Funding the Future

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The FT has just sent out a mail saying this:

Banks and investors rushed on Wednesday to gobble up $75bn in short-term cash the US Federal Reserve made available in a second attempt to steady one of the world's most important money markets.

Dealers submitted requests for over $80bn in overnight borrowing, exceeding the maximum amount the New York Fed had placed on offer. That amount far exceeded the $53bn demanded when the central bank stepped into the market on Tuesday for the first time in more than a decade.

For those wanting a background explainer, see here or here.

The blunt fact is that the US market has run out of overnight security available within what is called the repo markets (see those explainers for details).

The official line is that US corporations owed tax this week, and $78bn of cash for a bond sale had to be settled at the same time.

Let me be clear, I have no better clue on this issue than anyone else: no one seems sure whether these excuses are good or not. But I am goi9ng to take a punt and say I suspect not: this has not happened in the last decade and tax settlement and bond sales have happened before, and I can be fairly sure coincidentally.

I, of course, accept that the repo market is ultra short term and so this may just be a short term blip. But the last time we saw a loss of liquidity on this scale requiring substantial government intervention was in 2008.

And we are at least right to worry now: this might be just 'one of those things'. But 'those things' are not meant to happen, and in this case usually don't. If there is a credit crisis happening the ramifications will be massive. And we're not ready for it.