

US Money Markets: Calm as you like on bills buying

With the Fed buying bills and a chunk of the Treasury cash balance to be paid down, we'd expect a further easing in repo conditions as we progress through the coming weeks. SOFR should begin to trade back below the effective funds rate, eventually pulling it lower. The SLR easing coming too will be impactful. And money market funds are still seeing good inflows



Money market funds remain in vogue and we don't expect that to change soon

All change at the Fed – what does it mean?

The nomination of Kevin Warsh as Federal Reserve Chair is mildly hawkish, as he's not the outright dove that Kevin Hassett could have been. But then again, Warsh could be seen as less Trump-impacted, and thereby more impactful. Even if Warsh did turn out to be a MAGA dove, it's still unlikely that the overall FOMC turns MAGA dovish. At best, President Trump could turn four board members MAGA dovish – Warsh, Jerome Powell's replacement (only if he leaves), Lisa Cook's replacement (only if she is fired) and one retirement later in 2026. That's four at the very best. The rest, which is eight out of 12, would be pure data watchers. Overall, the maths suggests that the data will decide on rates, not the president.

As it is, there are about two rate cuts discounted, and we agree with this – it's been our view since the beginning of the year. But nothing for the foreseeable future. Chair Powell was, in our view, remarkably balanced in his commentary at last week's FOMC meeting, and is in no mood to cut

(nor hike). He could well go through the rest of his term without changing rates again. We then have two 25bp cuts expected in June and September, and that's it for the cuts. The macroeconomy is vulnerable, but displaying enough resilience to avert a recessionary tendency through 2026.

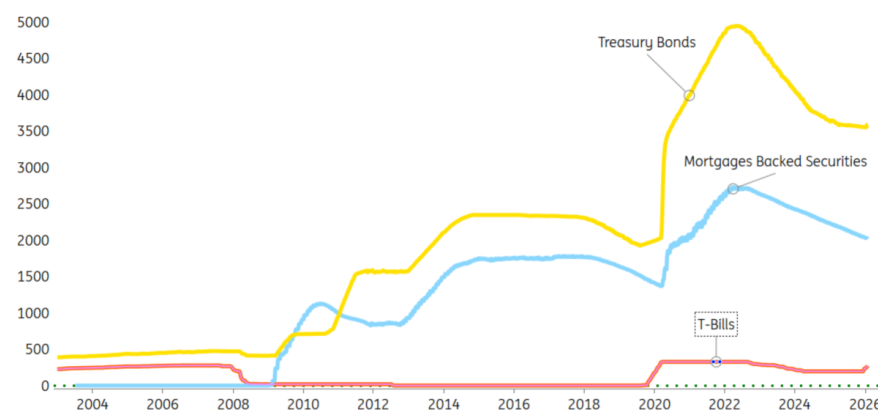
The interesting dynamic from the liquidity-plumbing perspective is talk of balance-sheet reduction. The current FOMC members tend to hold their collective noses and prefer to maintain the excess bank reserves system. It's easier to stick with it, and tough to undo. But it seems that Kevin Warsh intends to make a go of it. If so, we'd need to be on alert to some potential liquidity hiccups along the way, and certainly some teething issues. We'll opine more on this as we see a clearer plan of action.

Fed buying bills is doing its job and acting to support bank reserves

Since the Fed re-ignited its bill-buying programme, some \$80bn has been added. Total bill holdings are now at almost \$275bn. Over the same period, some \$30bn of mortgage backed securities have rolled off the balance sheet. The latest data also shows a rise in government bond holdings. All in all, in net terms, there has been a \$60bn build in the Fed's holdings of securities since mid-December 2025. That has been partly offset by an increase in the Treasury cash balance due to tax inflows. It leaves bank reserves at or around around \$3tr.

The Fed's bond and bills holdings

USD, billions



Source: ING estimates, Macrobond

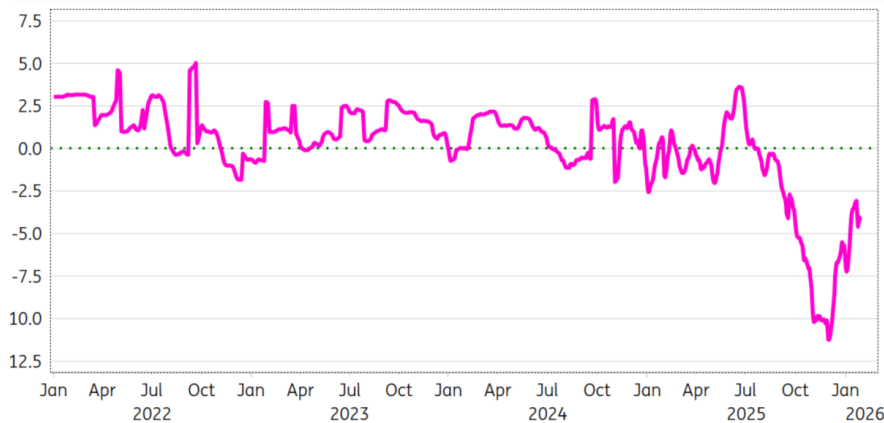
The genesis of the renewed bill-buying programme was to calm the perception of liquidity tightness that had emerged. That said, the effective fed funds rate remains elevated relative to where it was. It had been 8bp above the fund rate floor. It's now 14bp above. That may not seem like much, but it is an irritation for the Fed. In fact, it was this drift higher that really prompted the Fed into bill-buying action. Ideally, the Fed would like to see the effective fund rate drift lower again.

As it is, the effective funds rate is just 1bp below the rate paid on excess reserves, which in fact should act as a ceiling for the effective funds rate. The Fed will still likely declare recent

developments as positive, and there has certainly been a net calming in repo circumstances. Ahead, we think that SOFR can and should trade back through the effective fed funds rate. That in turn can act to pull it back down and away from the rate paid on excess reserves. The impending easing in the Supplementary Leverage Ratio (SLR) will be impactful too (see more on this further below).

Fed funds rates versus the SOFR rate

(Fed funds rate *minus* SOFR rate)



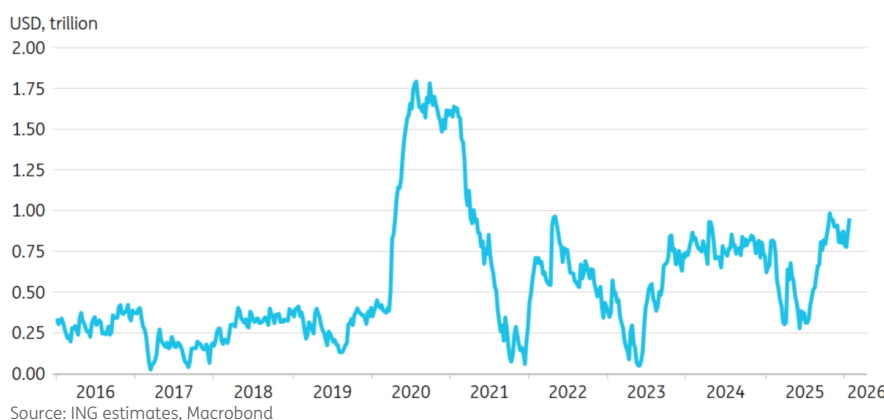
Source: ING estimates, Macrobond

SOFR has eased. It will ease lower on Treasury cash payouts

SOFR has continued to trade a tad tight, all things considered. Theoretically, it should trade through the effective funds rate, as the former is a secured funding rate. Going forward, we expect SOFR to richen versus the effective fund rate as the T-bill programme continues to act to add to bank reserves. Also, importantly, there should be a paydown of some USD150bn from the Treasury cash balance, which is currently elevated in the wake of recent tax receipts.

Treasury cash balance at the Federal Reserve

Amount that effectively sucks liquidity from bank reserves



Source: ING estimates, Macrobond

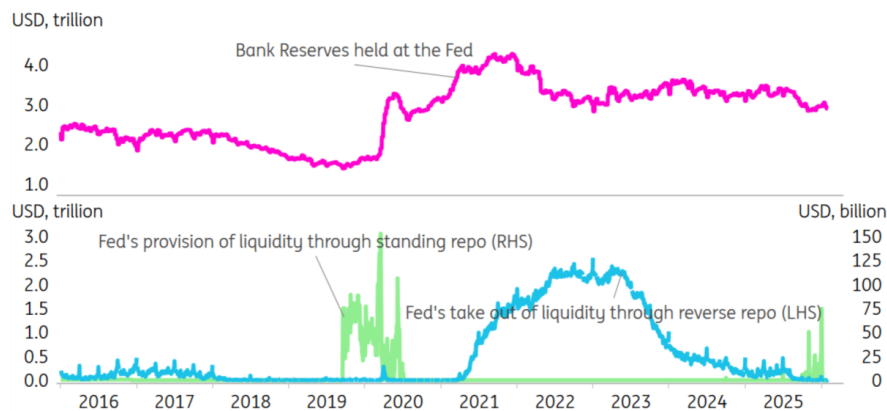
Currently, the Fed is neither providing nor withdrawing liquidity from the system to any significant

extent. This suggests a degree of balance in the system.

The follow-on question is what level of bank reserves are comfortable? Far from perfect, but one thing we can do is make a judgment on reserves based on a percentage of GDP. The current level of bank reserves is around \$3tr, so we're in a comfort zone of 9% to 10% of GDP. The Fed is now likely to build reserves at a similar pace to the expansion of nominal GDP (2-5% per annum). That is until or unless Kevin Warsh's Fed engages in balance sheet reduction – to be seen.

Bank reserves at the Federal Reserve

Alongside the Fed's repo (adding liquidity) and reverse repo facilities (taking out liquidity)



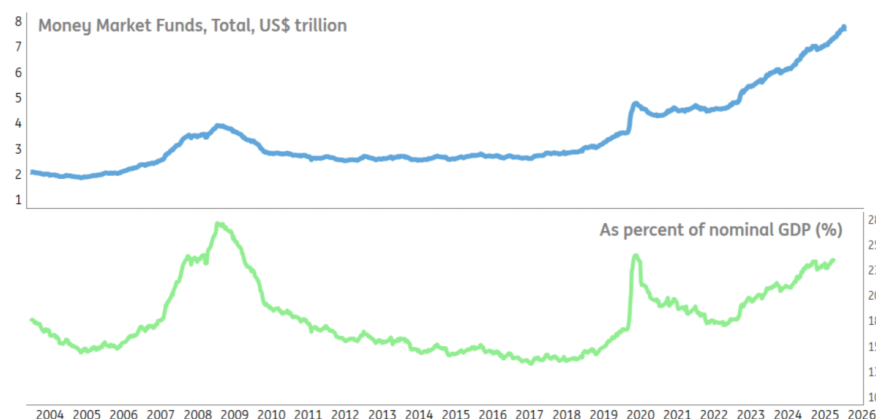
Source: ING estimates, Macrobond

Money market funds remain very much in vogue, and little to suggest any change in that

Inflows to money market funds remain firm, with both institutional and retail participating. Prime funds continue to see their fair share of the increase. As a percentage of GDP, total money market funds are now approaching 25%, not far off the previous high of 27% in 2009. So far, the rate-cut narrative has not been a material issue, mostly as a return of 3-4% still represents a decent return on what is effectively a 'zero risk' product.

Money market funds remain on the rise

Also on the rise as per cent of nominal GDP



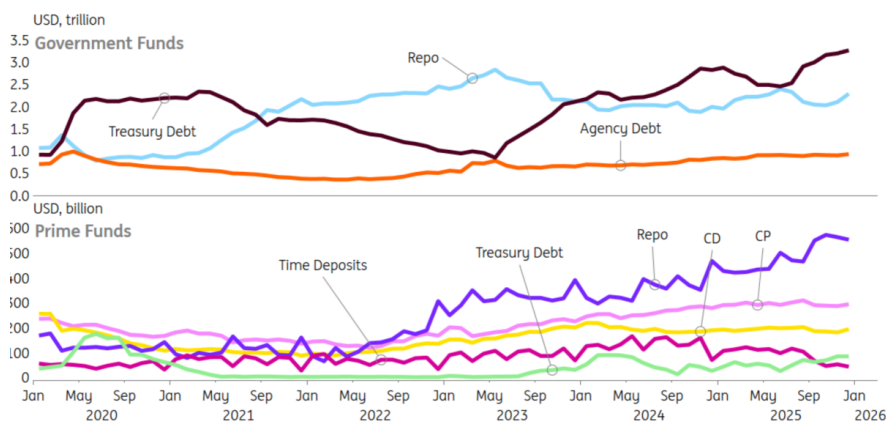
Source: ING estimates, Macrobond

In terms of specific exposures, Government Funds have seen a renewed rise in holdings of Treasury Debt (effectively bills). Extra bills are being issued to take pressure off coupon issuance. This should help maintain a concession in bills. Repo has been downsized relative to Bills' holdings as a result, although repo has been on the rise recently.

In Prime Funds, repo (reflecting equity repo) exposures remain elevated. Exposure to commercial paper (CP) has been gradually rising, while certificates of deposit (CD) and ordinary deposits have been steadier to a tad lower. Bank deposits have been on the slide, mostly because there are better terms in alternative buckets.

Money market fund holdings

Government funds on top, and prime funds on the bottom



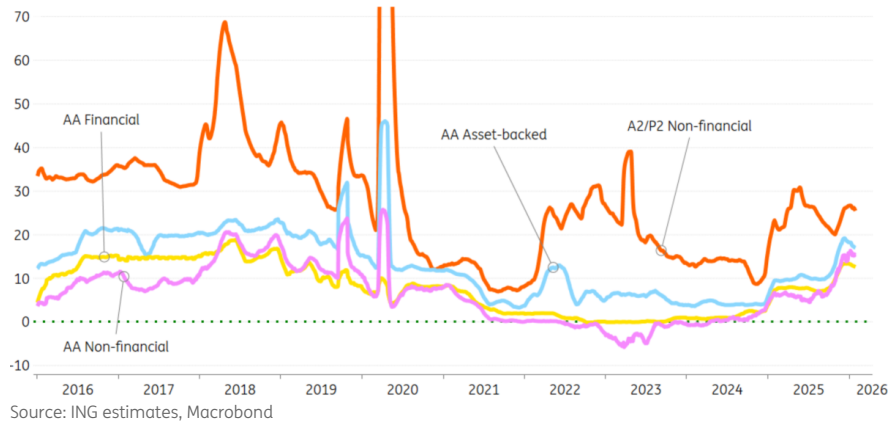
Source: ING estimates, Macrobond

Terminating out is a viable means to adding yield, especially if added to a credit extension

In terms of attainable rates, the entire spectrum of overnight commercial paper rates remains comfortably above the Federal Reserve's reverse repo rate. This has reflected past relative tightness in repo, which acted as an upward drag on other rates from a relative value perspective. And on a concessionary T-bills environment.

Commercial paper alternatives

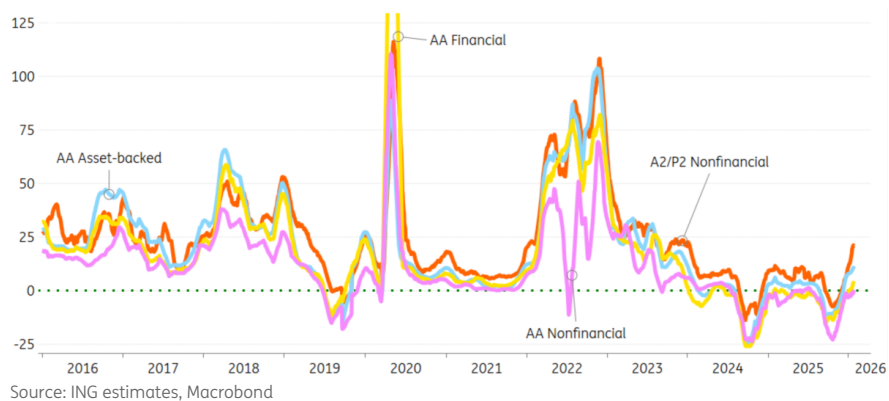
As spreads above the Fed's reverse repo rate (bp)



With the Fed still technically in a rate-cutting mode, we should see a mild concession when terming out. But that concession has recently reverted towards a premium, especially for the lower-rated product. If the Fed is to cut rates later in the year, then terming out in spread product at current levels looks to be a decent play.

Terming out

From overnight (o/n) to three months (3mths), bp



The supplementary reserve ratio is also set to be eased in the coming months

As an important aside, proposed changes to the Supplementary Leverage Ratio (SLR) for big US banks can boost demand for Treasuries and Repo. It's in fact effective from 1 April 2026, with an earlier opt-in possible. There could be further changes ahead of April, as Stephen Miran had been looking to exclude Treasuries and reserves. The skew ahead on balance sheets will be gradual. Banks are lenders first, and credit hasn't been notably constrained.

Is this impactful for Repo? We think so, yes. Most players have easy access to liquidity, but from time to time there are liquidity shortages. It's a bit phoney as there is ample liquidity

in the system. However, those holding the liquidity often don't want to, or cannot, participate. Ease the SLR and that can change. It's confirmed, and coming.

See more [here](#).

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

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