

Discussion of  
“Banks’ Balance-Sheet Costs, Monetary Policy and the ON RRP”  
by Gara Afonso, Marco Cipriani and Gabriele La Spada

Discussant: Egemen Eren (BIS)

DNB Research Conference  
Amsterdam, November 2023

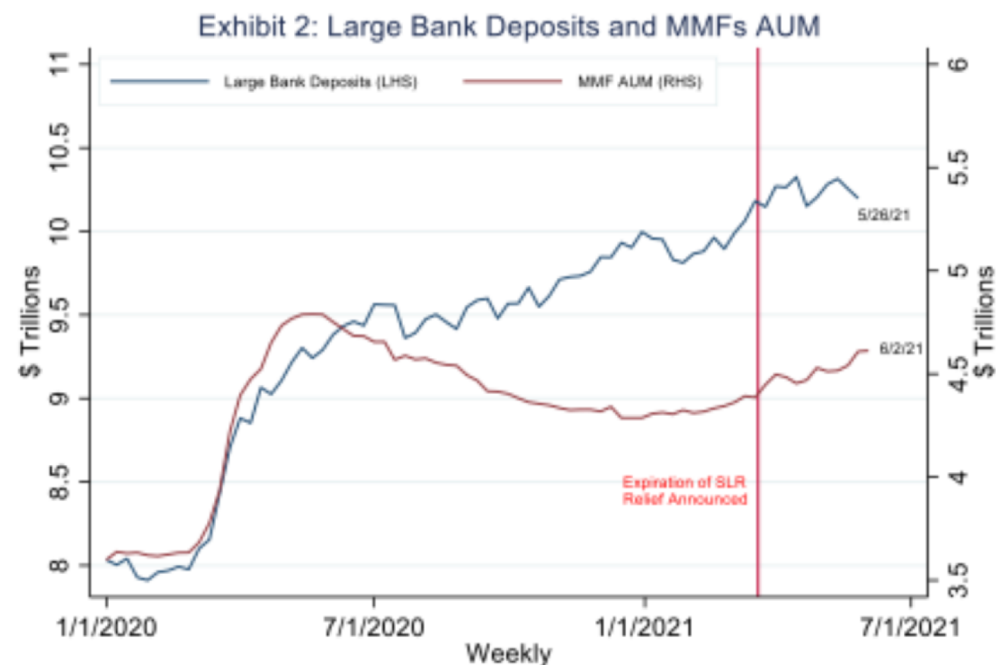
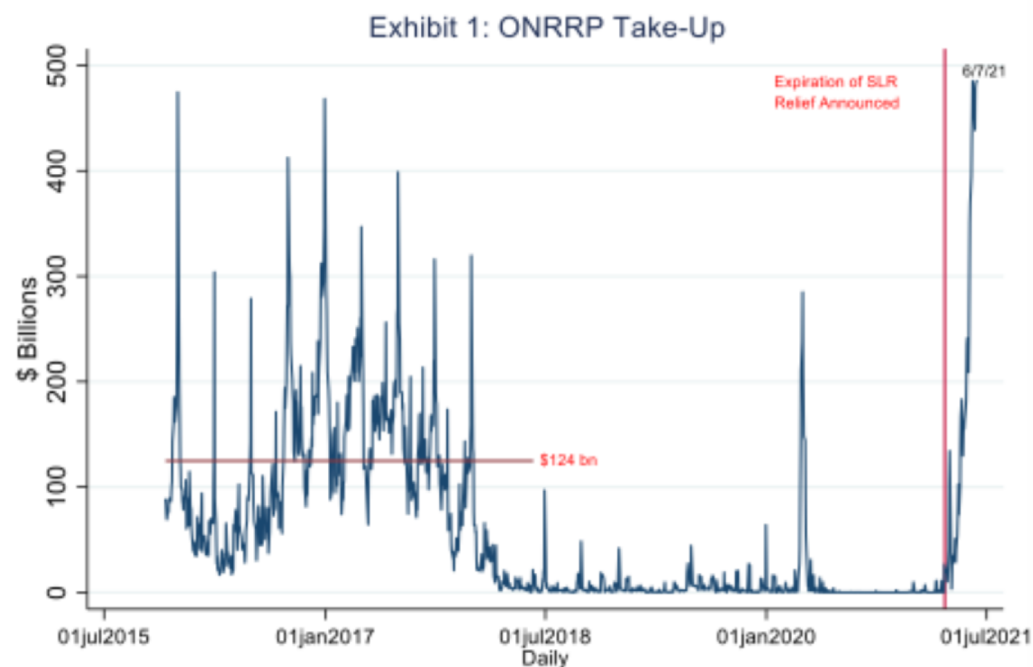
**The views expressed here are those of the author only, and should not be attributed to the Bank for International Settlements.**

# The ON RRP

- MMF inv. into the ON RRP rose from 0 to ~\$2.5 trillion within months in 2022.
  - Banks' balance sheet costs
    - End of the SLR relief – banks pushed deposits into MMFs.
  - Monetary policy
    - Higher FFR → MMF inflows
    - Capital loss if rates go up and have duration → ON RRP
  - Tbill supply
    - Lower Tbill supply → higher ON RRP
- Important paper to understand US money market dynamics.
  - Convincing analysis, improved identification compared to earlier results (Covas (2021)).

# Bank balance sheet costs

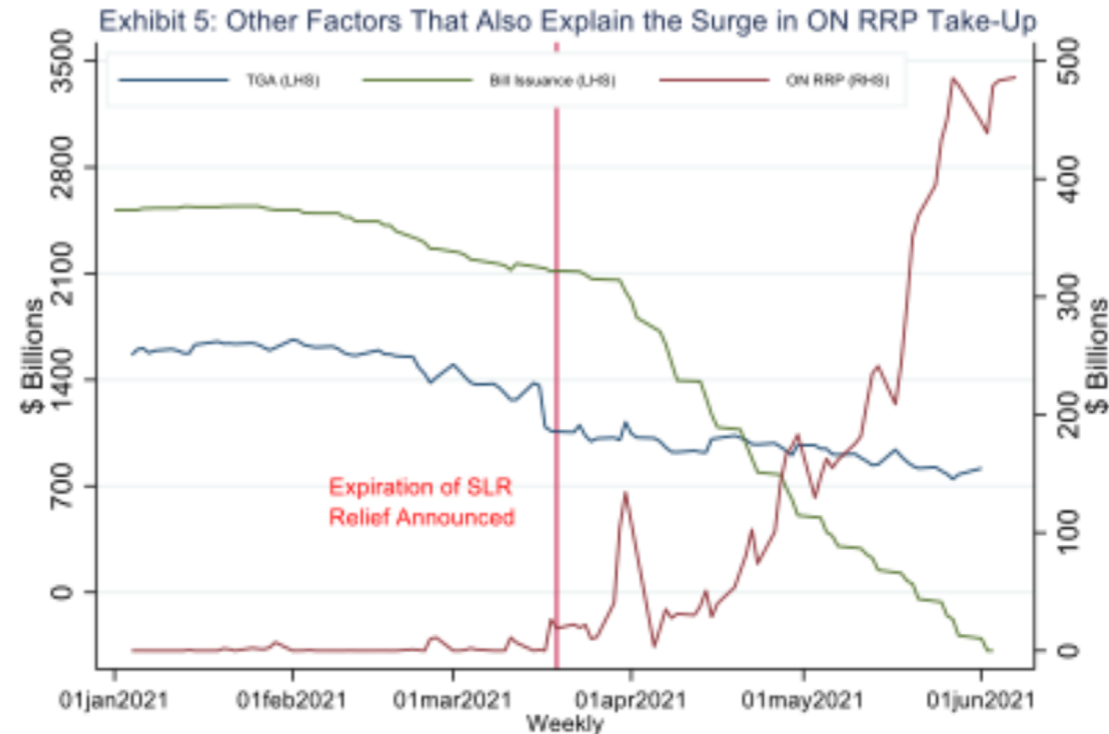
- Banks had higher costs of having deposits after the end of SLR-relief – pushed deposits away to MMFs.
- Mostly to their affiliates – this is an interesting contribution.
  - Can you provide more details? Or ways to show beyond suggestive evidence that this is the case?
  - What implications (if any) does this have in the context of Dreschler et al (2017), Xiao (2020)?
- March 31 is a quarter-end (RRP rises at QEs (Aldasoro, Ehlers, Eren (2022))) & close to tax date



Source: Federal Reserve Board, Investment Company Institute.

# Tbill supply

- Tbills and ON RRP substitutes - once Tbill supply is lower → invest into the ON RRP.
- New: More pronounced for government funds for which the trade-off is starker.



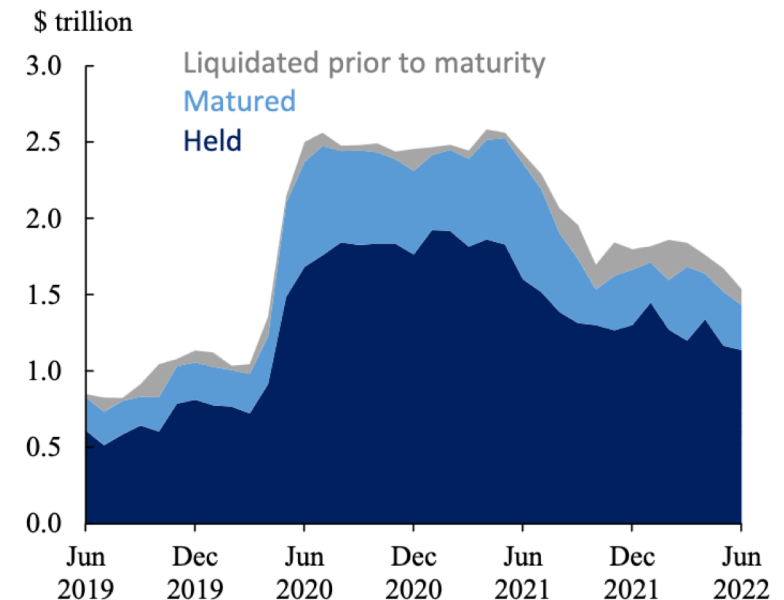
Source: Federal Reserve Bank of New York, Treasury Department.

Source: Covas (2021)

# Monetary policy

- Channel 1: Higher rates → Higher MMF AUM → Higher takeup
- Channel 2: Higher rates → bond prices fall → switch to short duration instruments
  - But, maturities are on average one month and they typically hold to maturity. Rate rises were pretty well telegraphed & priced in.

**Figure 8: MMFs mainly hold Treasury securities to maturity**

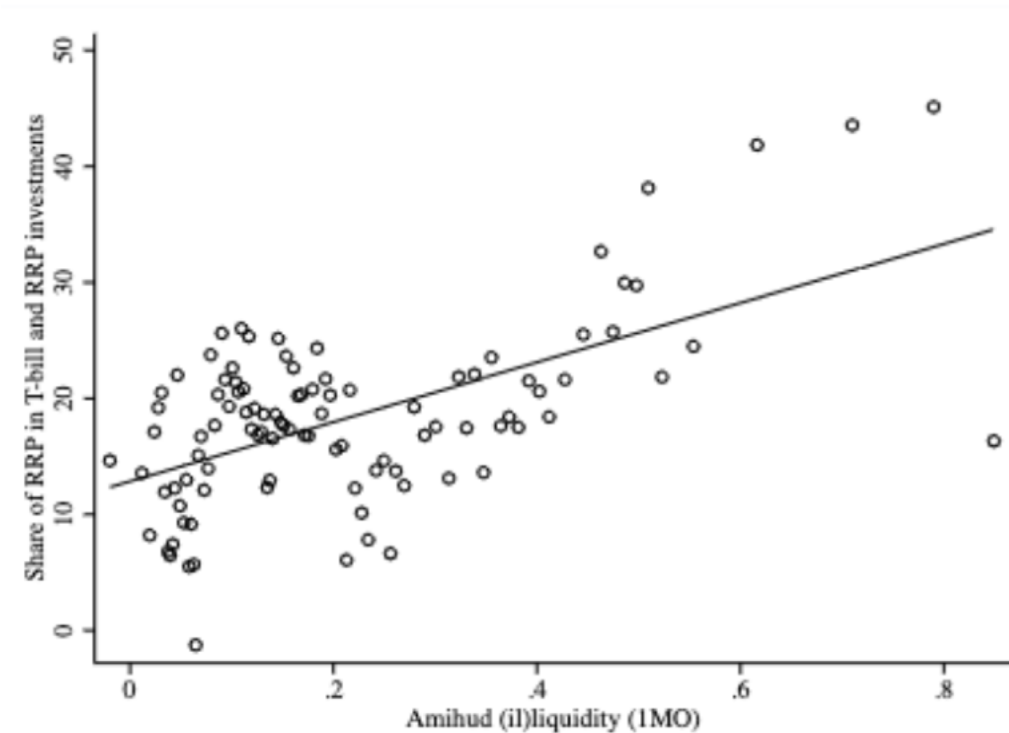


Source: Form N-MFP

Source: Baklanova et al (2022)

# Alternative explanation: MMFs' price impact in the T-bill market

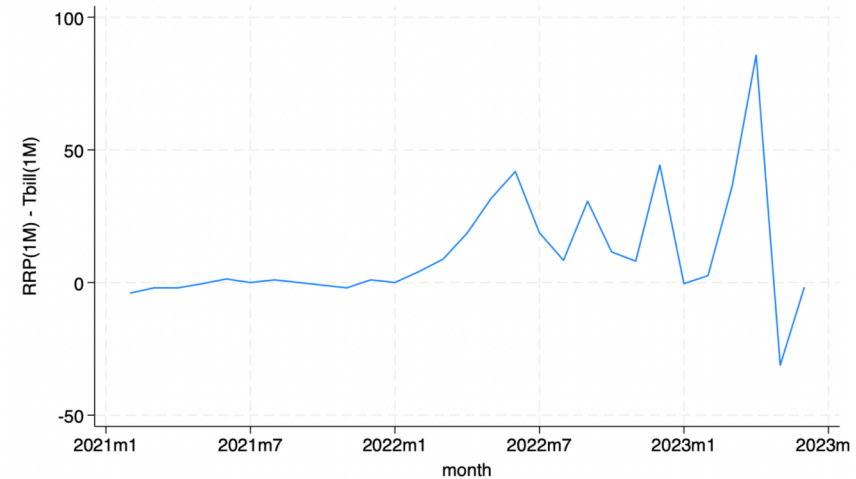
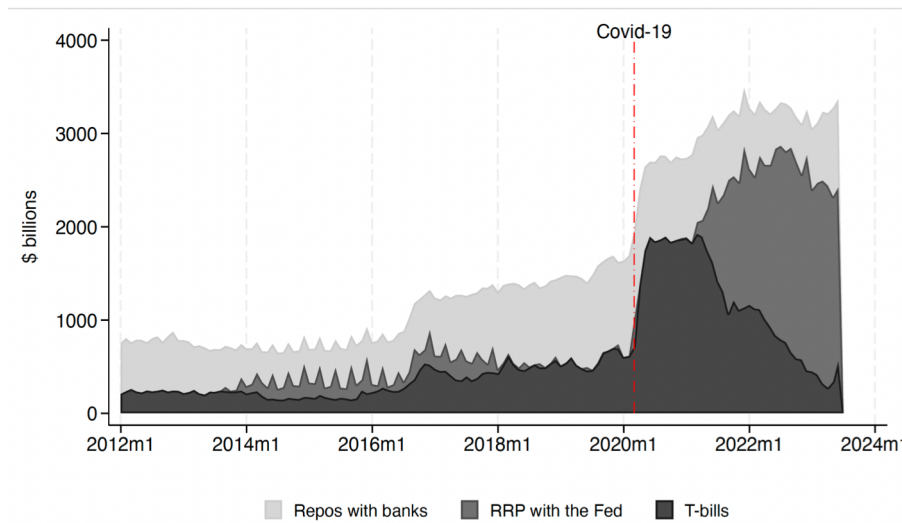
- Doerr, Eren, Malamud (2023): MMFs have price impact in the T-bill market
- Implication: When T-bill liquidity is low  $\rightarrow$  Switch to the ON RRP
- Graph is suggestive, the paper also shows regressions using a fund-month panel and a battery of fixed effects absorbing MP.
- Liquidity is typically low during hiking cycles.
  - Important to tell the two apart.



Source: Doerr, Eren and Malamud (2023)

# Final musings: why isn't the take-up larger?

- The ON RRP is safer and more liquid than T-bills. Recently, RRP-Tbill spread has been positive and large. Yet, most MMFs are still holding an interior mix.
- This is an important puzzle to understand for short-term money markets.
- Doerr, Eren and Malamud (2023): some explanations and draw implications for the measurement of convenience yields of T-bills, but there are still open questions.



Source: Doerr, Eren and Malamud (2023)