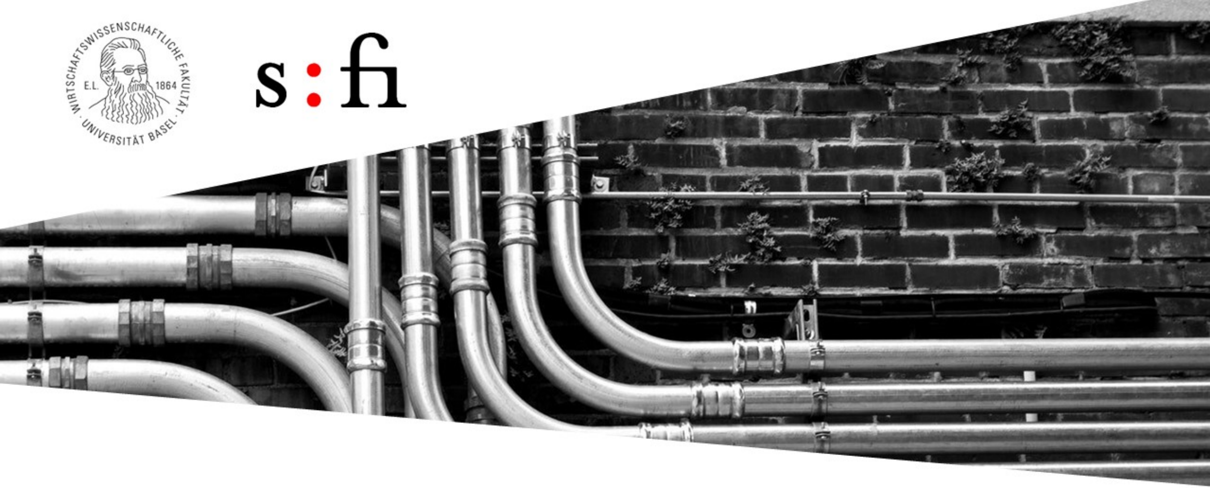


Is the Repo Market Good?

Angelo Ranaldo

May 8, 2025 - SUERF | BAFFI Bocconi webinar

Yes – overall, the repo market functions well

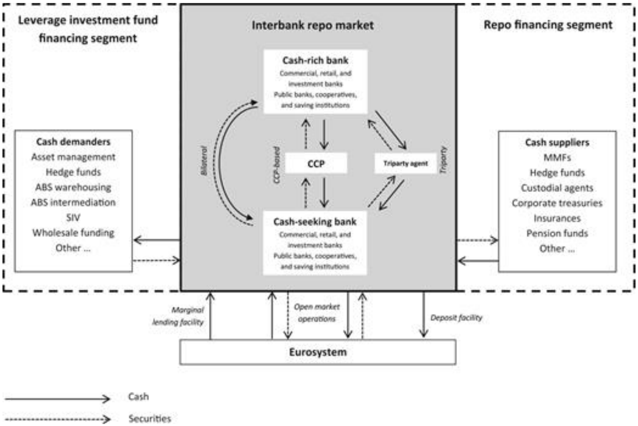


Figure 1 from Mancini et al. (2015)

- Largely centrally cleared
- Backed by relatively safe collateral
- Anonymous trading
- Because of its low sensitivity to counterparty risk, the repo market is resilient and can even act as a shock absorber

CCP-based repos help shift from unsecured to secured funding

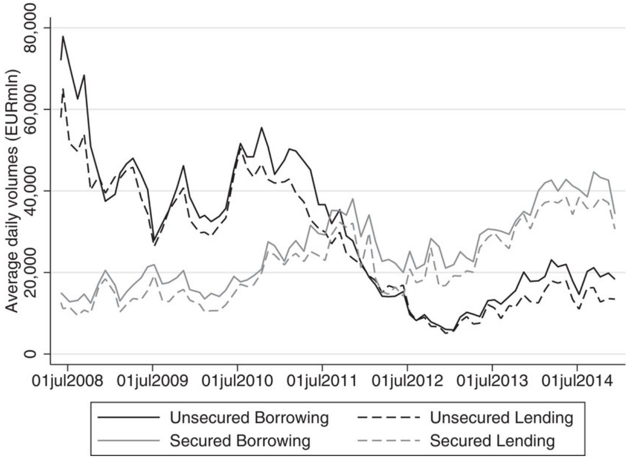


Figure 1 from Di Filippo et al. (2022)

- Riskier banks are able to replace unsecured borrowing with secured funding
- These banks also lend on a secured basis rather than holding excess liquidity

Collateral heterogeneity and pricing

	(1)	(2)	(3)	(4)	(5)	(6)
	Baseline	TN	GC	Special	Broker Tec	Bond
λ^{Market}	−0.07	−0.10**	0.03	−0.07*	−0.09**	−0.06
	(−1.52)	(−2.33)	(0.77)	(−1.66)	(−2.14)	(−1.00)
λ^{HML}	0.42***	0.39***	0.15***	0.42***	0.42***	0.41***
	(14.88)	(16.39)	(14.96)	(14.79)	(14.82)	(12.10)
N	14,960	14,960	14,960	14,960	14,960	14,960
Time periods	1,870	1,870	1,870	1,870	1,870	1,870
Adj. R^2	0.984	0.956	0.988	0.984	0.982	0.983
χ^2	0.441	0.490	0.290	0.345	0.159	–

Table 6 from Ballensiefen and Ranaldo (2023)

- **Market factor:** reflects the general level of repo rates
- **HML (High Minus Low) factor:** captures cross-sectional dispersion in repo rates

Repo rate dispersion: what drives it?

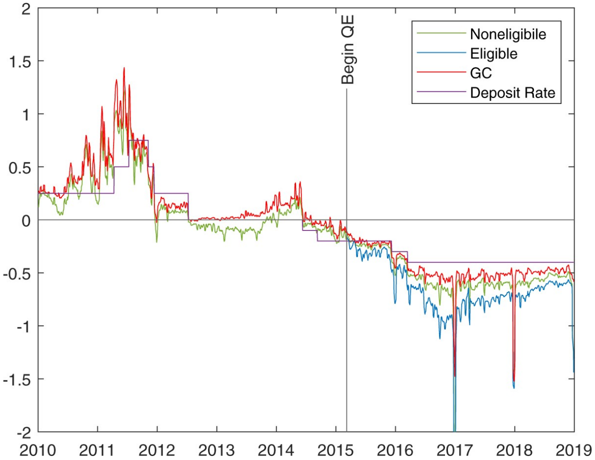


Figure 2 from Ballensiefen et al. (2023)

- Asset quality and its scarcity due to e.g. Quantitative Easing
- Unequal access to central bank deposit facilities
- Regulatory effects

Basel III leverage ratio distorts repo markets

- LR Regulation penalizes repos (but not reverse repos)
- Leads to a drop in repo volumes and rates at quarter-end

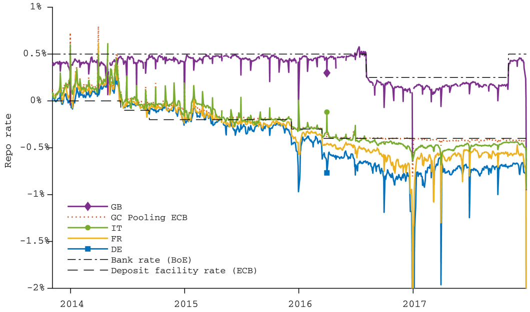


Figure 1 from Ranaldo et al. (2021)

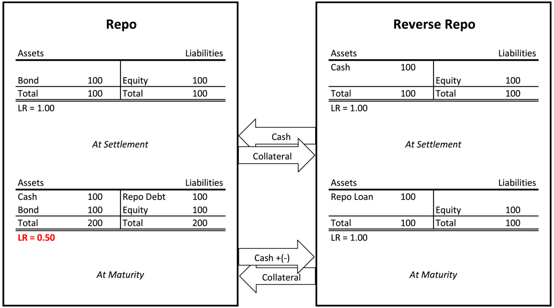
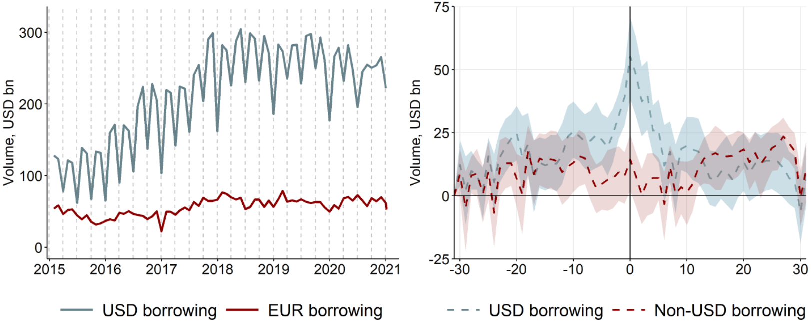


Figure 3 from Ranaldo et al. (2021)

FX swaps as substitutes for US repo funding

- FX swaps are not subject to the same regulatory treatment
- At every quarter-end, European banks shift from US dollar repos to FX swaps for funding



(a) Repo (b) FX swaps

Figure 4 from Kloks et al. (2024)

Unintended consequence of EMIR: collateral cycles

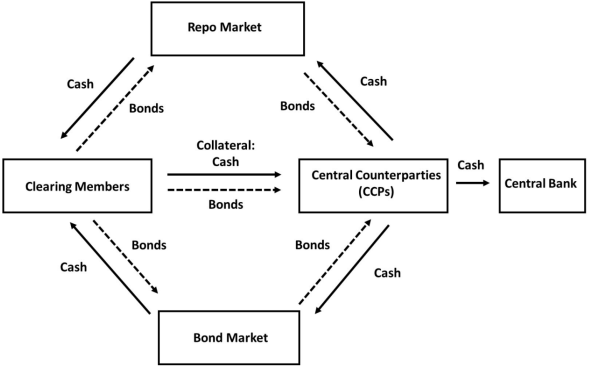


Figure 1 from Benos et al. (2022)

- CCPs must re-invest at least 95% of the cash received from IM collateral
  $\rightarrow$ This results in reverse repos: the **backward phase**
- Clearing members raise cash via repos to meet procyclical margin calls
  $\rightarrow$ This is the **onward phase**

Still many open questions remain, even basic ones ...

- Who is trading in the repo market, and why?
- How efficient and risky is the bilateral (non-CCP) segment?

Using repo to deliver fixed income obligations

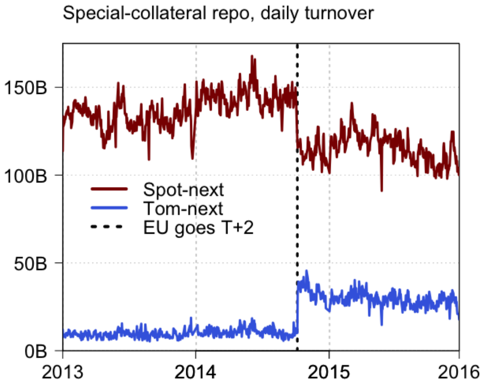


Figure 2 from Mattille (2024)

- Banks use repo collateral / cash to raise cash / securities they need to deliver by settlement.
- Mattille (2024) uses a shortening of the bond settlement time to identify 30% of them use repo to deliver on their commitments in fixed income markets.

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