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Weekly Commentary

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No repo market drama

While the world was celebrating the flipping of the calendar to 2020, the Federal Reserve, cash managers and other market participants were watching the overnight liquidity market to see if repo rates would spike as they unexpectedly did in September. Even though that occurrence was related to technical issues and not credit events, any clog in the plumbing of the overnight lending system is concerning, and year-end activity tends to bring stress and volatility of its own. But through overnight and term operations, the Fed made almost $500 billion available to primary dealers on Dec. 31. This maneuver proved successful—dealers took down roughly half of it—and repo rates traded well within the federal funds target range.

The shortened week meant few releases of data, as many Americans still were on vacation. One was the Conference Board's survey of consumer attitudes, which showed them remaining confident post-Christmas. Another report indicated that the manufacturing sector still is in a slump.

The London interbank offered rate (Libor) ended the week from the previous with 1-month falling from 1.79% to 1.71% and 3-month decreasing from 1.93% to 1.87% and 6-month slipping from 1.92% to 1.89%.

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