

US Rates Watch

Fed QT stop: end October

QT stop date change: now end Oct, previously end Dec

We now expect the Fed to stop QT at the end of Oct vs prior expectation at end Dec. On Monday we wrote: “we see increased risks of a Fed QT stop at end Oct” (see [Repo jump & Fed bill backfill risk](#)). Elevated repo prints over recent days drove our change.

Repo levels: elevated for GSE cash period

Recent elevated repo levels have surprised us, especially for this time of the month. Recall, repo rates typically decline the 3rd week of the month during the GSE “float period” (float period = GSEs receive monthly mortgage principal + interest payments & invest this cash in repo before distributing to agency MBS holders later in month).

On Oct 21, TGCR & SOFR surprisingly rose to 4.21% & 4.23%. Similar repo levels are expected over coming days before rising further into October month end. Repo rates around current or higher levels will continue pulling FF higher in the target range. A recent increase in TGA to \$929b likely supported the higher repo rates.

Money markets at current or higher levels should signal to the Fed that reserves are no longer “abundant”. By some metrics the Fed may also judge that reserves are no longer “ample”. We believe sustained prints of TGCR > IOR is inconsistent with ample reserves (Exhibit 1, Exhibit 2, Exhibit 3). Recent TGA rise => money market jump ≠ ample.

Recent repo & other money market indicators may also be influenced by end October factors. Recall, end October = Canadian bank fiscal year end. Canadian banks may be reducing repo / funding intermediation activity into month end, exacerbating money market moves. After Canadian fiscal year end we suspect US bank balance sheets will tighten as they prepare for end '25 year end. There is no funding relief in sight.

Fed communications: shifting assessment of abundance

Fed assessment of “abundant” vs “ample” reserves shifted last week (recall, abundant > ample). Prior to last week, a wide range of Fed officials asserted “we’re still in an abundant reserves condition” (Exhibit 4). Last week they shifted: Powell = QT to end “in coming months”, Waller = reserves are “where we think we should be, just for ample”. Powell & Waller communication shift indicates Fed QT end likely sooner vs later.

QT end detail: MBS to bills, admin rate & backfill watch

At Oct FOMC we now expect 2 things: (1) QT cessation at end Oct (2) mortgage repayments immediately invested into UST bills. MBS to UST bills should be \$10-20b/m.

We strongly believe the Fed should also: (1) lower admin rates (IOR & SRF by 5bps each) to better anchor money markets in target range (2) backfill reserves via bill buying at a pace of \$75-100b/m to push TGCR below IOR. Neither action is our base case b/c it may take more time to convince broader FOMC. Fed should act swift but often moves slow.

Bottom line: QT now to be stopped at end Oct b/c recent repo increase & Fed speak.

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QT = quantitative tightening

GSE = government sponsored enterprise

TGCR = tri-party general collateral

SOFR = secured overnight funding rate

FF = fed funds

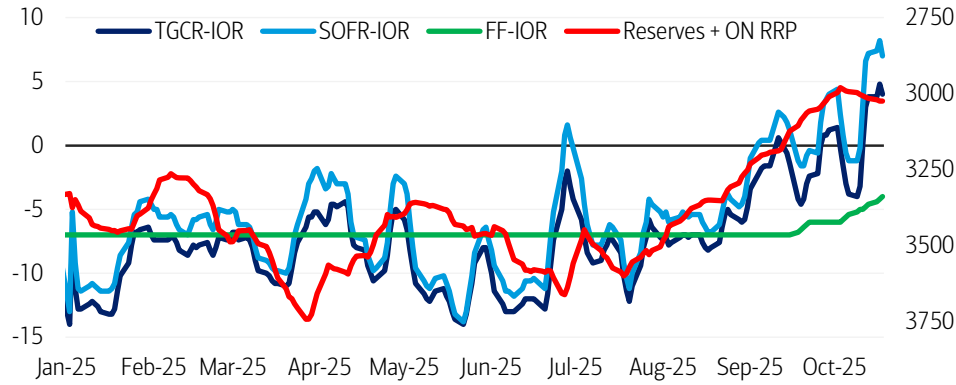
TGA = Treasury general account

IOR = interest on reserves

SRF = standing repo facility

Exhibit 1: Money market rates relative to IORB and reserve balances + ON RRP (1w MA)

Money market rates (LS, bps), reserves + ON RRP (RS, \$bn, inverted)



Source: BofA Global Research, Bloomberg

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Exhibit 2: Average money market rates spreads over recent months (bps)

Money market rates have risen quickly post debt limit resolution

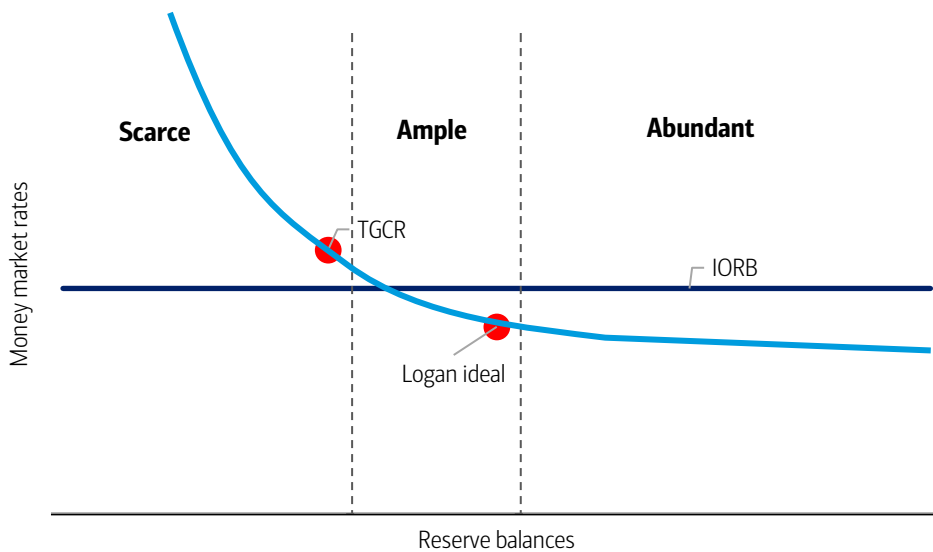
Start	End	TGCR-IOR (bp)	SOFR-IOR (bp)	FF-IOR (bp)	Reserves + ON RRP (\$bn)
6/1/2025	7/1/2025	-10.0	-8.0	-7.0	3,558
7/1/2025	8/1/2025	-7.9	-6.3	-7.0	3,527
8/1/2025	9/1/2025	-7.0	-5.6	-7.0	3,367
9/1/2025	10/1/2025	-1.8	0.6	-6.7	3,135
10/1/2025	10/22/2025	0.3	3.3	-5.2	2,999

Source: BofA Global Research, Bloomberg

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Exhibit 3: Stylized reserve balance demand curve in Fed's ample reserve regime

As reserves drain from abundant to ample, money market rates will become increasingly sensitive to changes in reserves



Source: BofA Global Research

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Exhibit 4: Fed tone on QT has shifted...

Recent Fed speak on balance sheet policy around the timing for QT end

Prior balance sheet view	Last week
"...with the balance sheet, we're still in an abundant reserves condition. And we've said Chair Powell that we would stop somewhat above an ample-reserves level. That's where we are. And we're getting closer to that." – <i>Chair Powell's Press Conference</i> Sept 17	"Our long-stated plan is to stop balance sheet runoff when reserves are somewhat above the level we judge consistent with ample reserve conditions. We may approach that point in coming months..." – <i>Understanding the Fed's Balance Sheet</i> Oct 14
"I would... assume 9 percent [of GDP] is the threshold below which reserves would not be ample. That would mean, as of today, that \$2.7 trillion of reserves is roughly ample" – <i>Demystifying the Federal Reserve's Balance Sheet</i> July 10	"...we're basically back to where we think we should be, just for ample." – <i>Cutting Rates in the Face of Conflicting Data</i> Oct 16

Source: Federal Reserve, CFR



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