

US Rates Watch

Funding monitor: risks dissipate, focus on tax-date

Funding softens following tariff de-escalation

We saw signs of precautionary liquidity build across several players and some budding signs of funding stress. However, following the tariff de-escalation, we saw funding pressure reverse. Clients are now focused on tax-date risks with liquidity drain and collateral build likely putting upward pressure on funding near-term.

Unsecured funding: upwards pressure retreating

Fed funds: Overnight fed funds volumes declined on the week, while the rate is sticky at 4.33%. The decline in FF volumes over the week could be a sign of higher FHLB advance demand but volumes are not outside of recent ranges (FHLBs are the largest lender in FF market) (Exhibit 1). The 75th percentile is still trading only 1bp above FF, implying limited upward pressure in FF markets (Exhibit 2).

OBFR: The overnight bank funding rate, which includes FF, Eurodollar and selected deposit transactions is also relatively rangebound with the rate unchanged at 4.33%. The OBFR would likely be more sensitive to unsecured dollar funding pressure than FF given the broader range of transactions but the 75th percentile remains steady at 4.33% outside of quarter-end. OBFR volumes have also declined but are within normal ranges.

CP/CD: CP & CD spreads have risen several bp in the last several days as issuers paid up for precautionary liquidity (Exhibit 3, Exhibit 4, Exhibit 5). CP volumes have remained stable. Investors reported less willingness to lend in CP—especially in lower quality or longer-dated tenors—without higher compensation but upward pressure has dissipated since the de-escalation of tariffs.

Cross currency: the cross-currency basis implied increased demand for USD funding across most major currencies, though it reversed some of the move over the week since Tuesday (Exhibit 6). Current levels do not imply to us material USD funding stress but are consistent with a modest increase in USD demand from CP & CD markets.

Secured funding: rates peaked but have since softened

SOFR: Overnight UST repo rose above quarter-end levels last week, implying sizeable funding pressure. Similarly, April SOFR/FF futures saw a significant amount of selling following the weak 3y UST auction on Tuesday (Exhibit 9). The move was likely driven by market pessimism around demand for USTs. Funding pressure softened following the stronger than expected 10y and 30y auctions.

SOFR volumes increased \$80b on the week ending Apr 10 (Exhibit 8). Repo volumes have been rising as dealer UST holdings are growing. Higher dealer UST holdings seemingly are a result of selling from asset managers & some position reduction from the fast money community. We see a risk that repo volumes & rates could rise further given position reductions & precautionary liquidity building already occurred last week.

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Abbreviations:

FF: Federal funds
FHLB: Federal Home Loan Banks
CP: Commercial Paper
CD: Certificate of Deposit
OBFR: Overnight Bank Funding Rates
FIMA: Foreign and international monetary authorities
GSE: Government sponsored enterprises
Inst'l: institutional
MMF: Money market funds
ON RRP: Overnight reverse repo facility
P&I: principal & interest
TGA: Treasury General Account
w/w: week on week
DL: debt limit
WTD: week to date
DN: Discount Note
PD: Primary Dealer
UST: US Treasury
FRN: Floating rate note
FF: Fed funds
YE: Year-end
AGY: Agency debt
WLA: Weekly liquid assets
WAM: Weighted average maturity

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Timestamp: 14 April 2025 10:03AM EDT

Sponsored: sponsored repo volumes declined \$34b on the week ending Apr 10 (Exhibit 11, Exhibit 12). The decline was driven by a \$44b reduction in bilateral transactions vs a \$10b increase in GC.

MMFs AUM declining ahead of April tax-date

AUM: declined \$50b on the week ending Apr 10 (Exhibit 13). Sudden outflows out of MMFs can lead MMFs to shift their investment behavior, including shortening up their WAM and building WLA. MMF AUM has declined \$35b for institutional and \$12b for retail (Exhibit 14). Prime funds experienced \$19b in outflows on the week. Concerns of further prime fund outflows could exacerbate widening of CP/CD spreads if prime funds shift into higher quality, more liquid assets. We expect further outflows this week due to tax-date dynamics.

WAM/WLA: MMF WAMs typically shorten and WLAs typically rise when uncertainty is higher. WLAs are around recent averages currently (Exhibit 16) but MMF WAMs have declined for both gov't and prime funds, though not outsized relative to the recent trend (Exhibit 17). While MMFs appear to be positioning into shorter-dated assets, these levels do not indicate significant funding stress.

FHLB issuance sees significant reversal

FHLB debt has quickly declined following several large increases over the last two weeks but now remains \$4bn lower on the week. We use FHLB debt as a proxy for bank demand for FHLB advances, an indicator of bank funding needs. FHLB debt peaked at \$10b higher YTD on Apr 8 but has trended lower and is now \$4bn lower YTD (Exhibit 18).

Fed balance sheet saw reserves rise, RRP fall

Fed balance sheet: Fed reserve balances increased \$57b despite on the week ending Apr 9, while ON RRP and foreign RRP declined (Exhibit 20). The TGA increased on the week and should see inflows from taxes continue through the Apr tax date. Since Fed data was released ON RRP has declined an additional \$70bn and TGA is little changed. This implies reserves have increased holding all else equal. The increase in reserve balances is consistent with the theme of precautionary liquidity build.

If funding stress were to become elevated, potentially we could see an increase in the Fed's repo facilities on the asset side of their balance sheet, which includes the standing repo facility and the FIMA repo facility. Additionally, FX swap line use remains limited implying that foreign central banks with access to the facility do not currently face a significant need for USD.

Bank balance sheets higher, driven by domestic banks

Bank balance sheets: currently show little signs of stress but are 1-week lagged vs Fed balance sheet data. Banks saw balance sheets increase slightly on the week ending Apr 2, due to growth in deposits at domestic banks (Exhibit 24). At the same time banks reduced borrowing on net. On the asset side, banks used the increase in deposits to increase cash holdings, which saw deposit outflows and a large decline in in cash holdings. UST & AGY holdings were little changed but banks increased lending via repo and loans. Overall, these changes imply banks were still comfortable with funding conditions.

The clearest sign of funding stress would be via tapping of revolving lines of credit. This would be seen through an uptick in "commercial & industrial loans". There were no signs of revolving credit lines being tapped on Friday 11 April.

Dealer balance sheets see UST holdings decline

Dealer holdings, which are also 1-week lagged, show a \$9b decline in Treasury holdings on the week ending Apr 2 (Exhibit 25), despite a \$6b increase in coupons. More recently, the weak 3y UST note auction led to higher dealer take-down relative to recent 3y auctions but saw lower dealer take-down for the 10y and 30y auctions. Concerns around foreign demand for USTs drove investors to sell SOFR/FF futures following the weak

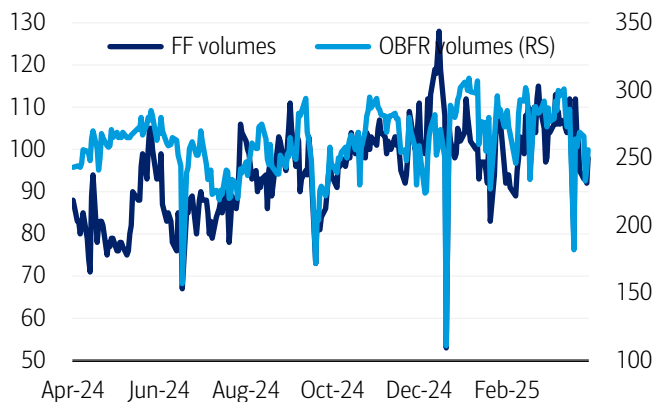


auction, implying expectations for higher repo funding pressure and greater pressure on dealer balance sheets (Exhibit 9). Similarly, T-bills cheapened meaningfully, consistent with front-end UST selling and increased dealer holdings (Exhibit 10).

Bottom line: we saw signs of a precautionary liquidity build and some budding signs of funding stress last week that have since subsided but could still re-appear with further leveraging and downside growth risks. Near-term, the market will focus on funding risks around the April tax date as liquidity is drained and collateral settles, which should put some upward pressure on funding.

Exhibit 1: FF and OBFR volumes (\$bn)

FF volumes declined \$5bn while OBFR volumes declined \$7bn from prior week as of Apr 10

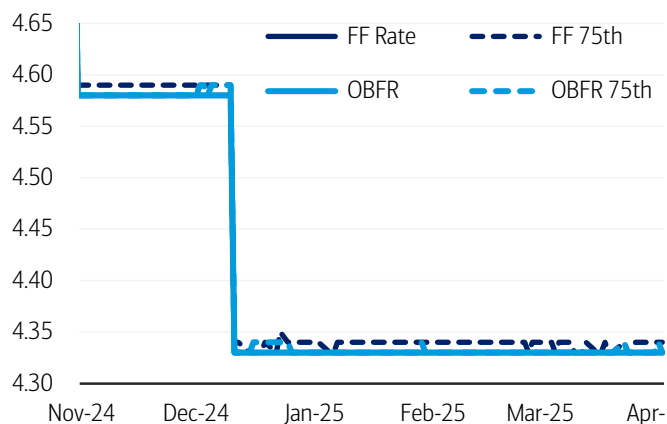


Source: Bloomberg

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Exhibit 2: FF & OBFR medians vs 75th percentiles (%)

FF 75th percentile has been printing softer over recent weeks

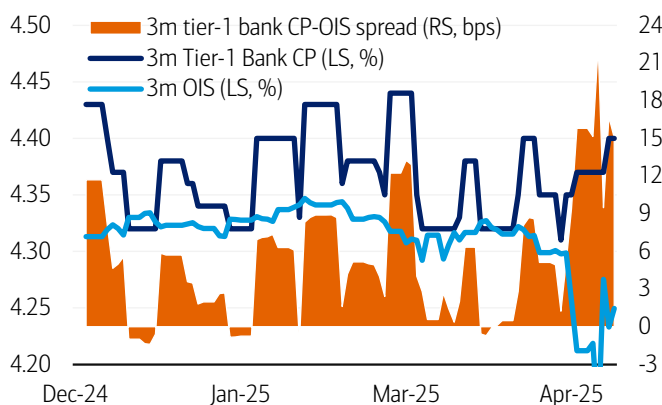


Source: Bloomberg

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Exhibit 3: 3-day MA in 3m Tier 1 bank CP vs 3m OIS

Data as of Apr 10. We have seen a notable widening in CP spreads

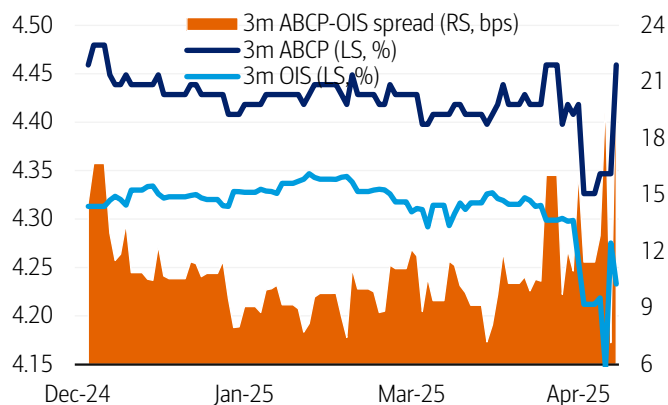


Source: Bloomberg

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Exhibit 4: 3-day MA in 3m ABCP vs 3m OIS

Data as of Apr 9. We have seen a notable widening in ABCP spreads

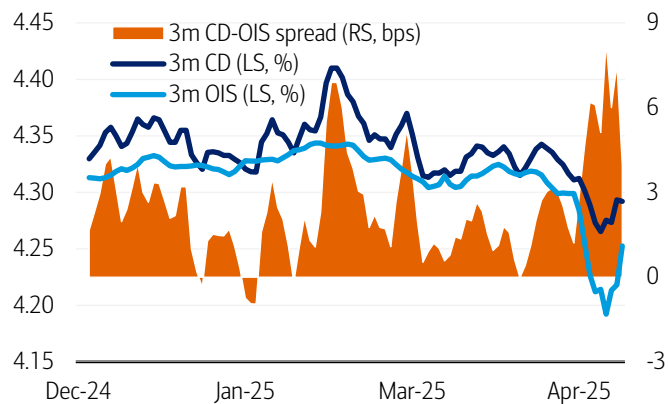


Source: Bloomberg

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Exhibit 5: 3-day moving avg of 3m CD rates vs 3m OIS

Data as of Apr 11. We saw a notable widening in CD spreads

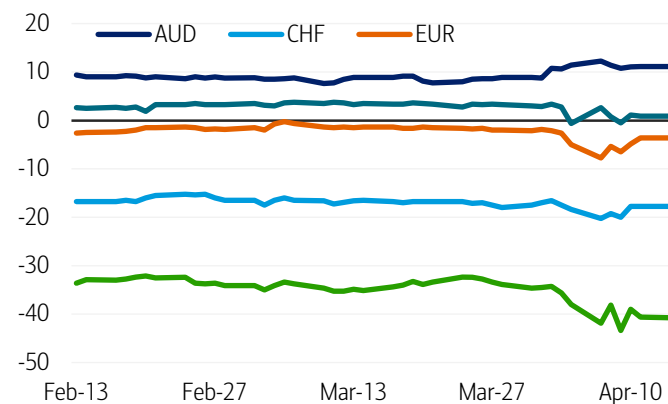


Source: Bloomberg

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Exhibit 6: 1-year cross currency basis vs USD (bps)

Cross currency spreads indicated increased signs for dollar funding vs most major currencies but reversed some of the move

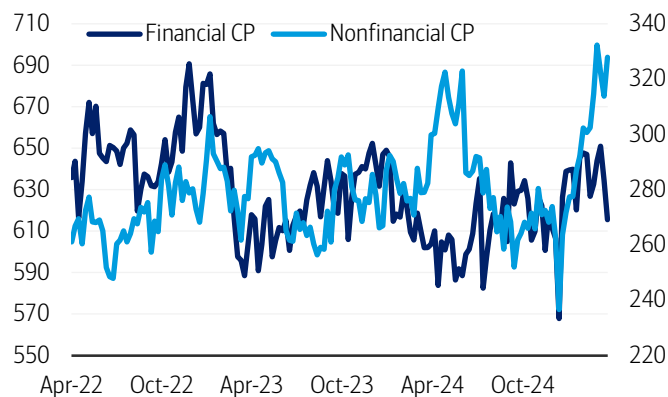


Source: Bloomberg

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Exhibit 7: Commercial paper (\$bn)

CP outstanding declined \$5b, a \$19b decline in-financial CP and a \$14b increase in non-financial CP

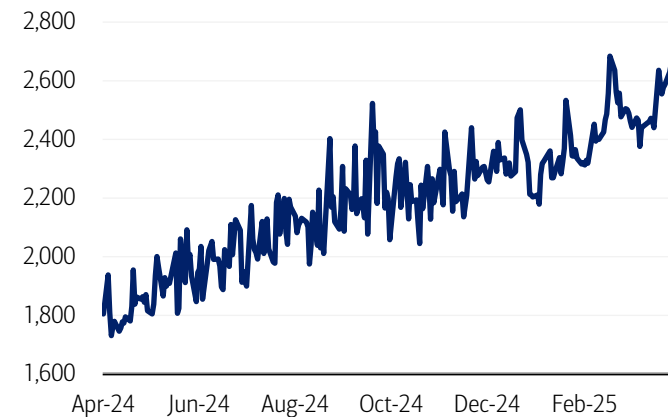


Source: Bloomberg

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Exhibit 8: SOFR volumes (\$bn)

SOFR volumes increased \$80b on week ending Apr 10



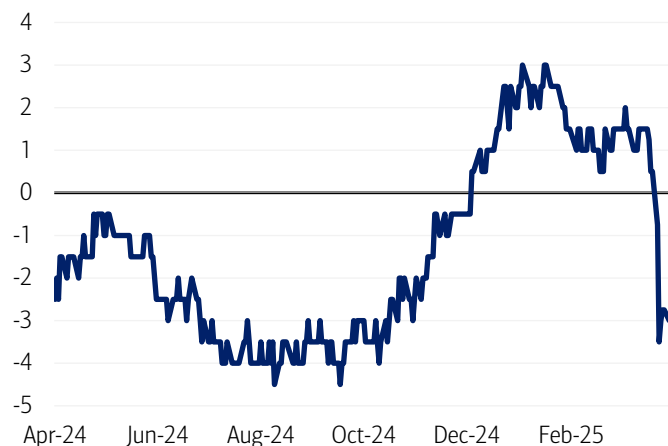
Source: Bloomberg

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Exhibit 9: SOFR-FF futures basis April contract now at -3

SOFR-FF spread tightened meaningfully following the weak UST auction;

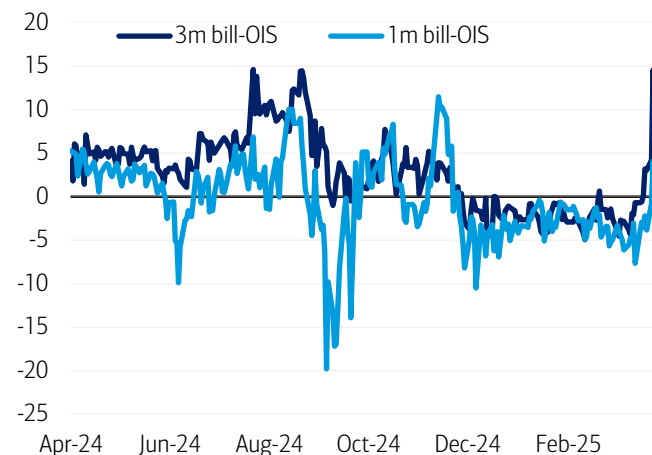


Source: Bloomberg

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Exhibit 10: 1m and 3m T-bill-OIS spreads (bps)

Bills cheapening meaningfully, but have since largely reversed

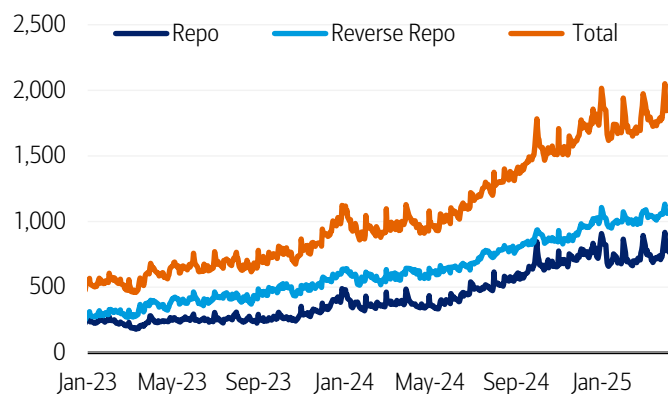


Source: Bloomberg

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Exhibit 11: Sponsored Repo Volumes (\$bn)

Sponsored repo volumes declined \$34bn on the week ending Apr 10

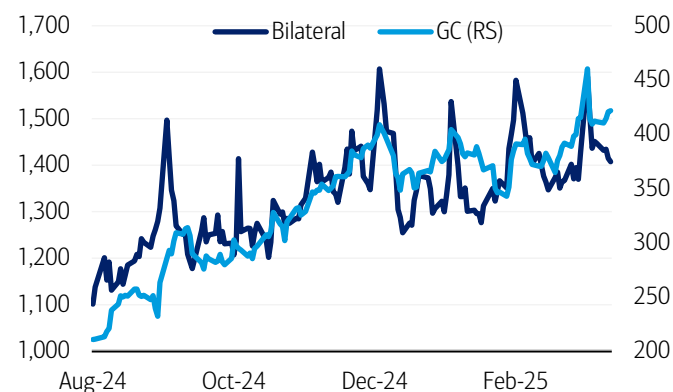


Source: DTCC

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Exhibit 12: Sponsored repo volumes by transaction type (\$bn)

Sponsored bilateral declined \$44b, while GC increased \$10b



Source: DTCC

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Exhibit 13: Daily Crane MMF AUM (\$bn)

MMF AUM declined \$50b WoW as of Apr 10

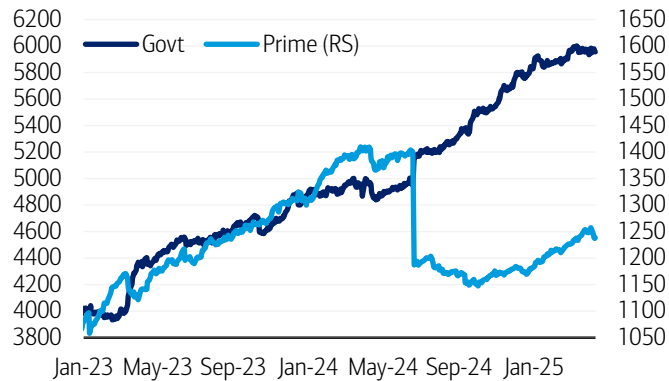
Dates	Total	Prime	Gov't	Tax exempt	Retail	Institutional	Prime Institutional	Gov't Institutional	Prime Retail	Gov't Retail
12/31/2024	7,174	1,183	5,850	141	2,667	4,366	318	4,048	864	1,803
4/3/2025	7,384	1,257	5,984	143	2,805	4,435	327	4,109	931	1,875
4/10/2025	7,334	1,238	5,956	139	2,794	4,401	317	4,083	921	1,873
WoW change	-50	-19	-27	-4	-12	-35	-10	-25	-9	-2
YTD change	160	56	106	-1	127	34	-1	36	57	70

Source: Crane Data

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Exhibit 14: MMF AUM (\$bn)

YTD, gov't fund AUM has increased 2%, prime funds have increased 5%

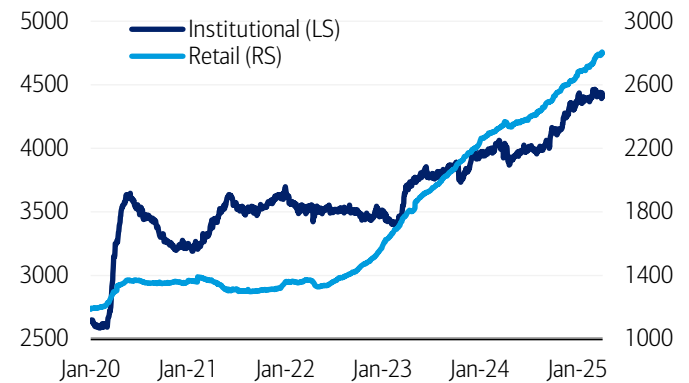


Source: BofA Global Research, Crane Data

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Exhibit 15: Institutional MMF AUM vs Retail MMF AUM (\$bn)

Inst'l MMF AUM has increased 1% YTD, retail MMF AUM has increased 5% YTD

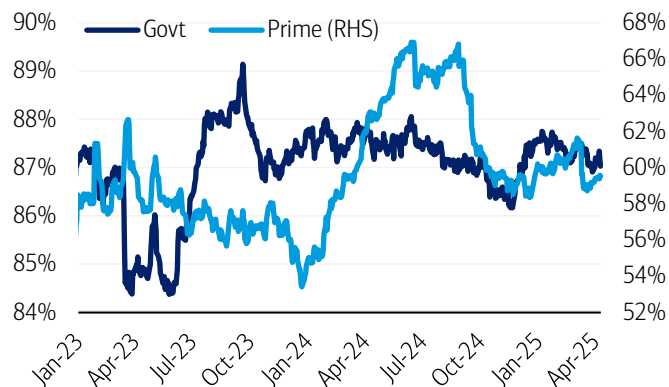


Source: Crane data

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Exhibit 16: MMF WLA

MMF weekly liquid assets have increased modestly

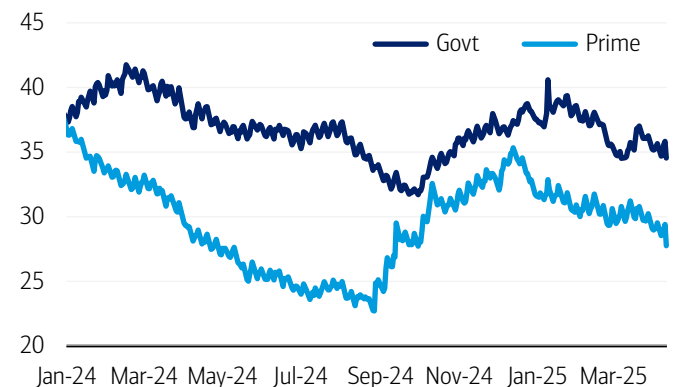


Source: BofA Global Research, Crane Data

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Exhibit 17: MMF WAM (Days)

YoY MMF WAM has extended -4 days for gov't funds, -1 days for prime funds

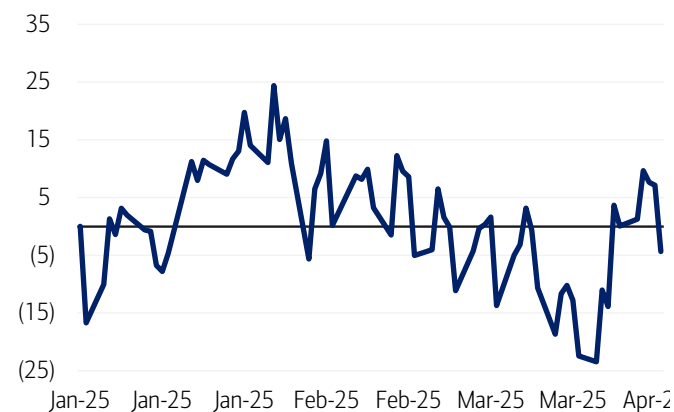


Source: BofA Global Research, iMoneyNet

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Exhibit 18: Cumulative growth in FHLB debt since Jan 1 '25 (\$bn)

Daily FHLB cumulative debt is roughly \$10bn higher YTD



Source: Bloomberg, FHLB Office of Finance. Note: we use estimates of daily net issuance

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Exhibit 19: Cumulative growth in FHLB debt since Mar 1 '23 (\$bn)

Daily FHLB cumulative debt is roughly \$14.8bn lower since March 1



Source: Bloomberg, FHLB Office of Finance. Note: we use estimates of daily net issuance

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Exhibit 20: Fed balance sheet, selected assets & liabilities (\$bn, Wednesday comparison data)

ON RRP and foreign RRP declined while reserves and TGA increased

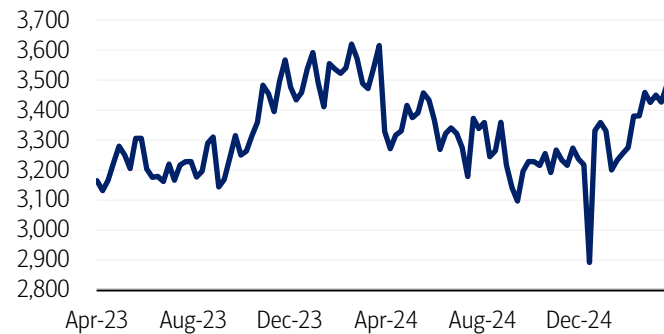
Assets						Liabilities						
Dates	Securities	Repo	Discount Window	FX Swaps	Other	Currency	Foreign RRP	ON RRP	TGA	Reserves	Other	Total
1/1/2025	6,527	0	3	1	372	2,374	415	473	722	2,892	26	6,903
4/2/2025	6,410	0	2	0	362	2,377	389	233	302	3,427	47	6,774
4/9/2025	6,411	0	3	0	365	2,378	366	168	315	3,484	66	6,778
WoW Change	0	0	1	0	3	2	-23	-65	14	57	20	4
YTD Change	-116	0	-1	-1	-7	4	-49	-305	-407	592	40	-124

Source: BofA Global Research, Federal Reserve

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Exhibit 21: Fed reserve balances outstanding (\$bn)

Change in reserve balance from prior week was \$57.3bn

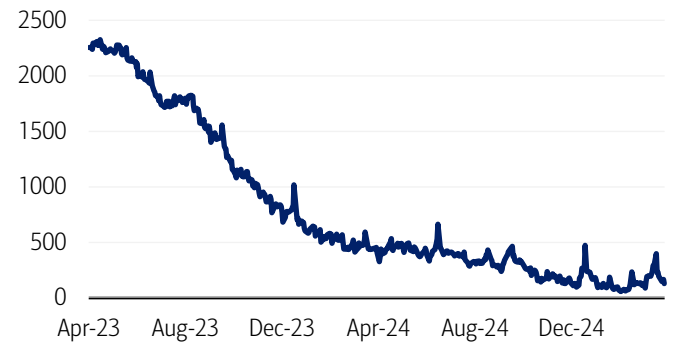


Source: Federal Reserve

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Exhibit 22: ON RRP take-up (\$bn)

ON RRP take-up decreased another \$70b after Apr 9



Source: FRBNY

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Exhibit 23: Reserves by Federal Reserve district (\$bn)

Reserves declined across San Fran, Richmond, Atlanta, Chicago, and KC

	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
4/2/2025	100	1955	84	140	391	80	145	27	20	42	108	335	3427
4/9/2025	100	2021	88	150	384	77	144	27	21	41	111	321	3484
Change	0	65	5	10	-7	-3	-1	0	1	-1	3	-14	57
% Change	0%	3%	5%	7%	-2%	-3%	-1%	-1%	3%	-1%	3%	-4%	2%

Source: BofA Global Research, Bloomberg

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Exhibit 24: US Commercial Bank balance sheets, selected assets & liabilities (\$bn)

Banks saw large inflows into deposits and reduced their borrowing. These inflows drove cash holdings higher and increased lending activity

		Total	Assets						Liabilities					
			Cash	UST & Agy	MBS	Repo & FF	Loans & Leases	Other	Deposits	Large	Small	Borrowings	Net due to related foreign offices	Other
All Banks	3/26/2025	24060	3447	1789	2677	686	12700	2761	18138	2361	15777	2166		3240
	WoW Chg	93	24	9	1	21	32	6	64	-3	66	-17	13	34
	YTD Chg	653	-73	197	161	-4	328	44	518	104	414	-167	128	17793
Domestic Banks	3/26/2025	20632	1997	1661	2636	299	11532	2505	16736	1521	15215	1284	-442	3054
	WoW Chg	91	51	8	1	2	31	-3	65	-5	70	19	-7	15
	YTD Chg	323	-280	181	149	-7	248	31	384	51	333	-65	-171	16527
Large Banks	3/26/2025	13821	1455	1391	2021	265	6915	1772	11142	768	10374	976	-478	2180
	WoW Chg	86	50	8	4	3	24	-2	57	-5	62	23	-4	11
	YTD Chg	136	-339	204	112	-13	109	63	141	-42	184	53	-178	11120
Small Banks	3/26/2025	6811	542	270	615	34	4617	733	5594	753	4841	308	35	874
	WoW Chg	6	1	1	-2	0	7	0	8	0	8	-4	-2	4
	YTD Chg	187	60	-22	37	6	138	-32	243	93	150	-118	7	5407
Foreign Banks	3/26/2025	3428	1450	128	41	387	1167	255	1402	840	562	882	958	186
	WoW Chg	1	-27	0	0	19	1	8	-1	2	-3	-36	20	19
	YTD Chg	330	207	16	12	3	81	12	134	54	81	-102	299	1266

Source: Federal Reserve H8

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Exhibit 25: Primary dealer holdings (\$mn)

PD holdings of UST declined \$9b WoW, driven by T-bills

	Total	US Treasuries					Agency ex MBS	MBS	Corporates		Commercial Paper	State & Munis	ABS	Variable Rate Notes
			Bills	Coupons	FRNs	TIPS								
4/2/2025	576,309	408,663	79,001	300,341	4,610	24,711	12,817	119,770	7,715		6,490	13,761	11,351	2,232
Chg WoW	-7,711	-9,376	-14,765	6,618	-4,636	3,407	1,289	4,331	-3,127		-870	-312	-217	-299
Chg YTD	176,834	152,274	13,674	139,771	-8,337	7,166	800	22,540	-3,649		2,499	1,377	3,852	-360
Chg since DL	191,598	165,475	-8,252	171,582	-785	2,930	-3,710	38,925	-10,427		-3,080	-1,116	4,232	-1,781

Source: BofA Global Research, Bloomberg

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Exhibit 26: PD UST holdings as a % of total holdings

Latest level 71% as of Apr 2



Source: BofA Global Research, Bloomberg

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Exhibit 27: PD UST holdings by security type (\$mn)

PD holdings of coupons are elevated

	Bills	Coupons	FRNs	TIPS	Total
3/26/2025	93,766	293,723	9,246	21,304	418,039
4/2/2025	79,001	300,341	4,610	24,711	408,663
WoW Change	(14,765)	6,618	(4,636)	3,407	(9,376)
Level Z-score	0.92	2.77	(0.83)	1.86	2.55

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Appendix

Exhibit 28: Daily FHLB debt issuance estimates (\$mn)

We estimate daily issuance from Bloomberg and FHLB Office of Finance website. Data is subject to revisions

	O/N	Term DN	Auction	Maturing DN	FRNs	Callable	Bullets	Maturing	Called	Total
3/3/2025	14,889	1,813	-	(14,412)	1,050	215	-	(2,570)	-	985
3/4/2025	10,550	3,346	2,680	(15,629)	1,150	10,365	20	(1,680)	(260)	10,543
3/5/2025	12,010	927	-	(18,363)	1,250	1,112	6	(1,776)	(110)	(4,945)
3/6/2025	11,428	2,096	1,040	(14,217)	1,257	360	-	(3,640)	-	(1,677)
3/7/2025	11,590	1,150	-	(20,175)	-	100	-	(3,565)	(102)	(11,003)
3/10/2025	22,100	2,968	-	(15,166)	2,900	155	-	(6,100)	-	6,858
3/11/2025	12,893	1,051	3,050	(13,681)	2,650	282	15	(2,205)	(115)	3,940
3/12/2025	14,745	3,247	-	(20,789)	2,200	814	1,000	-	(585)	633
3/13/2025	10,050	2,599	3,950	(16,775)	1,250	1,313	1,500	(2,565)	-	1,322
3/14/2025	13,719	1,146	-	(29,473)	3,325	2,285	100	(6,001)	(425)	(15,324)
3/17/2025	12,942	2,757	-	(18,140)	1,880	11,405	10	(2,082)	(65)	8,707
3/18/2025	12,737	2,467	2,300	(14,170)	250	1,447	-	(3,080)	(125)	1,826
3/19/2025	12,850	5,606	-	(20,674)	-	8,593	69	(50)	(60)	6,335
3/20/2025	9,055	2,150	1,150	(15,894)	1,100	185	5	(1,542)	(40)	(3,831)
3/21/2025	11,009	550	-	(21,191)	1,100	282	-	(1,745)	(11)	(10,006)
3/24/2025	9,768	1,669	-	(13,528)	130	257	-	(6,260)	(30)	(7,994)
3/25/2025	10,088	2,345	2,800	(11,900)	5,970	718	10	(3,037)	-	6,994
3/26/2025	675	6,919	-	(16,081)	3,152	7,220	100	(475)	(70)	1,440
3/27/2025	7,900	1,984	2,050	(7,972)	-	309	80	(5,692)	(1,236)	(2,577)
3/28/2025	8,364	572	-	(16,554)	1,000	50	-	(3,058)	-	(9,626)
3/31/2025	2,920	1,208	-	(12,184)	6,790	280	-	-	(30)	(1,016)
4/1/2025	11,529	1,627	5,320	(6,793)	2,855	229	-	(2,153)	(183)	12,431
4/2/2025	11,913	2,262	-	(17,025)	2,250	1,291	-	(1,026)	(2,525)	(2,859)
4/3/2025	14,600	556	5,070	(14,452)	14,435	210	26	(2,850)	(50)	17,545
4/4/2025	15,628	1,456	-	(23,166)	7,250	161	-	(4,915)	(25)	(3,611)
4/7/2025	13,528	2,948	-	(18,447)	6,325	337	-	(2,715)	(770)	1,205
4/8/2025	15,484	3,128	8,100	(14,738)	2,455	455	-	(4,054)	(2,435)	8,395
4/9/2025	15,774	3,403	-	(22,167)	5,450	345	-	(4,255)	(580)	(2,030)
4/10/2025	19,450	2,877	5,450	(18,870)	200	95	15	(4,530)	(5,178)	(490)
4/11/2025	14,900	3,015	-	(26,994)	470	480	-	(3,300)	(60)	(11,489)

Source: Bloomberg, FHLB Office of Finance. Note: We use estimates of daily FHLB debt issuance

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