Weekly Commentary

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Year-end repo worries abating

The political scene in Washington is tense, but signs are that the liquidity market need not be. Concern about how the repo market will respond to year-end pressure has abated following the last Federal Open Market Committee meeting. In his press conference, Chair Jerome Powell made clear that the Federal Reserve stood ready to support the overnight market and said that the measures already taken through term and permanent operations (its purchases of Treasury bills) make them confident quarter-end should go smoothly. Market participants also have prepared for any dislocations; they will not be caught off guard as they were in September. Volatility might be heightened and repo rates could still rise higher than normal—historically not uncommon at year end. But we are comfortable any pressure will abate quickly. It is worth remembering that all of these concerns reflect issues with the plumbing of the repo market, not credit stress.

The London interbank offered rate (Libor) ended the week from the previous with 1-month rising from 1.74% to 1.79% and 3-month increasing from 1.89% to 1.93% and 6-month moving from 1.89% to 1.92%.

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