The Fed - Bank Deposit Flows to Money Market Funds and ON RRP Usage during Monetary Policy Tightening

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Abstract:

Using the historical experience from past monetary tightening cycles and the market-expected path of the federal funds rate for the current tightening cycle, we project that the flows from bank deposits to money market funds (MMFs) would be relatively small, at about $600 billion through the end of 2024, or about 3 percent of current bank deposits. Of these potential inflows to MMFs, about $100 billion are projected to flow into the overnight reverse repo (ON RRP) facility, or about 7 percent of MMFs’ recent take-up. Other factors such as the private demand for repo funding and the net supply of Treasury bills are expected to have more substantial effects on MMFs’ take-up at the ON RRP facility than the inflows from bank deposits.

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