

US Rates Watch

MMF portfolio update: gov't fund WAMs have peaked

MMF inflows continue, primarily into inst'l funds

According to Crane data, MMF AUM has increased nearly \$200b YTD as of Mar 11 (Exhibit 1). Gov't funds have seen \$109b in inflows, prime funds have seen \$88b in inflows. Gov't fund flows are volatile relative to prime funds with large inflows typically on Thursdays and large outflows on Fridays. YTD, institutional funds inflows have slightly outpaced retail funds with \$101b in inflows vs \$90b (Exhibit 2). We expect MMF inflows to continue as long as front-end rates remain elevated (Exhibit 3).

MMF yields moving slowly lower

The average 7-day simple yield on MMFs has declined 5bps for gov't MMFs and 8bp for prime YTD (Exhibit 4). The decline in MMF yields has been driven by Fed cuts getting priced in, starting with the first full cut priced in June, and some reduction in prime WAM. While prime fund WAMs have shortened, prime funds have been allocating more into higher yielding CP, CD, and TDs likely to compete with gov't fund yields. Gov't fund yields are currently 4.97% vs prime funds 5.12%, a 14.7 spread. The spread between prime and gov't funds has been narrowing and is expected to continue as prime funds build liquidity ahead of prime fund liquidity fee implementation this fall.

Gov't fund WAMs have peaked

Prime fund WAMs have continued to shorten YTD though at a slower pace more recently. After peaking around 41 days in mid-Dec, prime fund WAMs are now at 32 days (Exhibit 5). Gov't fund WAMs have also now peaked and are now roughly flat to the start of the year. Prime fund WAM shortening is likely due to MMFs wanting to reduce risk following greater uncertainty around the Fed's cutting cycle as well as MMF reform on the horizon. In 2016 we saw a similar trend with both prime inst'l and retail WAMs shortening leading into MMF reform even as the new requirements would only impact inst'l funds. Prime and gov't fund WALs are little changed MoM but YTD prime WALs are 5 days shorter vs 1.4 days longer for gov't funds (Exhibit 6).

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Abbreviations:

AUM: Assets under management
CD: Certificate of deposit
CP: Commercial paper
DL: Debt limit
DVP: delivery versus payment
FHLB: Federal Home Loan Banks
FICC: Fixed Income Clearing Corp
GC: General Collateral
Gov't: Government
Inst'l: institutional
MMF: Money market fund
ON RRP: Overnight reverse repo facility
QT: Quantitative tightening
QTD: Quarter to date
TD: Time deposit
UST: US Treasuries
WAL: Weighted average life
WAMs: Weighted average maturity
YTD: Year to date

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Declining MMF ON RRP take-up has slowed

MMF take-up declined to \$502b on Feb month-end. As of Feb month-end, MMFs made up 93% of ON RRP take-up, a small decline from prior month-ends. Take-up declined over February with avg take-up around \$542b ex month-end vs \$634b in January (Exhibit 7). The number of counterparties at ON RRP has also declined YTD, which implies that some MMF no longer need to use the Fed ON RRP as an investment option of last resort due to higher levels of money market supply.

The downward trend in ON RRP take-up has been driven by bill issuance and higher yielding front-end rates, especially around large collateral settlements. However, these trends have moderated recently which may have important implications to our forecast for QT. We expect the Fed to slow the pace of UST redemptions once ON RRP is relatively low and for QT to end once we see more upward pressure and volatility in funding markets.

MMFs shifted back into Treasury debt

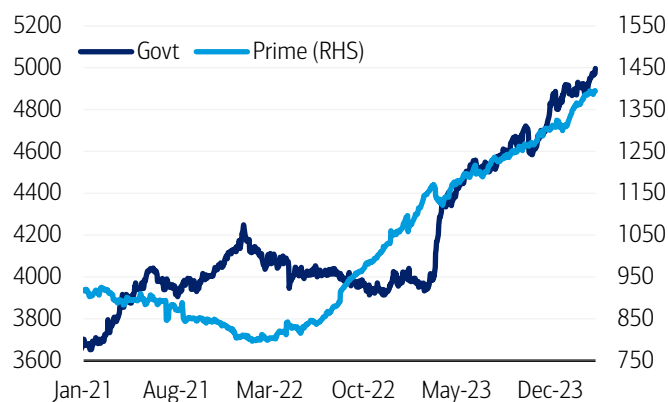
MMF holdings of bills increased \$192b in Feb, and MMFs now hold 36% of bills outstanding (Exhibit 10). At the same time, MMF holdings of UST notes grew \$10b and increased \$14b for FRNs (Exhibit 11).

According to iMoney.net data, government MMFs saw \$50b in outflows in February, due to an \$82b outflow out of retail, only partially offset with a \$32b inflow into institutional. MMFs primarily shifted holdings into Treasury debt and reduced allocations primarily out of Treasury and gov't agency repo (Exhibit 12). Conversely, prime funds inflows of \$29b were primarily into retail funds with \$19b in inflows. Prime funds allocated their holdings primarily into Treasury debt (Exhibit 13). Prime funds have been increasing their allocation to UST debt, including nearly \$50b into T-bills. This shift in holdings is consistent with expectations around changes to regulatory requirements. This increase in MMF holdings of UST debt and shorter WAMs is likely contributing to the easier funding conditions YTD.

Money market fund FICC-sponsored repo activity increased \$14b in February, with higher allocation to Treasury repo vs agency repo (Exhibit 14). The regulatory changes around central clearing of UST repo, which must be adopted by Jun 2026, will lead to higher sponsored repo volumes going forward.

Exhibit 1: MMF AUM (\$bn)

Gov't fund inflows outpaced prime funds YTD

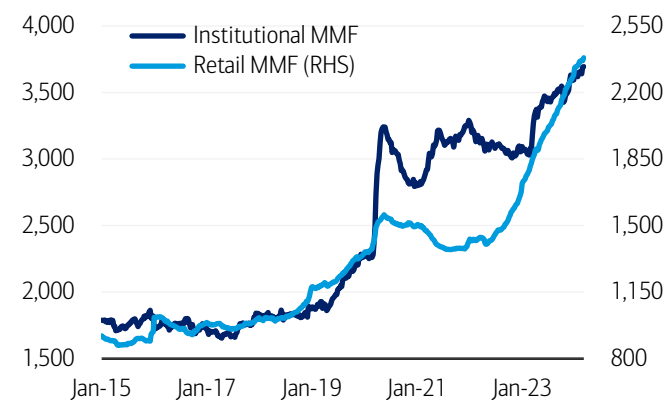


Source: BofA Global Research, Crane Data

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Exhibit 2: Institutional MMF AUM vs Retail MMF AUM (\$tn)

Inst'l MMFs saw \$101b in inflows YTD, \$90b in inflows for retail MMFs

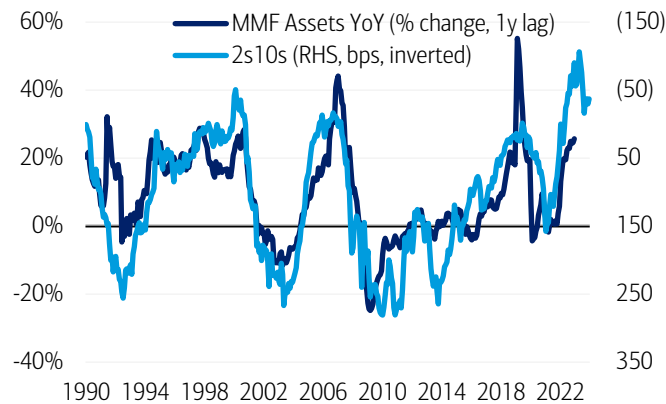


Source: Bloomberg, ICI

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Exhibit 3: MMF assets and 2s10s curve

As 2s10s curve becomes more inverted, MMFs typically see inflows

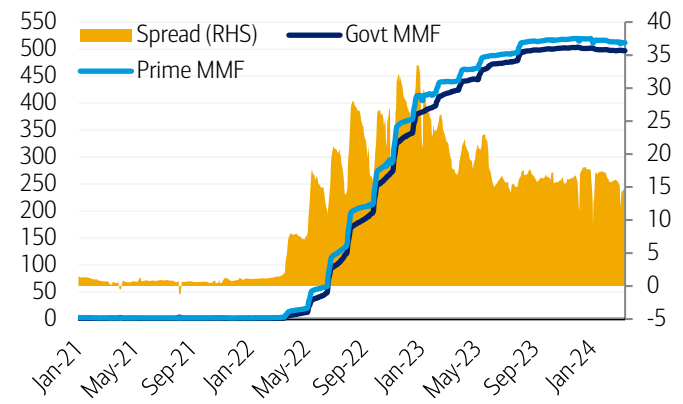


Source: BofA Global Research, Bloomberg

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Exhibit 4: Domestic MMF 7 day simple yield (bps)

MMF yields have declined 8bp for prime, 5bp for gov't

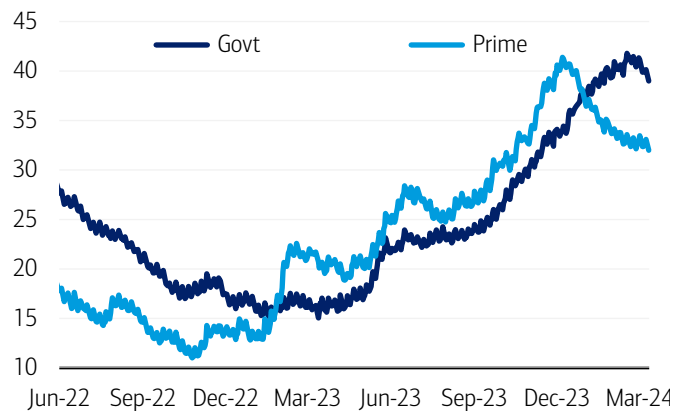


Source: BofA Global Research, iMoneyNet

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Exhibit 5: MMF WAM (Days)

Prime WAMs have shortened 6 days YTD, gov't fund WAMs are 1 day longer

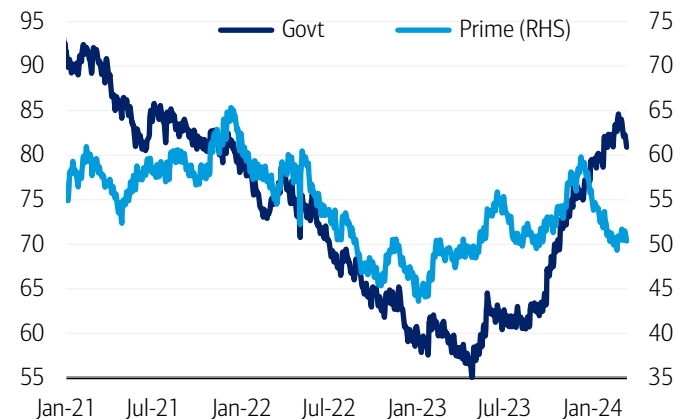


Source: BofA Global Research, iMoneyNet

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Exhibit 6: MMF WAL (Days)

Prime WAL 5 days shorter YTD vs gov't fund WAL longer by 1.4 days



Source: BofA Global Research, iMoneyNet

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Exhibit 7: Top 10 MMFs' ON RRP use (\$bn)

MMF ON RRP take-up has been trending down YTD

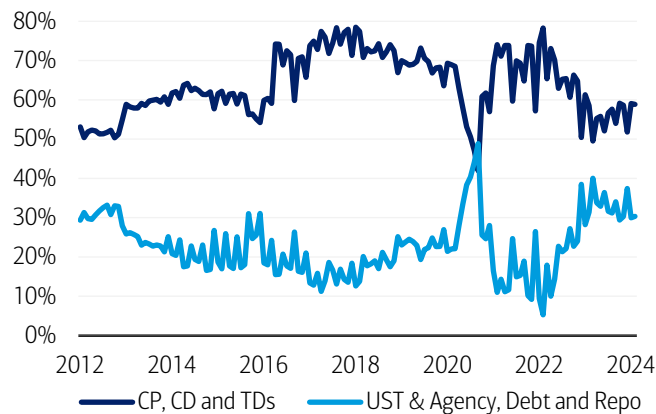
Fund	Feb Assets	Feb ON RRP	Jan ON RRP	Dec ON RRP	Nov ON RRP
Vanguard Federal Money Mkt Fund	298	55	61	65	71
Fidelity Cash Central Fund	55	35	39	37	39
Fidelity Govt Money Market	328	27	50	70	41
Fidelity Inv MM: Govt Port	203	24	40	44	29
Schwab Treasury Oblig MF	70	24	25	31	37
Fidelity Sec Lending Cash Central Fund	33	21	18	23	21
Fidelity Inv MM: Treas Port	65	19	22	25	21
Federated Hermes Govt Obl	157	19	10	17	12
Vanguard Cash Reserves Federal MM	120	17	20	23	24
Schwab Value Adv MF	272	14	11	35	30
Total of all MMFs		465	584	967	844

Source: BofA Global Research, Crane Data

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Exhibit 8: Prime MMF holdings as % of total

Prime funds allocated more into UST debt but greatly reduced UST repo

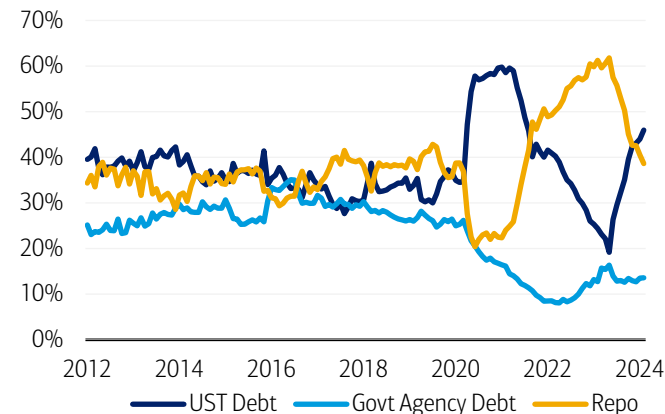


Source: BofA Global Research, iMoneyNet

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Exhibit 9: Govt MMF holdings as % total

Gov't funds shifted out of UST repo, into UST debt



Source: BofA Global Research, iMoneyNet

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Exhibit 10: Bills outstanding versus total MMF holdings (\$bn)

Bill holdings increased \$192b in Feb

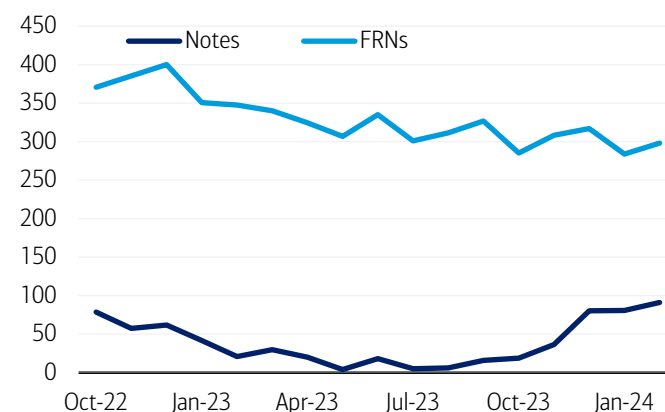
	Bills Outstanding	MMF Holdings	MMF as % Total
Oct-22	3666	762	21%
Nov-22	3812	704	18%
Dec-22	3697	595	16%
Jan-23	3939	658	17%
Feb-23	4058	642	16%
Mar-23	4069	662	16%
Apr-23	3943	653	17%
May-23	3993	570	14%
Jun-23	4467	882	20%
Jul-23	4771	1116	23%
Aug-23	5074	1268	25%
Sep-23	5260	1413	27%
Oct-23	5457	1633	30%
Nov-23	5671	1846	33%
Dec-23	5676	1790	32%
Jan-24	5780	1999	35%
Feb-24	6011	2191	36%

Source: BofA Global Research, Crane Data

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Exhibit 11: MMF holdings of Treasury notes and FRNs

MMF holdings of notes increased \$10b, \$14b for FRNs



Source: BofA Global Research, Crane Data

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Exhibit 12: Domestic MMF holdings, government funds (\$bn)

Gov't MMFs increased allocations to UST debt but reduced UST repo

	Government			Government Institutional			Government Retail		
	Feb-24	MoM Δ	YoY Δ	Feb-24	MoM Δ	YoY Δ	Feb-24	MoM Δ	YoY Δ
Cash	78.1	(6)	23	59.5	(3)	16	18.6	(3)	7
Treasury Debt	2281.3	76	1307	1338.1	91	609	943.2	(15)	697
Treasury Repo	1320.0	(72)	(773)	583.7	(20)	(360)	736.3	(52)	(414)
Govt Agency Debt	674.3	(4)	166	358.9	(4)	114	315.4	(0)	51
Govt Agency Repo	591.4	(41)	242	441.7	(31)	184	149.7	(10)	58
Other Repo	5.8	0	2	5.8	0	2	0.0	0	0
Investment Co Funding Agrmnt	9.4	(2)	1	4.2	(2)	1	5.3	(0)	0
VRDN	0.7	(0)	0	0.1	(0)	0	0.6	(0)	0
Other Instrument	1.8	(1)	1	1.3	(0)	1	0.5	(1)	0
Total	4963	(50)	969	2793	32	568	2170	(82)	401

Source: BofA Global Research, iMoneyNet

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Exhibit 13: Domestic MMF holdings, prime funds (\$bn)

Prime MMFs shifted out of UST repo but into UST debt, TD, CP, and CD

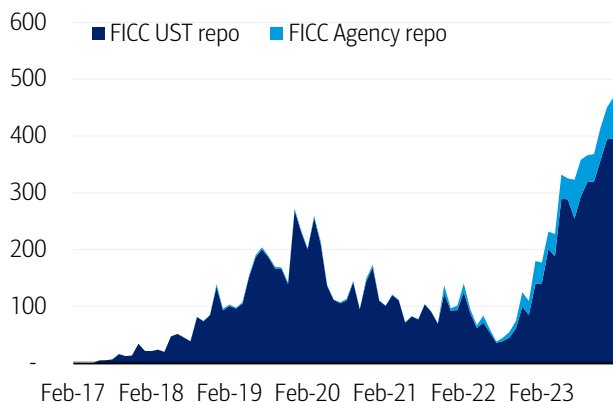
	Feb-24	Prime MoM Δ	YoY Δ	Feb-24	Prime Institutional MoM Δ	YoY Δ	Feb-24	Prime Retail MoM Δ	YoY Δ
Cash	20.7	1	9	6.2	0	2	14.5	1	7
Treasury Debt	90.2	37	84	11.9	7	9	78.3	30	75
Treasury Repo	118.5	(18)	(66)	18.9	(5)	(20)	99.6	(13)	(47)
Govt Agency Debt	1.5	(0)	0	1.0	0	0	0.5	(0)	(0)
Govt Agency Repo	105.5	(6)	50	13.7	2	5	91.8	(8)	45
Other Repo	74.5	2	25	36.5	1	8	38.0	1	17
CD	220.9	(0)	64	68.6	1	5	152.3	(1)	59
Financial Co CP	170.0	6	33	49.7	1	(4)	120.3	5	37
ABCP	72.0	3	26	22.4	(1)	6	49.6	4	20
Other CP	16.2	2	(2)	6.6	2	1	9.7	(1)	(3)
Non-Negotiable TD	132.9	5	29	56.4	2	11	76.5	3	18
VRDN	8.6	1	3	2.0	0	0	6.6	0	3
Other	6.6	(0)	(1)	0.0	0	0	0.0	(80)	0
Total	1040	29	250	296	9	19	743	19	231

Source: BofA Global Research, iMoneyNet

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Exhibit 14: MMF FICC repo by collateral

MMF FICC repo is currently 86% UST and 14% Agency

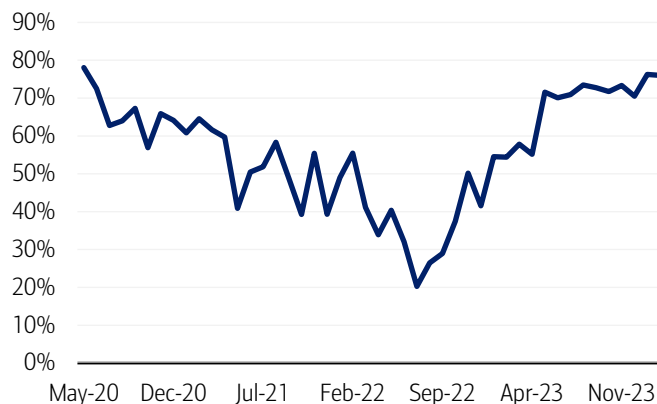


Source: BofA Global Research, Crane Data

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Exhibit 15: MMF FICC repo % of FICC sponsored RRP volumes

MMFs are currently 76% of FICC sponsored reverse repo volumes



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