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4 November 2025

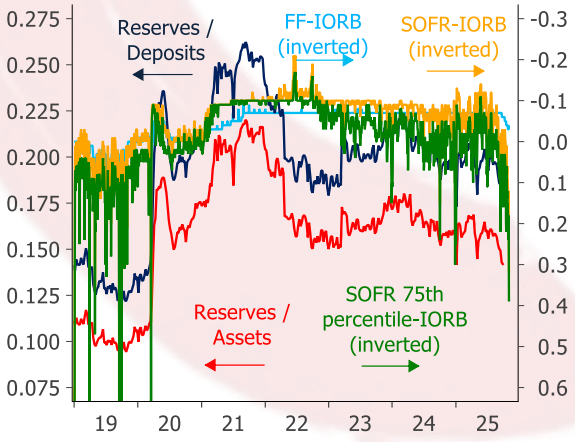
Why shutdown squeezes funding

- **US repo rates have already spiked beyond year-end levels**
- **The squeeze seems likely to continue – and intensify – while the US government shutdown does**
- **The immediate consequences are $-positive and risk-negative – but mostly point to a deeper unwind of crowded hedge fund positions**

What starts in repo never stays in repo. With the temperature hotting up in US money markets in recent days – and having the potential to become hotter still – we seem on the verge of what started as a little local tightness triggering significantly broader attention.

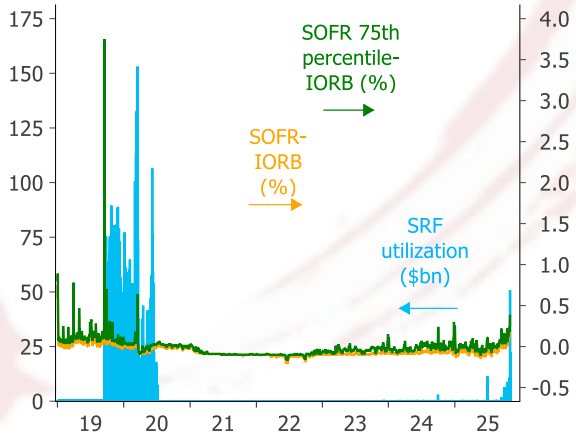
This short note looks at the mechanics driving the repo tightness, explains why the Fed's cessation of QT will do little to help, and examines the impact on markets. We argue that what was already feeling a little like a broad-based position squeeze seems likely to intensify.

Repo squeeze surpasses year-end levels
US money market rates (%) and reserves ratios



Source: Fed, New York Fed, S&P Global, U.S. Treasury, BoE, ECB, Macrobond, Satori Insights.

'Tis but a short spike to 2019
$ repo rates vs Standing Repo Facility usage



Source: Federal Reserve, Bloomberg, Satori Insights.

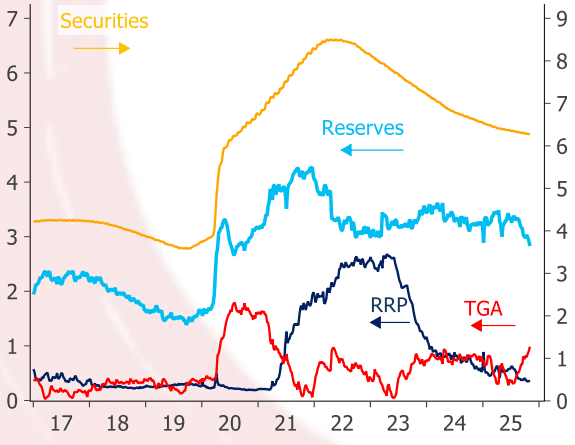
From shutdown to short squeeze

The mechanics behind the squeeze are those we have covered many times – but are taking on a new-found significance thanks to the combination of reserves being at a tipping point and the length of the US shutdown.

As the rather spiky charts above demonstrate, repo rates rise when the level of commercial bank reserves at the Fed falls – but tend to do so in a deeply nonlinear fashion. It is for this reason that the Fed has been at pains to try to monitor the transition from reserves being "abundant" – where falls produce little to no impact on market repo rates – to reserves being merely "ample". It is also why, following the unwelcome spike in repo rates in 2019 they created the Standing Repo Facility to act as a backstop.

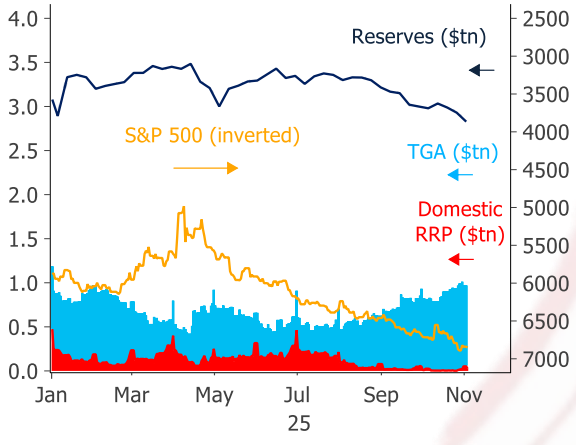
Since mid-June, US reserves have fallen by over $500bn, and are suddenly starting to make their mark on repo rates. Importantly, most of this fall has occurred not due to the steady liquidity drain coming from direct QT and securities run-off, but from the combination of a sharp rise in the Treasury General Account and with domestic RRP having reached zero and therefore being unable to act as a cushion.

ΔReserves ≈ ΔSecurities - ΔRRP - ΔTGA
Fed balance sheet items with projections, $tn



Source: Federal Reserve, Macrobond, Satori Insights.

TGA up, reserves down
US Fed balance sheet items vs S&P



Source: Federal Reserve, US Treasury, Macrobond, Satori Insights.

Throughout Q3, the rise in TGA was part of an intentional effort to increase the balance back to the $850bn level the Treasury considers a sensible buffer. But over the past month of shutdown, TGA has started to overshoot the Treasury's target as tax receipts continue but expenditure on many 'non-essential' items – including government employees'

salaries and food stamps – is curtailed.[1] This therefore represents a very literal drainage of liquidity from the economy.

The rather obvious point we had failed to appreciate until a bank expert pointed it out to us[2] was that TGA seems likely to continue rising for as long as the government shutdown continues. To judge from both the 2019 shutdown and recent weeks, the pace of the increase is around $100bn/month – and is likely to pass through directly into a further fall in reserves.

The likelihood of continued reserves drawdown in coming weeks makes the Fed's decision to end QT only on 1 December frankly perplexing. Yes, securities run-off is not the primary driver and ending it will not by itself fix the problem, and backstops like the SRF are already in place. But having already made the decision to end QT, why allow it to add further pressure in the meantime?

Presumably they had been hoping the shutdown will end – at which point TGA will fall, and reserves rise, as backdated payments are made and liquidity is returned to the economy. But in the meantime it is rather awkward that, as Lorie Logan noted in a thoughtful speech last week, "if the recent rise in repo rates turns out not to be temporary, the Fed in my view would need to begin buying assets to keep reserves from falling further and maintain an ample supply of reserves."[3]

The real problem here, as we have long argued,[4] is allowing TGA (and RRP) fluctuations to interfere with reserves levels in the first place – and underestimating the impact that such fluctuations have on markets.[5] But given that it would look almost careless to have to start buying assets before having even ended QT, in the meantime the shutdown-induced drain on reserves – and consequent spike in repo rates – seems likely to intensify.[6]

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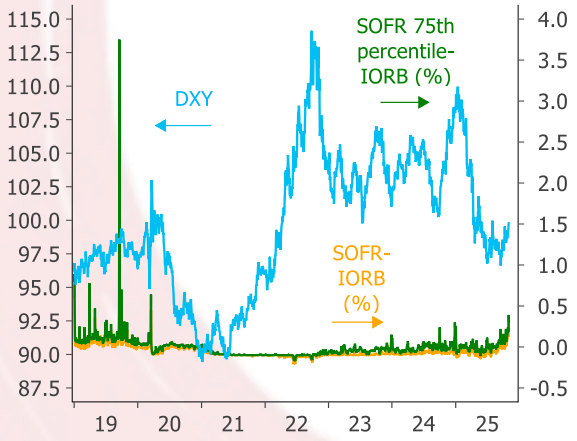
[1] The latest reported balance is $891bn vs the $850bn target. *Treasury Announces Marketable Borrowing Estimates*, 3 Nov.
[2] *The Bank Treasury Newsletter*, E. Heisler.
[3] *Ample liquidity for a safe and efficient banking system*, FRB Dallas, 31 Oct.
[4] *Global QT: what central banks haven't learned*, Mar24.
[5] *The blinkered Fed*, 30 Oct.
[6] Another option might be introducing additional Temporary Open-Market Operations – but again we suspect it would require considerable stress to provoke this so soon after the last FOMC. See *Money-Market Stress Persists Ahead of Fed's Portfolio Pivot*, Bloomberg, 4 Nov.

All aboard the unnecessary unwind

Reserves drainage is usually risk-negative, but at this point we think the bigger impact is from the potential unwind of some of the $8tn in trades currently funded on repo. Recent price action across assets had already started to 'smell' to us like a generalized position unwind, given a mix of unusual correlations and a lack of obvious link with headlines. The fact that US repo outstandings have doubled over just the past three years seems likely to add to the vulnerability, with price action and herding itself likely to feed further unwinds in the event the shutdown continues.[7]

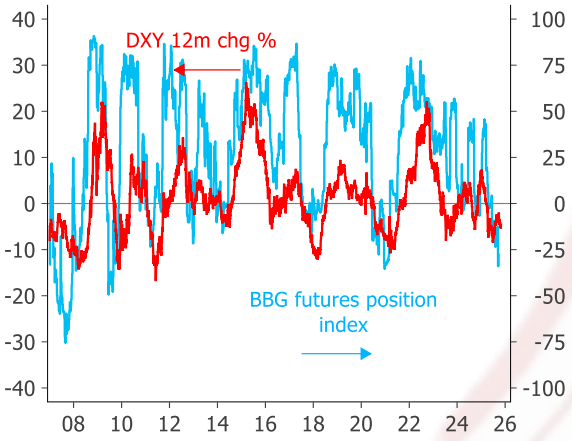
The most obvious consensus leveraged position likely to be squeezed further is $ FX shorts. We had already thought it slightly surprising that DXY started rising significantly *before* the rise in US real yields which followed the FOMC. This now seems likely to have been triggered by the squeeze on repo rates putting pressure on leveraged positions. Besides, almost by definition, repo spikes represent scarcity of $ funding and are therefore usually associated with $ strengthening.

Spikes are usually $-positive
$ repo rates vs USD index



Source: Federal Reserve, Bloomberg, Satori Insights.

Especially with so many shorts
DXY vs Bloomberg DXY futures position index

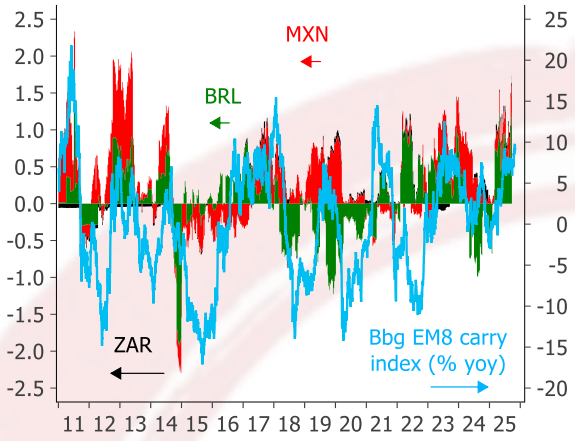


Source: CFTC, Macrobond, Satori Insights.

A quick comb through the CFTC positioning data suggests other positions which may be at risk if the squeeze continues, and sheds light on some recent price action. EMFX, for example, is the most obvious FX long as a counterpart to $ shorts. And while most of the gold correction has come through ETF flows and positions in China being cut,[8] the squeeze on futures & options net longs may be contributing.

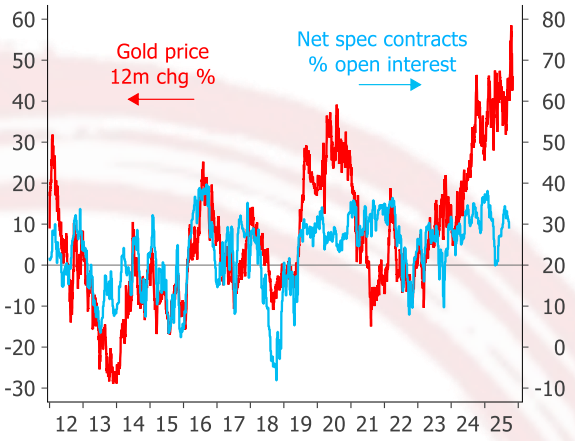
[7] *Replay: The limits of easy money*, 23 Oct.
[8] *The blinkered Fed*, 30 Oct.

EMFX longs also extended
EMFX noncommercial futures & options positions ($bn)



Source: CFTC, Bloomberg, Satori Insights.

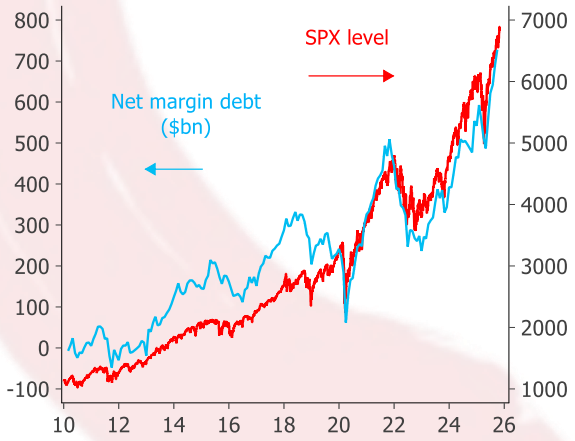
Spec gold longs extended, not extreme
Futures & options positions vs prices



Source: CMX, Macrobond, Satori Insights.

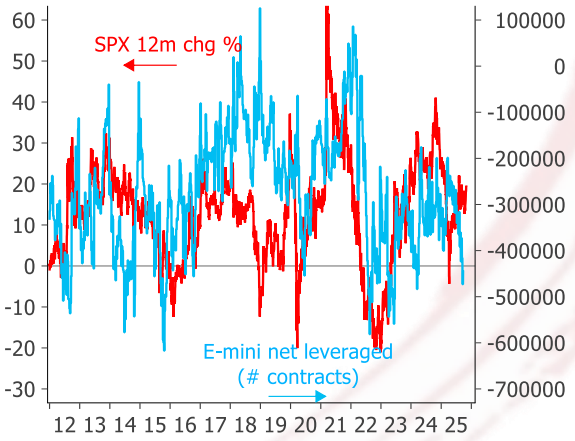
In equities and credit, the implications feel negative, but more subtly so. Reserves drainage is traditionally negative for risk,[9] and record levels of margin debt are clearly vulnerable. So too, presumably, are some of the equity names where positions are particularly crowded.[10] But our major worry for the markets as a whole would be a reversal of ETF and other fund inflows: aggregate futures positioning points mostly to an absence of deliberate beta longs from hedge funds.

Retail margin debt at highs
Net debt in margin accounts vs S&P 500



Source: FINRA, S&P, Satori Insights.

SPX long not really HF-driven
Equity futures & options positions vs prices



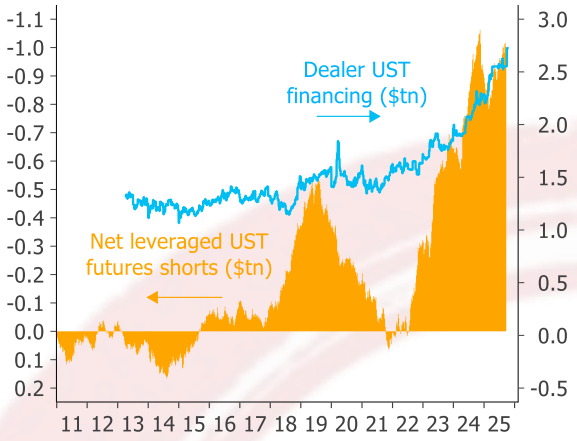
Source: CME, Macrobond, Satori Insights.

In contrast, the implications for longer-dated Treasuries – away from money market rates themselves – seem overwhelmingly positive. With $1tn in basis trades outstanding, the potential for unwinds to spark a further rally in both outright yields and Treasuries' performance versus swaps seems substantial.

[9] *Flows & liquidity analytics*, daily.
[10] See, for example, the GS Hedge Fund FIP Index (GSTHHVIP on Bloomberg).

Squeeze likely yield-supportive

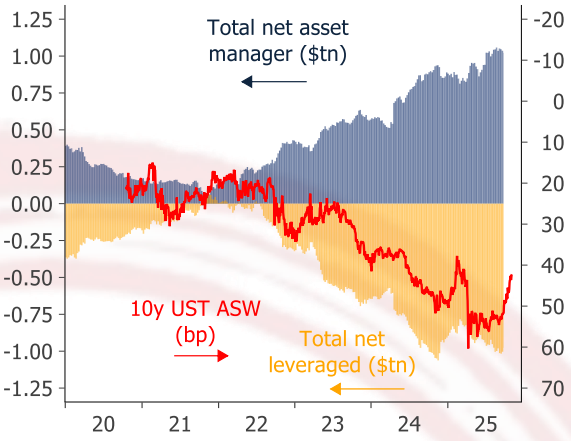
Net position in 2, 5 and 10y UST futures & options, $tn



Source: CBOT, CFTC, Macrobond, Satori Insights.

UST basis may also be squeezed

Net position in 2, 5 and 10y UST futures & options, $tn



Source: CBOT, CFTC, Macrobond, Satori Insights.

In sum, all these indicators point to the potential for ongoing shutdown, reserves at a pivot point and a constrained Fed to lead to considerable near-term turmoil – with pressures spreading beyond repo markets to make themselves felt more broadly. Just how much more broadly presumably depends on both the length of the shutdown and the magnitude of the spike – but prior experience suggests the scope for nonlinearities is substantial. The final irony is that none of this need prevent an eventual melt-up in risk thereafter, once the shutdown is dealt with and liquidity is again released. Only screaming children attract their parents' attention – not spoilt ones.