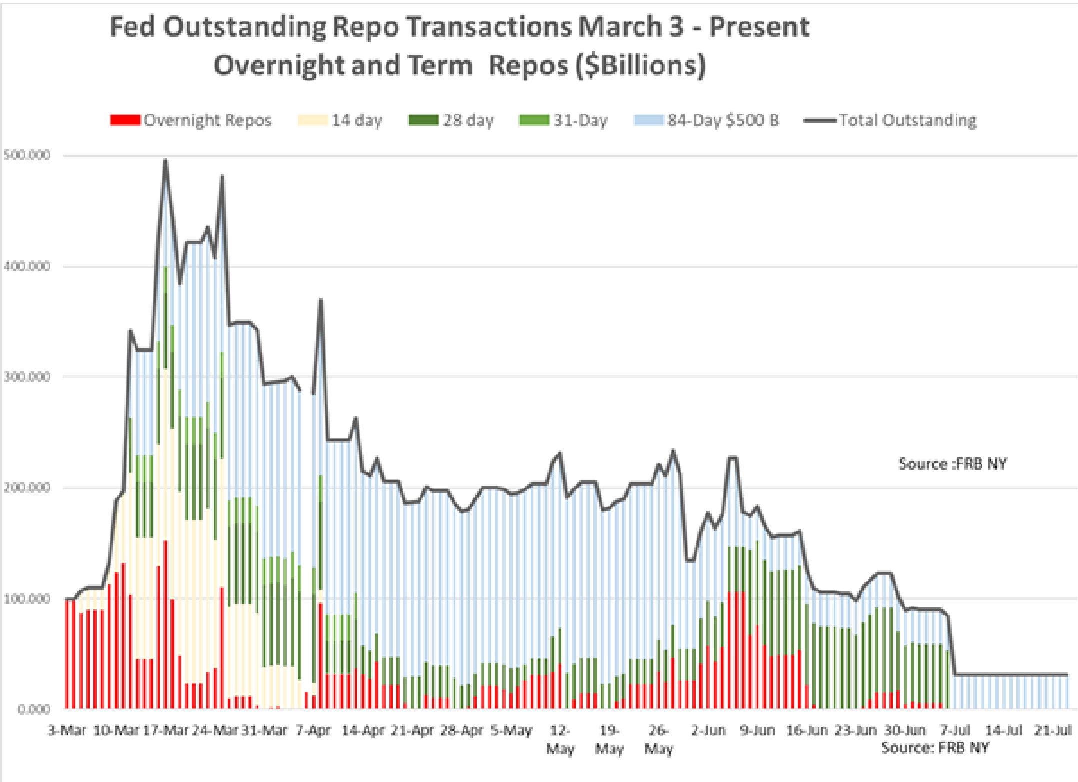
Cumberland Advisors Market Commentary – Update on Fed Repo and Reverse Repo Facility

A measure of how last fall's disruption in the repo market has subsided can be observed by the takedowns in the Fed's repo facility, designed to enable dealers to temporarily finance their inventories of securities. The program included offerings with multiple maturities, and after March 31 the maximum size that each offering could be was $500 billion. The chart below shows the evolution of the takedowns of the program and total outstanding daily amounts.



A few observations are relevant. The program peaked in March, and totals outstanding have declined steadily thereafter. The bulk of the outstanding volume in April and May was term issues of 84 days. Overnight volume increased for a bit in late May and early June but has been negligible since June 16. Details on offerings and takedowns are interesting and provide clues as to the state of liquidity, even given the large volume of Treasuries coming to market. The last takedown of an 84-day offering was on March 13, and there have been no offers for the five subsequent offerings the Fed has made. The last takedown of a 28-day offering was June 16, and it is quite interesting that from July 5 through July 24 there have been no overnight transactions. All this portends well for the state of liquidity.

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and other factors that often influence investment opportunities and strategies.