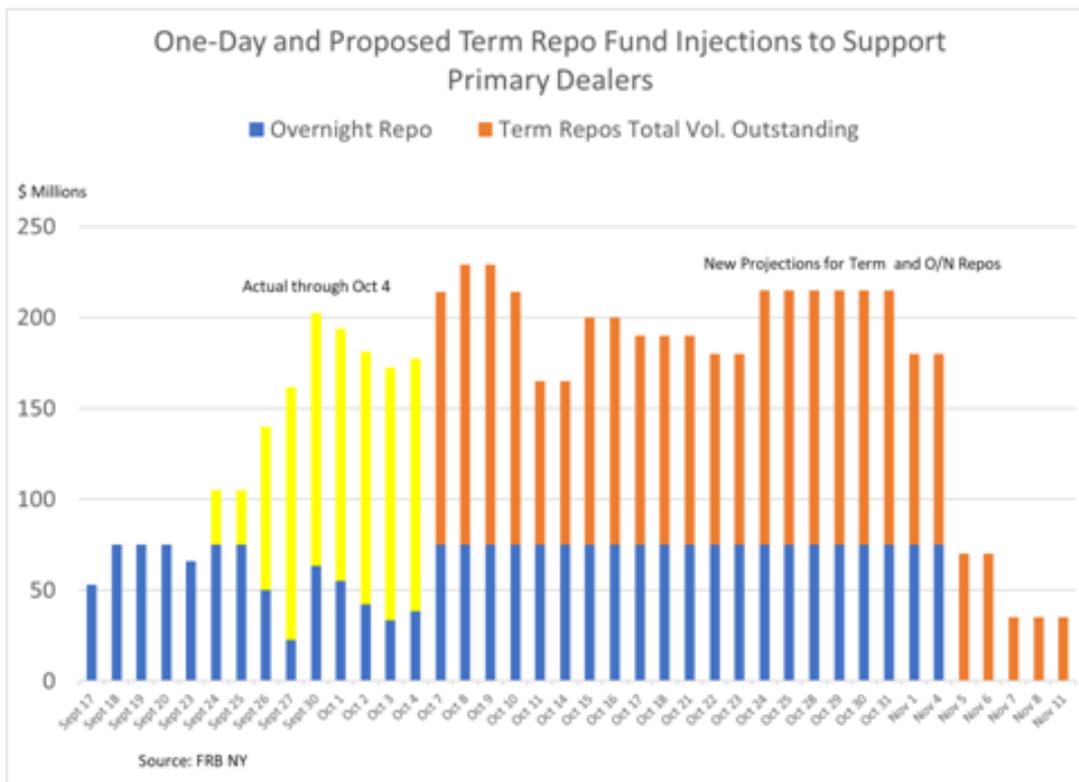


Cumberland Advisors Market Commentary – The Market Knows

The Federal Reserve Bank of New York announced on Friday, Oct 4 that it would continue to offer a maximum of \$75 billion in overnight repurchase agreements and at the same time offer a series of term repos through at least November 4 according to the following schedule:[\[1\]](#)

TERM OPERATION DATE	MATURITY DATE	TERM	AGGREGATE OPERATION LIMIT
Tue, 10/8/2019	Tue, 10/22/2019	14-days	At least \$45 billion
Thu, 10/10/2019	Thu, 10/24/2019	14-days	At least \$45 billion
Fri, 10/11/2019	Thu, 10/17/2019	6-days	At least \$45 billion
Tue, 10/15/2019	Tue, 10/29/2019	14-days	At least \$35 billion
Thu, 10/17/2019	Fri, 11/1/2019	15-days	At least \$35 billion
Tue, 10/22/2019	Tue, 11/5/2019	14-days	At least \$35 billion
Thu, 10/24/2019	Thu, 11/7/2019	14-days	At least \$35 billion
Tue, 10/29/2019	Tue, 11/12/2019	14-days	At least \$35 billion

This extension seems to be an attempt to use the market to determine exactly how much excess collateral is in the financial system that needs to be financed. The term repos are a way of sterilizing a large portion of the excess supply of securities and then the overnight repos provide some indication of how much funding may or may not be available on the margin. The following chart provides some clues as to the maximum amount of financing that the Fed may be willing to provide and represents an experiment to let the market determine, given the lack of bank financing that is apparently quite scarce for this market, how big a facility might be necessary to support the primary dealers.



The proposed extension shows the Fed could provide up to \$225 billion in total financing, which is a little more than the maximum amount provided on September 30. Clearly, the demand for overnight financing has slacked off, probably in part because of the availability of significant term financing. This may mean that the upper limit of \$75 billion in overnight financing may be larger than needed. At the same time, while the facility is billed as temporary, some have speculated that this is a precursor to establishing a permanent repo facility.

The one caution is that such a facility is really a backdoor to creating a discount window for primary dealers and indirectly for money market funds and GSEs. Moreover, the volume of securities on the balance sheet of the primary dealers that may need to be financed on a short duration basis, creates a potential problem of financial instability for two reasons. The extreme short-term nature of the funding means that any hint of a problem could put the primary dealers at risk, necessitating rescue by the Fed. Then there is also the interconnectedness among the market participants that could transmit financial difficulties in a large and important

portion of the market. Maybe it is time to re-evaluate the usefulness of the primary dealer system relative the risks and benefits.

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Vice Chairman & Chief Monetary Economist

[Email](#) | [Bio](#)

UPDATED 10ct 10, 2019 – One final point. Interested readers may want to tune into the GIC virtual event recorded on Oct 10 at 12:00PM when Chris Whalen, Bill Kennedy and Robert Eisenbeis, Ph.D. discussed developments in the repo market. Registration is complimentary and those who are interested may register at <https://www.interdependence.org/events/browse/repo-market-virtual-event/>.

The graphic is a promotional banner for a virtual event. At the top left is the logo for the Global Interdependence Center, which consists of a stylized 'G' inside a circle. To the right of the logo, the text reads 'Global Interdependence Center' and 'VIRTUAL EVENT'. Below this, the main title of the event is 'REPO MARKET, MONETARY POLICY, & LIQUIDITY' in large, bold, blue letters. Underneath the title, the date and time are listed: 'THURSDAY, OCTOBER 10, 2019 | 12:00 - 12:30 P.M.'. A horizontal line separates this information from the 'SPEAKERS' section. Below the line, the word 'SPEAKERS' is centered. There are three speaker portraits arranged horizontally. Each portrait is a headshot of a man in a suit and tie. Below each portrait is a grey box containing the speaker's name and title. The first speaker is Bob Eisenbeis, Vice Chairman & Chief Monetary Economist of Cumberland Advisors. The second is Chris Whalen, Chairman of Whalen Global Advisors LLC. The third is Bill Kennedy, Chief Investment Officer of Fieldpoint Private and GIC Board Member.

Global Interdependence Center VIRTUAL EVENT
REPO MARKET, MONETARY POLICY, & LIQUIDITY
THURSDAY, OCTOBER 10, 2019 | 12:00 - 12:30 P.M.
SPEAKERS

BOB EISENBEIS
Vice Chairman & Chief Monetary Economist of Cumberland Advisors

CHRIS WHALEN
Chairman of Whalen Global Advisors LLC

BILL KENNEDY
Chief Investment Officer of Fieldpoint Private and GIC Board Member

[1]

https://www.newyorkfed.org/markets/opolicy/operating_policy_19 See:

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