Title: Theories about Reverse Repos
Author: OverTheHedgies
Created 2022-02-17 20:34:36 UTC
Permalink: /r/GME/comments/suyljp/theories_about_reverse_repos/
Url: https://www.reddit.com/r/GME/comments/suyljp/theories_about_reverse_repos/

So, if you have followed GameStop for a year now, you know that someone invariably posts the NY Fed Reverse Repo numbers every day, but you may not know why? I have some thoughts on the topic, and I figured I'd share them?

For one, RRPs are used to move cash out of "banks" and into Fed overnight. Why? Cash is a liability on the balance sheet for margin calculations, so banks buy "securities" overnight (treasuries). The more banks with problems, the higher the number of counterparties. In general, if everything was "fine", the number of counterparties would be zero, and the RRP numbers would be $0.

That's not what is happening. On average, there are 80 counterparties, or at least 80 organizations that probably fail a margin call if they don't convert liabilities to assets via RRP. Now, take a second to think about moving a negative asset to a positive asset? If you do the math, a negative $1.6T problem becomes a $1.6T piece of collateral... that means the problem is really $3.2T.

Now, since mid January, the RRP # has been $1.6XX Trillion. It fluctuates, but has not grown to $1.9T like it was Dec 31st, 2021. Why is that? My hypothesis is... it can't. The counterparties simply have nothing left that they can trade for treasuries. My guess is that the money they put in RRP was their investors money that was pulled from the market and put on the sidelines, and that's deleveraged a lot of their Assets Under Management (AUM).

Now, if you were bank/hedge fund/brokerage and all of your customers knew a crash was coming so they parked their money, eventually... you'd hit a point where no more money could be parked? I think we hit that mid January.

The financial institutions simply CANNOT sell to a cash position because it creates a liability on their books, and they do not have enough collateral to meet a margin call, plus, as you know... if they started selling their assets, the prices of those assets would drop like a brick. They are forced to HODL them and try to convince you to "buy the dip". Every day, one of their core holdings bursts into flames... FLIX, hoods, books with faces, etc...inching them closer to a day when they simply cannot make the math all work out.

Oh, and a Fed rate hike looming on that margin debt...

Brick by brick... a thousand paper cuts...