

US Rates Alpha

Close April '24 SOFR/FF futures widener

Close Apr '24 SOFR/FF futures at Obps

We close out our April '24 SOFR/FF basis widener at Obps. In August, we put out a note closing our Nov SOFR/FF futures widener. We still felt the market was overestimating how quickly SOFR would exceed FF so we recommended an April '24 widener (see: [Close Nov '23 SOFR/FF futures widener](#)). The market has subsequently moved in our direction but recent upward pressure in funding markets has reduced our conviction in the trade.

We observe the following:

- Tri-party repo has shifted higher: the Fed's tri-party repo rate has shifted higher and now trades in-line with the ON RRP facility rate. This implies greater potential for the SOFR-tri party spread to widen to levels near fed funds.
- SOFR is also ticking higher with greater frequency: SOFR is showing signs of more sensitivity to mid- & end-month settlement dates and realizing higher volumes. This implies greater need for UST collateral financing.

These factors together have weakened our expectations for SOFR to remain well anchored to ON RRP. We can see further potential for SOFR to shift higher in coming months as bi-lateral repo financing pressure builds. Risks to the SOFR/FF outlook now appear increasingly symmetric.

SOFR/FF basis outlook: repo ripples risk basis tightening

Upward pressure in repo has been occurring mostly around large settlement dates and period ends (see [US funding: subtle repo ripple 08 September 2023](#)). We previously expected FF to move up slowly but first and more consistently than SOFR, leading to the basis widening before it eventually tightens. While FF 75th percentile has shifted up 1bp and consistently printed there since mid Sept, the median has been steady. Conversely, SOFR has been more sensitive to the liquidity drain and collateral settlements which has primarily pulled up the bilateral component of SOFR.

We still expect SOFR to remain relatively close to the rate on the ON RRP but close our Apr '24 recommendation due to higher and a more symmetric range of outcomes for SOFR/FF levels.

 29 September 2023

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SOFR: secured overnight financing rate

FF: fed funds

RRP: reverse repo

ON: overnight

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Timestamp: 29 September 2023 07:00AM EDT

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