

US Rates Watch

MMF portfolio update: bill take-down continues, ON RRP drawdown slowing

MMF inflows continue but at a slower pace

According to Crane Data, money market funds have seen nearly \$900b in inflows YTD. Inflows have primarily been into gov't MMFs, which are \$615b higher on the year (Exhibit 1). Most of the YTD gov't MMF inflows came in the weeks immediately following bank stress events in March. In recent months, gov't fund inflows have slowed but remain positive. Conversely, prime funds have only seen \$157b of inflows YTD with modest outflows around bank stress. Prime inflows have been \$176b into retail funds & institutional funds have seen outflows.

Retail funds lead inflows but institutional growth strong

YTD retail MMF inflows are \$427b higher while institutional funds grew \$345b (Exhibit 2). Gov't institutional funds saw most of the inflows after bank stress but prime and gov't retail funds continue to see inflows as the spread between MMF yields and retail deposit rates widens. Historically, we have seen MMF AUM grow as 2s10s becomes more inverted and short-tenor yields eclipse longer-tenor ones (Exhibit 3).

Gov't vs Prime yields higher, reflective of July Fed hike

The average 7-day simple yield on MMFs have increased ~25bps for both gov't and prime MMFs since May, reflective of the Fed's 25 hike on Jul 26 (Exhibit 4). Gov't fund yields are currently 4.97% vs prime funds 5.14%, a 17bp spread. The spread between gov't and prime MMFs has come down 15bps since the start of the year. The narrowing of the spread in prime vs gov't appears reflective of prime funds shifting more into UST & agency debt & repo and away from CP, CD, and TDs.

MMF WAM little changed since June, WALs stable

Gov't and prime fund WAMs have slowly been extending over the year and are currently near their respective YTD highs. WAMs picked up relatively quickly in the weeks following the debt limit resolution, likely due to MMFs extending out of overnight repo and into Treasury bills. Since then, WAMs have plateaued around recent levels. Gov't fund WAMs have extended 6.1 days YTD to 23.3 days vs prime fund WAMs which have extended 12.7 days YTD and are now at 26.5 days (Exhibit 5). Gov't fund WALs are flat on the year and have declined nearly 2 days since their peak in early June. While prime fund WALs have also come down since early June, they are still 5.6 days longer YTD (Exhibit 6).

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AUM: Assets under management

MMF: Money market fund

YTD: Year to date

WAMs: Weighted average maturity

WAL: Weighted average life

ON RRP: Overnight reverse repo facility

QT: Quantitative tightening

FHLB: Federal home loan banks

CD: Certificate of deposit

CP: Commercial paper

TD: Time deposit

UST: US Treasuries

Inst'l: institutional

Gov't: Government

DL: Debt limit

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ON RRP take-up continues to decline but slower

As of July month-end, MMFs made up 96% of ON RRP take-up, in line with recent averages. A month-end snapshot from Crane Data shows that MMF take-up at the ON RRP declined \$152b in July vs June (Exhibit 7).

ON RRP take-up has since declined another \$24b since July month-end but is \$80b above the mid July low. We expected ON RRP drain to continue in August but slow from the over \$200b decline in July, primarily due to an expected drop in the Treasury's cash balance driven by higher deficits.

The decline in ON RRP take-up over recent months is largely a result of MMFs shifting holdings from Treasury repo to Treasury bills due to the large wave of bill supply since the debt limit resolution.

Gov't MMFs continue to shift holdings into UST debt wave

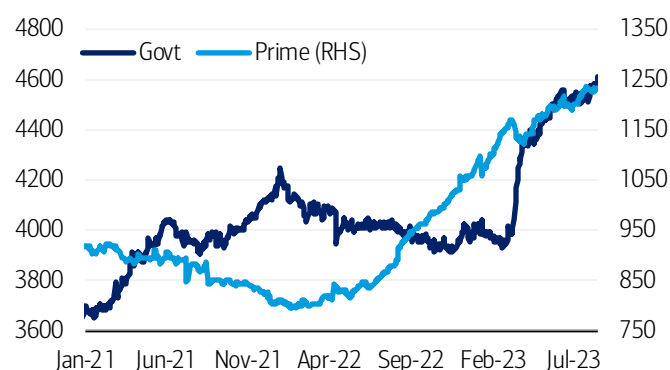
According to data from iMoneyNet, gov't funds allocated holdings out of Treasury repo, agency debt, and cash and into Treasury debt (Exhibit 9). MMF holdings of bills increased \$236b in July, implying MMFs took down 78% of the \$304b in net new bill issuance in July (Exhibit 12). At the same time, MMF holdings of UST notes and FRNs declined in July (Exhibit 13).

MMF extension into bills has surprised us given the limited cheapening of bills vs OIS and significant amount of issuance since the debt limit resolution (Exhibit 14). We expect gov't MMFs to continue shifting into Treasuries and out of ON RRP as bill issuance continues (see: [Fed balance sheet: QT & UST supply](#)). We expect a more gradual bill cheapening amidst the steady increase in bill supply over coming months.

Prime MMFs have also reduced their holdings of repo in July and have reallocated into CP & CD but primarily TD (Exhibit 8, Exhibit 10).

Exhibit 1: MMF AUM (\$bn)

Govt funds saw large inflows, prime fund inflows were smaller

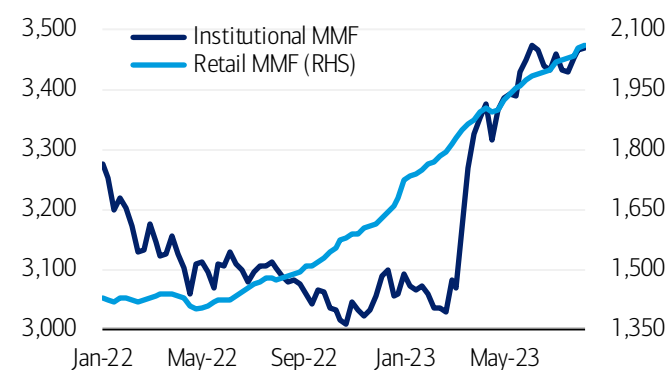


Source: BofA Global Research, Crane Data

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

Higher institutional deposit rates likely pulling \$ out of inst'l MMFs

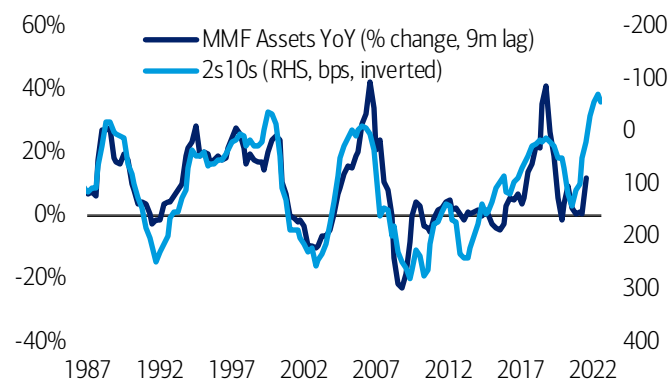


Source: Bloomberg, ICI

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Exhibit 3: MMF assets and 2s10s curve

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

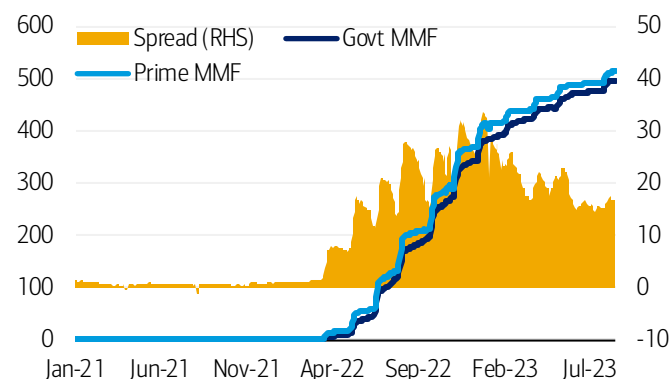


Source: BofA Global Research, Federal Reserve, Haver

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

MMF yields continue to rise with Fed hikes

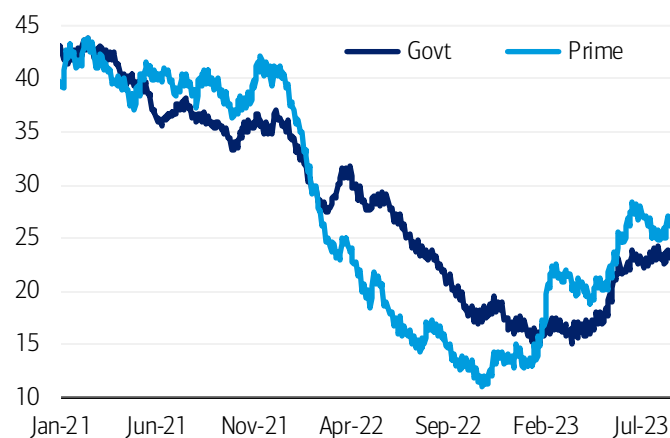


Source: BofA Global Research, iMoneyNet

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Exhibit 5: MMF WAM (Days)

MMF WAM extension has slowed

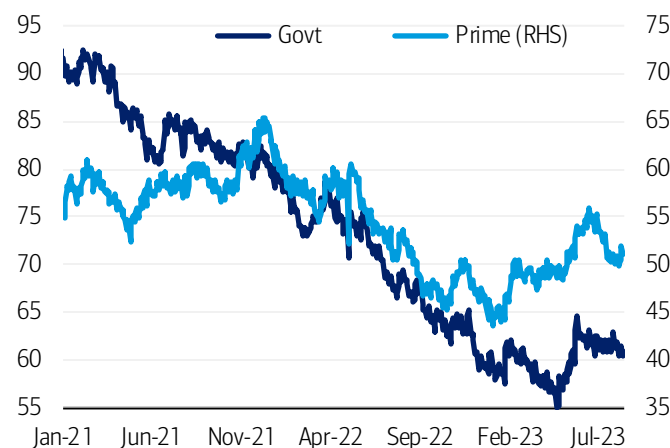


Source: BofA Global Research, iMoneyNet

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Exhibit 6: MMF WAL (Days)

MMF WALs have declined recently



Source: BofA Global Research, iMoneyNet

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

MMF ON RRP declined \$152b between July month-end & June month-end

Fund	Jul Assets	Jul ON RRP	Jun ON RRP	May ON RRP	Apr ON RRP
Goldman Sachs FS Govt	258	110	124	144	143
Fidelity Govt Money Market	282	108	111	106	120
Vanguard Federal Money Mkt Fund	266	101	124	117	130
JPMorgan US Govt MM	258	99	112	133	105
Fidelity Govt Cash Reserves	222	85	88	89	N/A
Fidelity Inv MM: Govt Port	177	79	89	95	91
Fidelity Inv MM: MM Port	107	54	50	51	52
Morgan Stanley Inst Liq Govt	163	50	62	56	75
Northern Instit Treasury MMkt	72	50	60	59	58
Schwab Treasury Oblig MF	65	49	52	55	51

Source: BofA Global Research, Crane Data

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Exhibit 8: Domestic MMF holdings, prime funds (\$bn)

Prime funds shifted holdings and inflows into CP/CD/TD from UST repo

	Prime			Prime Institutional			Prime Retail		
	Jul-23	MoM Δ	YoY Δ	Jul-23	MoM Δ	YoY Δ	Jul-23	MoM Δ	YoY Δ
Cash	13.4	0	11	4.6	(0)	3	8.8	0	8
Treasury Debt	5.0	0	2	2.8	(0)	1	2.1	1	1
Treasury Repo	184.9	(32)	102	29.2	(7)	2	155.7	(25)	100
Govt Agency Debt	2.7	(0)	2	1.2	(0)	1	1.5	(0)	1
Govt Agency Repo	80.8	2	66	12.4	(5)	6	68.3	7	60
Other Repo	66.0	5	21	35.0	2	7	31.1	4	14
CD	174.9	4	66	65.6	0	8	109.4	4	58
Financial Co CP	137.7	11	46	46.4	3	6	91.3	8	41
ABCP	57.6	6	30	23.1	3	10	34.5	3	20
Other CP	13.4	4	5	3.5	1	1	9.8	3	4
Non-Negotiable TD	105.9	30	32	47.7	13	7	58.2	17	25
VRDN	6.4	0	1	1.7	0	(0)	4.7	0	1
Other	10.7	(1)	4	0.0	0	0	0.0	(48)	0
Total	864	31	388	279	8	48	585	23	341

Source: BofA Global Research, iMoneyNet

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Exhibit 9: Domestic MMF holdings, government funds (\$bn)

Gov't fund AUM increased in July, primarily allocating to Treasury debt and agency repo

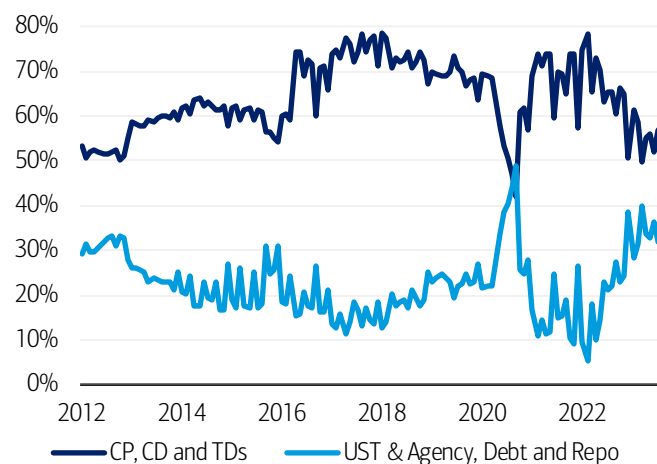
	Government			Government Institutional			Government Retail		
	Jul-23	MoM Δ	YoY Δ	Jul-23	MoM Δ	YoY Δ	Jul-23	MoM Δ	YoY Δ
Cash	72.6	(17)	25	55.3	(13)	23	17.2	(4)	2
Treasury Debt	1324.7	148	(26)	907.1	40	(36)	417.6	108	9
Treasury Repo	2077.9	(102)	37	955.0	(31)	(95)	1122.9	(71)	132
Govt Agency Debt	597.9	(48)	245	323.3	(20)	129	274.6	(28)	116
Govt Agency Repo	500.6	47	281	382.7	42	223	117.9	5	58
Other Repo	5.3	1	5	5.3	1	5	0.0	0	0
Investment Co Funding Agrmnt	8.2	(2)	(1)	3.1	(2)	(1)	5.1	0	(0)
VRDN	0.6	(0)	0	0.1	(0)	0	0.5	0	0
Other Instrument	3.3	3	3	1.5	1	1	1.8	2	2
Total	4591	30	569	2633	18	251	1958	12	318

Source: BofA Global Research, iMoneyNet Analyzer

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Exhibit 10: Prime MMF holdings as % of total

Prime fund holding of repo declined while CP, CD, and TD increased in July

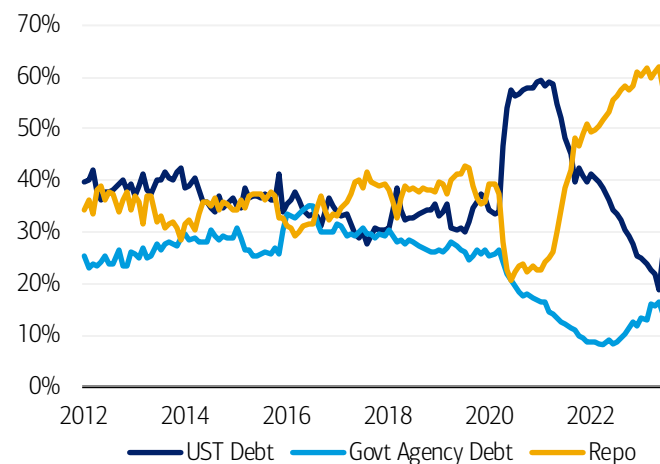


Source: BofA Global Research, iMoneyNet

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Exhibit 11: Govt MMF holdings as % total

UST debt holdings is coming back from hitting a low earlier this year



Source: BofA Global Research, iMoneyNet

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Exhibit 12: Bills outstanding versus total MMF holdings (\$bn)

MMF holdings as % of outstanding up 10ppts since the debt limit resolution

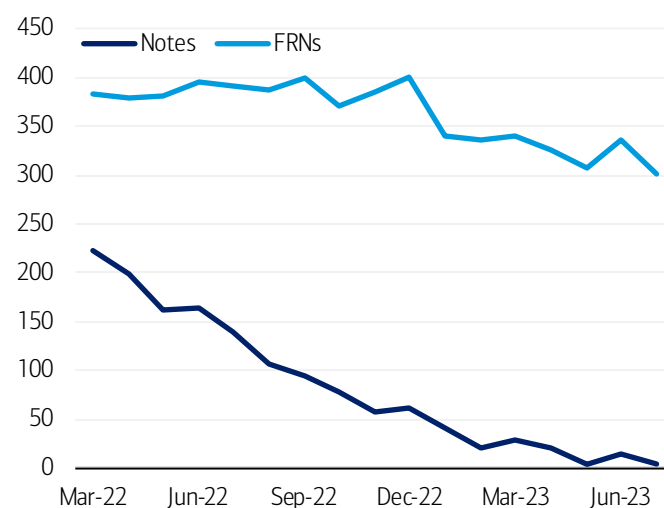
	Bills Outstanding	MMF Holdings	MMF as % Total
Mar-22	3927	1144	29%
Apr-22	3826	1093	29%
May-22	3671	984	27%
Jun-22	3523	896	25%
Jul-22	3514	892	25%
Aug-22	3724	846	23%
Sep-22	3644	761	21%
Oct-22	3665	765	21%
Nov-22	3811	706	19%
Dec-22	3696	598	16%
Jan-23	3937	662	17%
Feb-23	4056	644	16%
Mar-23	4068	663	16%
Apr-23	3941	656	17%
May-23	3992	576	14%
Jun-23	4466	888	20%
Jul-23	4769	1124	24%

Source: BofA Global Research, Crane Data

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Exhibit 13: MMF holdings of Treasury notes and FRNs

MMF holdings of FRNs and notes declined in July

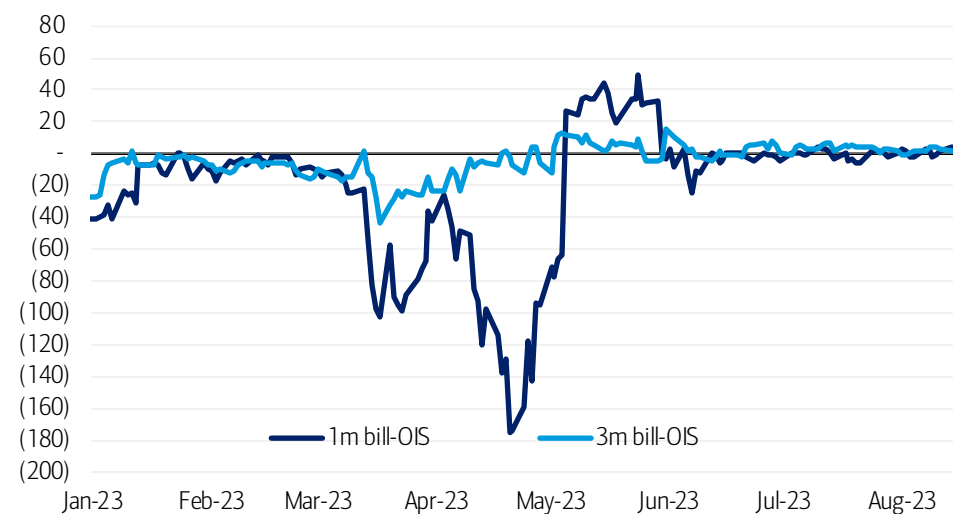


Source: BofA Global Research, Crane Data

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Exhibit 14: 1m and 3m bills vs OIS (bps)

1m and 3m bills are flat to offering a small pickup over ON RRP



Source: BofA Global Research, Bloomberg

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