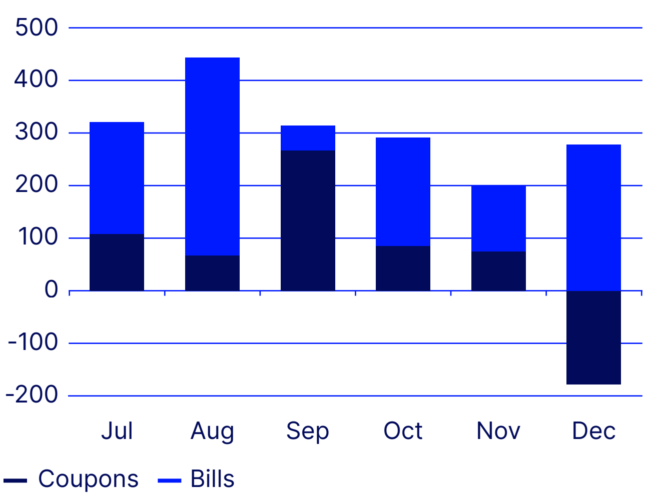
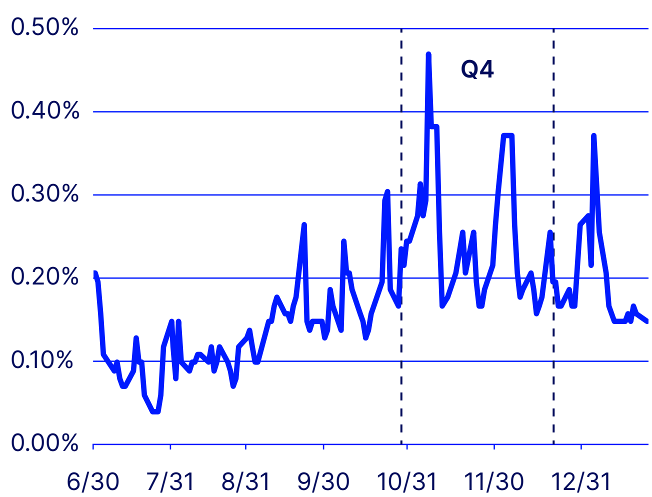
Figure 5: Net UST issuance (US$B)



Source: Treasury direct

Figure 6: SOFR — Fed bottom (%)

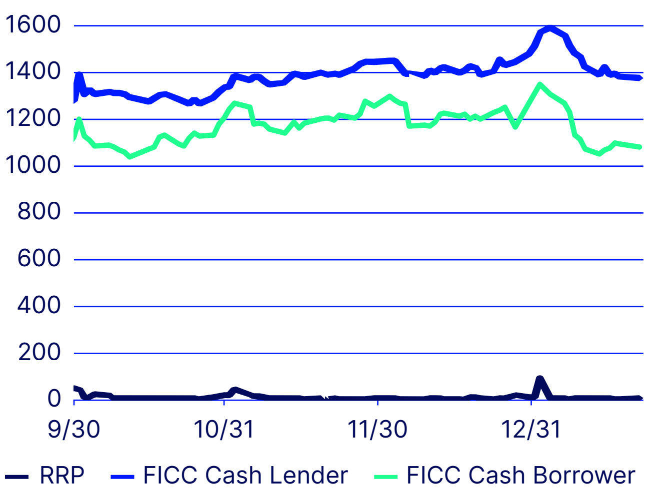


Source: Federal reserve

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.

The Treasury expects over US$2 trillion of net UST issuance in 2026, roughly in line with the US$2.2 trillion issued in 2025. This will keep net new collateral supply strong even though the Fed trailed off quantitative tightening (QT) at the end of 2025. 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 — now over US$8 trillion. Continued Fed easing could stop this trend, although uncertainty remains relative to the timeline of Fed activity. The market doesn't expect another cut until June or July at the earliest, and there is no clear consensus on where the Fed target range will land by the end of the year (see Figure 7).

Figure 7: Fed RRP versus FICC (US$B)

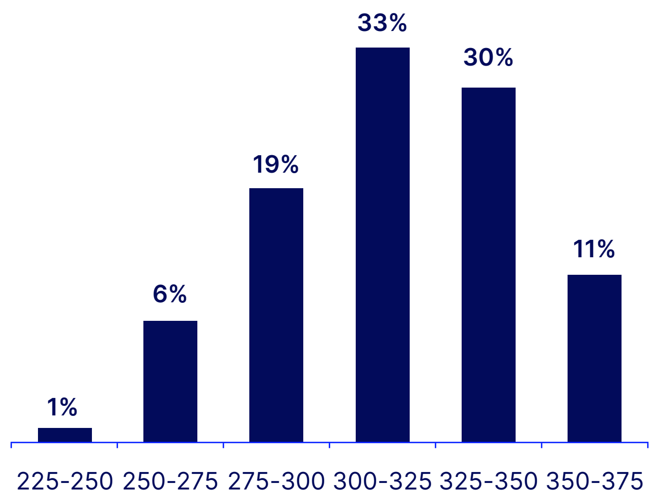


Source: DTCC, Federal reserve

At the time of writing this, the December Consumer Price Index (CPI) (released on January 13) rose month-on-month and remains over target range. However, the results were below market expectations.

Amidst uncertainty, market participants continue to prepare for the Security and Exchange Commission's (SEC's) UST clearing mandate, which will effectively require nearly all UST repo transactions to be cleared by June 30, 2027. The overall UST cleared repo market is growing rapidly, but more than US$4 trillion 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 8: Market expectations for Fed target range after Jun'26 FOMC meeting versus current target range of 350-375 (data as of January 21, 2026)



Source: CME

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