



Money market plumbing in sound shape

The overnight and short-term markets have been performing well during the volatility.

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With the volatility and aggressive central bank rate action this week due to the coronavirus, it is natural for investors to question the state of liquidity in the markets. The answer is that the overnight and short-liquidity markets are well-funded and running smoothly. The latest evidence of this came today when the Federal Reserve increased the amount of its overnight lending through the repo market by \$50 billion, from \$100 billion to \$150 billion. The Fed also announced increases of the amounts offered for 2-week operations taking place Tuesday and Thursday to \$45 billion.

Far from being a sign of panic seen in the equity markets, these maneuvers show that the Fed has the tools and has learned how to use them to avoid market dislocations. The banking system is far more robust than in earlier

crisis and the Fed is experienced with daily operations, especially since it revived them since the repo spike in September.

Like in September, the Fed's continuing injection of funds into the overnight market is not due to a credit event. Banks and corporations likely will be affected economically by the virus, but that is a long-term consideration. In the short end, high-quality banks and corporations are having no trouble getting funding, and both fixed- and floating-rate paper are able to be placed. That speaks further to the fact that this is not a credit event but one pushed by fear and a rush to the safest vehicles out there. The plumbing of the short-end of the market is in sound shape.

Investors are, of course, searching for havens now, as is the case in any time of concern. With bond yields plummeting, money market funds can fill that role. Historically, they serve as places of stability, with attractive returns relative to other cash options, while allowing for same-day withdrawals to facilitate opportunistic trading.

TAGS

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