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# Macro Roundup Article

## Headline: Recent Developments in Hedge Funds' Treasury Futures and Repo Positions: Is the Basis Trade "Back"?

**Article Link:** https://www.federalreserve.gov/econres/notes/feds-notes/recent-developments-in-hedge-funds-treasury-futures-and-repo-positions-20230830.html

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**Tweet:** Similar to 2019/early 2020, hedge funds are again arbing away differences between Treasury futures and cash prices in large size; unwinding of the "cash-futures trade" likely contributed to the March 2020 Treasury market instability.

**Summary:** Hedge fund short futures positions in the 2-year, 5-year, and 10-year contracts rose by $411 billion between October 4th, 2022 and May 9th, 2023. Consistent with these empirical trends, spreads on the trade suggest it has been profitable at several points in recent months, without considering the value of options embedded in the trade (and whose value has likely increased as measures of Treasury market uncertainty have risen). The cash-futures basis trade is an arbitrage trade that involves a short Treasury futures position, a long Treasury cash position, and borrowing in the repo market to finance the trade and provide leverage. This trade presents a financial stability vulnerability because the trade is generally highly leveraged and is exposed to both changes in futures margins and changes in repo spreads. Hedge funds unwinding the cash-futures basis trade likely contributed to the March 2020 Treasury market instability.

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**Primary Topic:** Banking

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