Title: Connecting the Dots- Citadel's Treasury Market Short
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Body:
So I've been looking into the **MASSIVE** amounts of Reverse Repo lending and I think I came up with a theory that ties Shitadel into all of this. This is all speculation, so take this all with a big grain of salt....

What is a Reverse Repo (RRP)? Investopedia states: "A [reverse repurchase agreement (RRP)](https://www.investopedia.com/terms/r/reverserepurchaseagreement.asp) is an act of buying securities with the intention of returning, or reselling, those same assets back in the future at a profit. This process is the opposite side of the coin to the repurchase agreement." From the point of view of a bank, this is liquidity draining, since they are using cash reserves to get ahold of treasuries. If you're still confused on Repos, watch this great WSJ piece [here](https://www.youtube.com/watch?v=gzCkXNrjFQM).

Ok, so what does this mean for us smoothbrains? Some of you may not know, but issues were arising with the Repo market as far back as September 2019. Basically, as [Wolfstreet](https://wolfstreet.com/2021/05/20/fed-drains-351-billion-in-liquidity-from-market-via-reverse-repos-as-banking-system-creaks-under-mountain-of-reserves/) states,

"*In the fall of 2019, when the repo market blew out, the Fed stepped in and bought Treasury securities and MBS and handed out cash via repurchase agreements. When these repos matured, the Fed got its money back, and the counterparties got their securities back. The Fed also did this during the market rout in March 2020. But by July 2020, the last repos matured and were unwound.*

Now the Fed is doing the opposite, with “reverse repos.” ***Repos are assets on the Fed’s balance sheet. Reverse repos are liabilities.*** *With these reverse repos, the Fed is now massively* ***selling*** ***Treasury securities to counterparties and taking their cash, thereby draining liquidity from the market – the opposite effect of QE.***

This morning, the Fed sold ***$351 billion in Treasury securities*** *via overnight reverse repos to 48 counter parties, thereby blowing past the brief spike at the end of March 2020, and more than replacing yesterday’s $294 billion in Treasury securities that it has sold via reverse repos to 43 counterparties and that matured and unwound this morning."*

[Overnight Reverse Repo Rates](https://preview.redd.it/37dtwe8kgi071.png?width=574&format;=png&auto;=webp&s;=26b5508106211e2af8a83901e2ad9594812bc276)

That figure is MASSIVE. Fifth largest RRP transaction in the last decade, during a period of apparent relative calm in financial markets.

Go read that whole article. Seriously.

The SLR rule exemption expired in March 2021, creating potentially huge issues for banks that have been undercapitalized during Covid and been able to ride this out due to the exemption. What's the SLR? Well, I'm glad you asked:

"The SLR (Supplementary Leverage Ratio) is the U.S. version of BASEL-III capital adequacy norm and a Tier-1 leverage ratio; it varies from 3-5% common equity capital U.S. banks must maintain relative to their total leverage exposure. This is like a backstop to risk-weighted capital requirements."

Basically, the Fed was worried that many banks would be bankrupt (at least on paper) during the March 2020 crisis as corporate debt default rates skyrocketed and their securities started collapsing en masse. So, they changed the rules of the game, basically exempting banks from having to keep a percentage of capital on their balance sheets to stay solvent and allowing banks to lend more than they normally would be able to, supporting asset prices and ensuring the money markets and corporate debt markets wouldn't collapse.

But now, the FED is selling treasuries-effectively withdrawing liquidity from the system? Why the hell are they doing this? Isn't that the opposite of QE? Wouldn't that put the banks and their prime brokers at risk (whose liquidity is already being squeezed by the new DTC/ICC/OCC rule changes)?

I was reading through some comments when I found this gem:

[uhh WHAT](https://preview.redd.it/l5cvjk7bhi071.jpg?width=1080&format;=pjpg&auto;=webp&s;=8f3e2a11e367542d5fc6357003064787f15b19be)

Then it clicked. Remember u/atobitt's godlike DD [The Everything Short](https://www.reddit.com/r/GME/comments/mgucv2/the_everything_short/)? I am drawn to a specific paragraph from Step 4:

"So the fed is printing free money, the repo market is lending free money, and there's basically NO difference between the collateral that's being lent and the cash that's being received.. With all this free money going around, it's no wonder why the price of the 10 year treasury has been declining.

In fact, hedge funds are SO confident that the 10 year treasury will continue to decline, that they've ***SHORTED THE 10-YEAR BOND MARKET.*** *I'm not talking about speculative shorting, I mean shorting it to oblivion like they've shorted stocks.*

Don't believe me?

Hedge funds like Citadel Advisors must first locate the treasury bond in order to swap them for cash in the repo market. It's extremely difficult to do this with the fed because they're tied up in government BS, so they locate a lender in the market. These consist of other commercial banks and hedge funds.

So financial institutions keep treasuries on reserve for hedgies like Citadel to short. Citadel comes along and asks for the bond, they throw it into Palafox Trading and collect their cash. So what happens when they need to pay for their repo agreement? Surely to GOD there are enough bonds floating around, right? ***Not unless hedge funds like Citadel have shorted more bonds than there are available."***

Well FUCK. The hedgies have shorted a shit ton of treasury bonds and t-bills, borrowing these securities from their big daddies the prime brokers/banks. BUT, now the SLR exemption has expired. Previously, the banks were allowed to go down to a 0% capital reserve ratio, but **now they have to keep some assets on hand to remain solvent at all times.** Just see this letter written from Senators Warren and Brown of the Senate Banking Committee to the Fed, FDIC, and OCC:

"On April 1, 2020, the Federal Reserve Board of Governors (Fed) released an interim final rule *(IFR) that allowed bank holding companies to exclude U.S. Treasuries and deposits held at* *Federal Reserve Banks from the calculation of their Supplementary Leverage Ratio (SLR)* *through March 31, 2021....****This change resulted in a $55 billion reduction of capital requirements for the largest banks.*** *The stated rationale for this change was to allow banks to “expand their balance sheets as appropriate to serve as financial intermediaries and serve their customers.”* '

At the same time, U.S. banks were allowed to temporarily exclude holdings of UST and cash kept in reserve at the Fed from their assets when calculating the ratio. Basically, this meant that the treasuries they owned could now be lent out to hedgies to short in the market for the duration of the Covid-19 crisis. But, this exemption has expired- now they HAVE to have a higher amount of reserves at the Fed, largely in the form of treasuries. Hedgies who are short are hitting FTDs, and now the big banks cannot loan them any more because they are required to hold them in reserve at the Fed. And per the comment above, who has all the treasuries? The FED. Now the system is truly straining as liquidity keeps drying up as these HFs need treasuries to cover FTDs that may **exceed the amount of treasuries in existence, per Atobitt.**

Likely, they are having the banks do overnight repos, but they themselves are writing 1 week/month repos to continually buy themselves some time. Thus giving them enough Treasuries to satisfy the bare amount of FTDs they need to in order to stay alive.

This can't continue forever. Something is going to break.

Check out this section from an article written by Pimco, one of the largest fixed income investment management firms;

[Deteriorating Liquidity \(written March 22\)](https://preview.redd.it/7n2gw9necj071.png?width=708&format;=png&auto;=webp&s;=f8f36d3f3351fd12399e556d3820f89d9b58b5f1)

DO YOU GUYS UNDERSTAND HOW CRITICAL THIS IS? Treasuries are NOT normal fixed income instruments. They are literally the **backbone of the entire financial system. Almost every other price is indirectly derived from treasuries: LIBOR (used for lending), WACC Discount (used to price stocks), ARMs (adjustable rate mortgages), Credit cards, auto loans, venture loans, Lines of Credit, etc etc.**

Hedgies r FUKd. It's only a matter of time. **There is no fucking way that the Big banks/Fed will allow the collapse of the banking system just for a few hedgies and an egocentric MM CEO who has dreams of being a trillionaire.**

TL/DR: Hedgies may be using the banks as intermediaries to facilitate treasury borrowing so that they can locate treasuries and kick the can down the road. This is draining liquidity from the system, and is actually undoing QE. Hedgies (shitadel) may have shorted more treasuries than exist, and are digging their grave deeper by continually borrowing more and more in order to survive.

BUY, HODL, VOTE GME.

edit: Added image for section on SLR rule, sorry I forgot to do that originally. Here is the link to Pimco article:

[https://blog.pimco.com/en/2021/03/slr-expiration-treasury-markets-likely-to-shoulder-the-costs#:\~:text=The%20Federal%20Reserve%20on%2019,from%20the%20COVID%2D19%20pandemic](https://blog.pimco.com/en/2021/03/slr-expiration-treasury-markets-likely-to-shoulder-the-costs#:~:text=The%20Federal%20Reserve%20on%2019,from%20the%20COVID%2D19%20pandemic).

edit2: grammatical error

edit3: cleaned up first repo section, adding context. added link to WSJ video on repos (https://www.youtube.com/watch?v=gzCkXNrjFQM). added context for importance of treasury market.

edit 4: WOW this blew up much more than I thought. Thank you all for the awards, everyone! Also, for you nerds out there, for this DD I also read this paper from the SEC released in February of this year: https://www.sec.gov/files/mmfs-and-the-repo-market-021721.pdf. Check it out if you're interested :)