

Title: What is the Overnight Reverse Repo and does it matter for GME?

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I am sure that you have seen the popular overnight reverse repo values that have been skyrocketing for the past year, to now holding above 2 Trillion dollars every single day. Do you know what that actually means? Do you know why it's happening? Do you know what parties are involved? And most importantly, do you know if it has anything to do with GME?

Well, let's take a look at it! I will do my best to write it in a way that is easy to understand.

First, what is an Overnight Reverse Repurchase Agreement (ON RRP)?

Per the fed,

" *Repos are a common secured money market transaction. In a repo transaction, the Desk purchases securities from a counterparty subject to an agreement to resell the securities at a later date. Each repo transaction is economically similar to a loan collateralized by securities, and temporarily increases the supply of reserve balances in the banking system.*

Conversely, in a reverse repo transaction, the Desk sells securities to a counterparty subject to an agreement to repurchase the securities at a later date. Reverse repo transactions temporarily reduce the supply of reserve balances in the banking system."

[[https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements#:~:text=The%20Overnight%20Reverse%20Repo%20Facility,reserve%20balances%20\(IORB\)%20rate](https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements#:~:text=The%20Overnight%20Reverse%20Repo%20Facility,reserve%20balances%20(IORB)%20rate)]([https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements#:~:text=The%20Overnight%20Reverse%20Repo%20Facility,reserve%20balances%20\(IORB\)%20rate](https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements#:~:text=The%20Overnight%20Reverse%20Repo%20Facility,reserve%20balances%20(IORB)%20rate)).

Well that is difficult to understand isn't it...

The first question that must be answered is: what is the Federal Reserve (Fed)?

The Fed is basically a bank for banks, created in 1913 to help prevent bank crises, to include bank runs. Bank runs are when too many people try to withdraw at the same time and the banks face a liquidity crisis and cause bad, bad things... see the great depression (*speculation*).

I won't go too deep into everything that the Fed does since that would be an entire post in itself, but one of the operations it conducts is the ON RRP.

Going back to earlier, the ON RRP is where the fed holds excess money overnight at a set interest rate. This set interest rate is also the requirement for bank lending, so it is pointless for a bank to park their excess liquidity at the Fed overnight.

So who parks their money using an ON RRP? Well... Money Market Funds do, and they are the vast majority of ON RRP contributions. The complete list of authorized counterparties can be found here: [https://www.newyorkfed.org/markets/rrp_counterparties](https://www.newyorkfed.org/markets/rrp_counterparties)

Here is an image showing who is responsible for one of the 1.5 Trillion days back in March

<https://preview.redd.it/q11cyk6xr2691.jpg?width=793&format=jpg&auto=webp&s=e051ed6123f787d37c859c6f6b4c4fed961a4552>

As you can see, it is mainly money market funds.

So why do counterparties partake in ON RRP? They do this because of two little things called 1) Effective Federal Funds Rate (EFFR), and 2) Interest on Reserve Balance (IORB)

1) EFFR is the overnight rate, calculated and displayed every morning at 9am est. To my understanding, this is how much needs to be paid

2) IORB is basically the interest that is paid out when parked at the Fed in return for treasury notes.

If you do EFFR-IORB and come out with a negative number, it means you get paid to park your money overnight! What a deal! Obviously, the Fed can only accept what it has in reserves, so there is a hard cap on how much can be accepted each day.

This is obvious when looking at the graph.. When EFFR-IORB is negative, ON RRP goes up. Total reserves is also inversely related to EFFR-IORB, so it goes negative when there are too many reserves. The more negative it goes, the more juicy ON RRP look to counterparties.

Source for graphs: <https://libertystreeteconomics.newyorkfed.org/2022/01/how-the-feds-overnight-reverse-repo-facility-works/>

<https://preview.redd.it/fafrbc08w2691.jpg?width=709&format=pjpg&auto=webp&s=5eafec53017e12b9768fa532d2ca1b21045fd740>

<https://preview.redd.it/bbo7gueaw2691.jpg?width=715&format=pjpg&auto=webp&s=29b932e11f4aee73dc3a68b35c00f78b7a181cac>

...look when that EFFR-IORB flips to the negative... right when the ON RRP went from 0 and started skyrocketing! We can also see the drastic uptick in reserves at the onset of the pandemic back in March 2020, with a constant rise starting a couple months later after the dust settled a bit.

So why are the reserves constantly increasing? " *The Federal Reserve's purchases of longer-term Treasury securities over the past two years was part of their effort to support the economy through quantitative easing. " *

Oh, and they purchased them to the tune of \$80 Billion/month, and they are STILL purchasing them at a slower rate of only \$30 Billion/month.

Source: <https://www.pgpf.org/blog/2022/06/the-federal-reserve-will-begin-reducing-its-holdings-of-treasury-notes-and-bonds>

So the next question you might have is, is excess reserves a bad thing??

Well... yes... it increases inflationary pressures.

<https://preview.redd.it/r0onvqyzx2691.jpg?width=493&format=pjpg&auto=webp&s=b422d99f8d040973738c2df2e62c1fb9940a4246>

Source: *FEDERAL RESERVE BANK OF NEW YORK current issues IN ECONOMICS AND FINANCE

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Finally the big questions I asked myself at the start of this - does it affect GME and is GME a contributor???

From my research, it appears that the two are mostly ****unrelated****, unfortunately.

It DOES help with the Ryan Cohen tweet though:

*******Did coronavirus lockdowns and economic stimulus spark inflation?*******

I would say - ****YES!****

I would love to hear your thoughts and any counter arguments :)

If you want to ask any pointed questions as well, I will do my best but make no promises.