Cumberland Advisors Market Commentary – Whatever It Takes!

Tuesday morning March 9, the Federal Reserve Bank of New York announced an increase in the current monthly schedule of repo transactions designed to deal with short-term liquidity problems for primary dealers and certain other market participants: from $100 billion to $150 billion in overnight repos and for two-week term repos from $20 billion to $45 billion.

Following that announcement, the one-day operation for March 9 resulted in a total of $112.932 billion in proposals being submitted consisting of $73.982 billion in Treasuries and $38.950 billion in MBS, all of which were accepted. To put this action in perspective, over the last 10 days prior to Tuesday’s change, submissions for overnight repos averaged $65.8 billion, with a high of $111.5 billion, a low of $26.24 billion, and a standard deviation of $32.3 billion. In only two days there was more than $100 billion in submissions received. By comparison, during the peak of the initial liquidity crisis in September and October of last year, overnight repos never exceeded $90 billion until the limits were increased in early November, but total repos outstanding were closer to $300 billion during the latter half of October 2019.

So, while the Fed’s action is accommodative, it is more sending the message of a willingness to “do whatever it takes.” By historical standards the Fed has much more room to move to alleviate market liquidity problems should the need arise, and we have no doubt that it will act if needed.

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Want to know more about the repot market? John Mousseau discusses it in this interview: https://youtu.be/GwfwSziFKQA