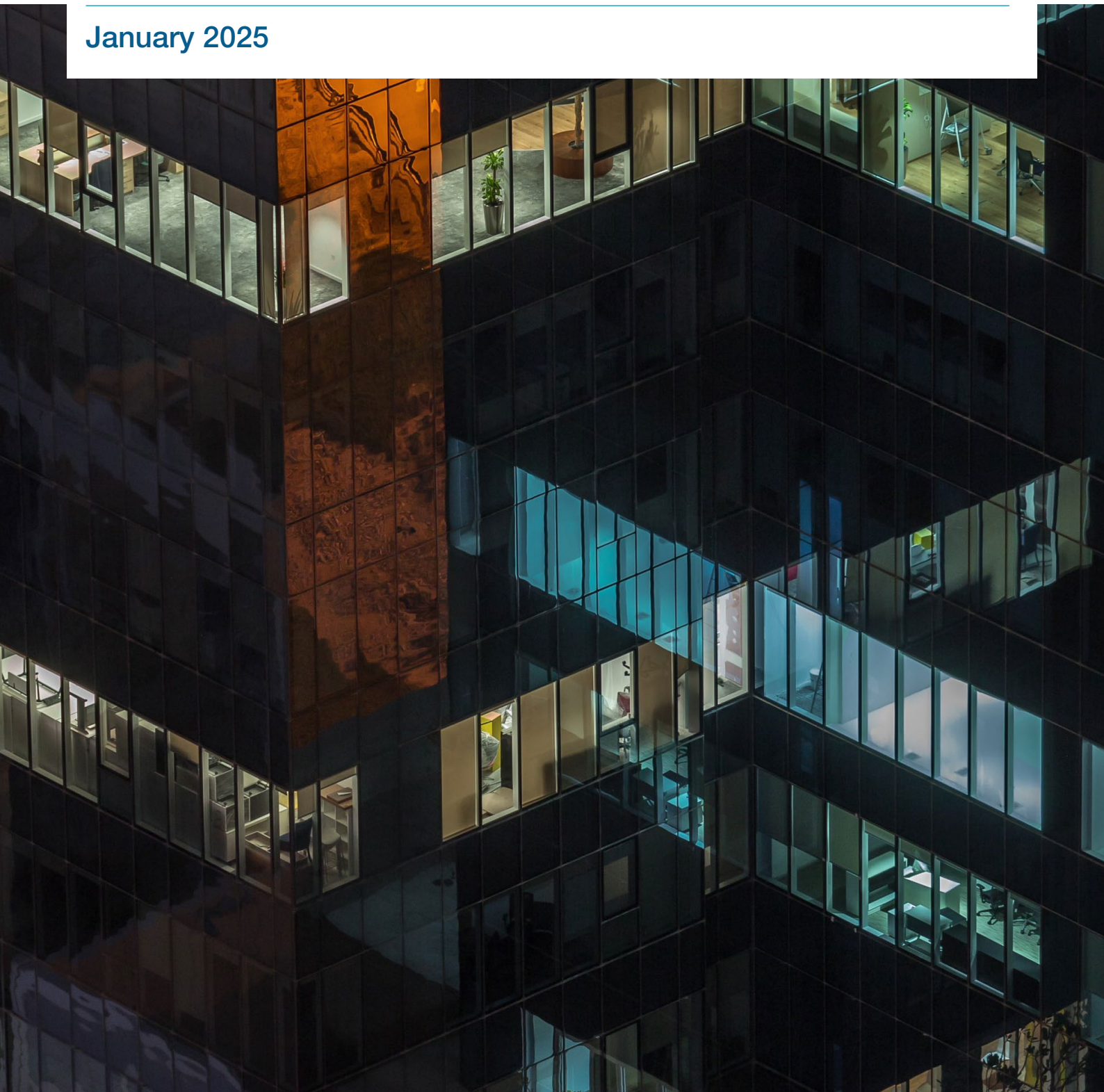


# The European repo market at 2024 year-end

An ICMA European Repo & Collateral Council (ERCC) briefing note

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January 2025



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Without the generous support of key data providers and market participants, these reports would not be possible.

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# Overview

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Calendar year-end has become a major focal point for repo markets, associated with thin liquidity and heightened rate volatility. Of developed markets, the Euro has perhaps exhibited the most sensitivity in recent years, no time more so than in [2016](#). The legacy of this particularly stressed turn is still felt today in terms of how and when market participants manage their anticipated year-end funding needs.

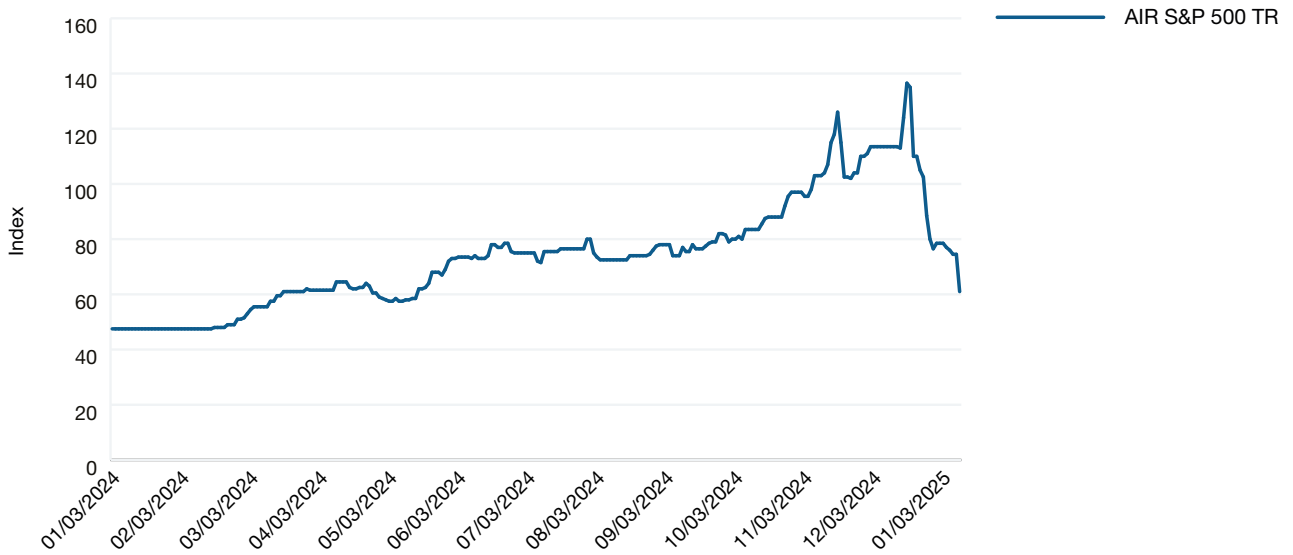
While much of the discourse over recent years has been on demand-supply imbalances in the repo market at year-end, with the banking system flooded with excess reserves and the market facing collateral scarcity, as ICMA's annual analysis has shown, the main driver of the year-end effect is in fact balance sheet scarcity. Banks are subject to a number of regulatory reporting requirements at calendar year-end, such as G-SIB scores, leverage ratio and other capital and liquidity constraints, stress testing, as well as bank levies in certain jurisdictions. While it is difficult to assess the relative extent of impact of each of these, particularly at an aggregate level, all of these effectively incentivise banks to shrink their balance sheets as much as possible. And with repo being a relatively high volume and low-return business, this is usually one of the main targets.

Across the major markets, focus on year-end began in October, with term and forward trades beginning to price in liquidity premium for December 31 to January 2 (a two-day turn). Unlike recent years, particularly in the case of EUR, the markets began pricing repo rates at a significant premium to benchmark rates, rather than the usual deep discount. This was observed over the September quarter-end, when repo rates spiked higher, and was largely seen as a return to normalisation, with reduced excess liquidity and increased bond issuance tilting the demand-supply dynamic. At the same time, there was growing concern about the increased pressure on the largest G-SIB banks as a result of the soaring stock market, particularly following the November US election result, which was increasing the demand for prime brokerage balance sheet to fund swelling hedge fund longs, and likely to be at the expense of repo funding capacity for fixed income.

However, as we moved into December the pressure began to abate, and rates began to move closer to normal levels. This was partly as many firms had already locked in much of their year-end funding, but also as it became clearer that there was ample liquidity in the market, particularly once we moved under the 30-day LCR window. This should perhaps not be too surprising given that central bank quantitative tightening still has some distance to run, and excess reserves remain comfortable (see Figure 2). Furthermore, as we rolled into December, the USD FX basis swap, at least for EUR and GBP, remained close to zero (see Figure 3). USDs often carry a relative premium going into year-end, which puts downward pressure on other rates as it becomes attractive for holders of USDs to lend in alternative currencies. Market positioning also played a role, with some hedge fund deleveraging and the rolling off of long basis trades. Finally, the sharp sell-off in equity markets following the hawkish overtones of the December meeting of the Federal Reserve also appears to have taken some pressure off G-SIB balance sheets. Figure 1, which is the CME Total Return Future of the S&P 500 adjusted for financing rates (based on the Federal Reserve Effective Rate), closely mirrors the rise and fall of year-end repo rates observed in the major currencies from October to the end of December.

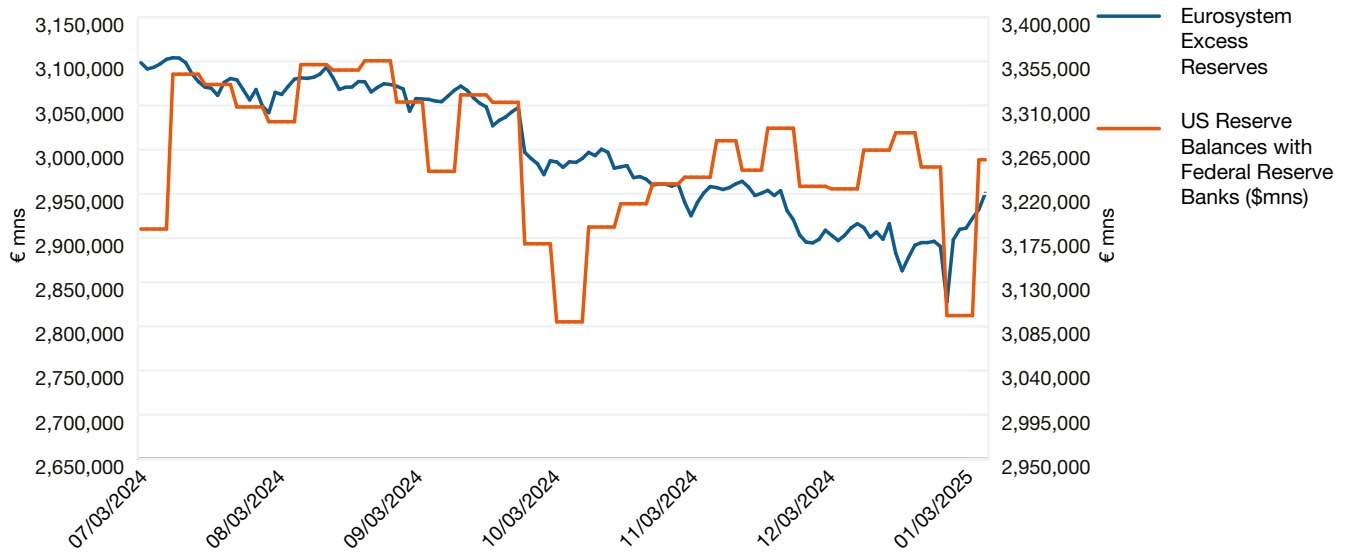
In short, it is fair to say that the 2024 year-end for repo was certainly interesting, but ultimately uneventful.

Figure 1: CME Adjusted Interest Rate (AIR) S&P 500 Total Return Future



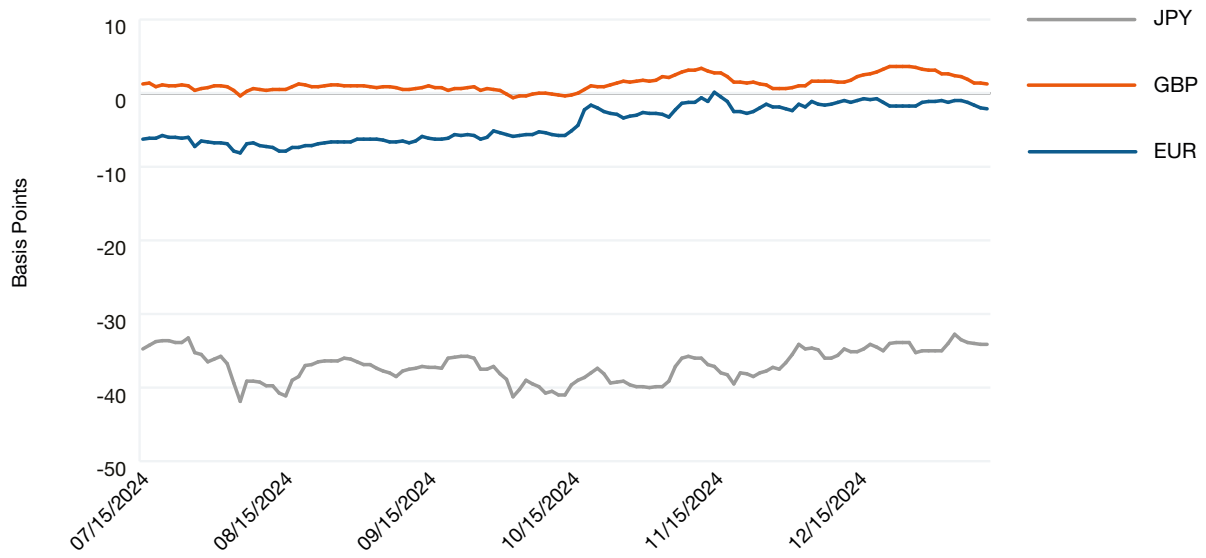
Source: ICMA analysis using CME data sourced from Bloomberg

Figure 2: Central Bank Excess Reserves (Eurosystem & Federal Reserve)



Source: ICMA analysis using Bloomberg data

Figure 3: USD Cross Currency Basis Swap



Source: ICMA analysis using Bloomberg data

# Euro repo

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The surprise spike higher in EUR repo rates at September quarter-end seemed to set the tone for the 2024 year-end, with term and forward implied rates over the turn beginning to price in a progressively richer widening relative to ESTR.<sup>1</sup> The general view seemed to be that following an exceptional year for euro sovereign issuance, there were a lot more bonds around to finance, while at the same time overall liquidity conditions were normalising, particularly with the roll off of the TLTROs.<sup>2</sup> As we have learned from previous year-ends, positioning also plays a role in the demand-supply dynamic, and the general assessment was that levered investors were net long sovereign bonds, which had cheapened significantly in the latter half of the year, providing positive carry opportunities against futures (the so called “basis trade”). One market participant suggested that over the course of 2024 the ratio of long positions versus short positions held by hedge funds flipped from -1.4 (40% more shorts than longs) to +1.4% (40% more longs than shorts). This, combined with the aforementioned anticipated squeeze on G-SIB balance sheets as a result of the ongoing equity market rally, helped to assert upward pressure on year-end repo rates.

The implied rates for the turn peaked in early-to-mid November, reaching wides of around ESTR+90bp for core sovereigns and ESTR+350bp for periphery (compared with around ESTER+8bp and +12bp respectively in the spot market). Despite the expense, for firms looking to ensure certainty of funding or to facilitate balance sheet optimisation through netting, this could be considered a relatively small price to pay (particularly for only two days). These higher funding rates were also seen as playing a role in accelerating the cheapening of government bonds, as observed in tightening asset swap spreads (see Figures 8 and 9). In terms of volumes being traded, Italy was particularly active, with more than €13bn trading over the turn between late October and early December, reaching a peak of ESTR+300bp.

However, as we moved into December, implied rates for the turn began to move lower. As previously mentioned, a neutral USD-EUR cross-currency basis (see Figure 10) and a correcting stock market helped. Following the expiry of December bond futures contracts, we did not see much in the way of rolling long basis trades into March, and therefore a sizeable deleveraging by hedge funds. As we moved closer to the date, a number of other factors came into play to tighten year-end repo rates. One of these was an unexpected uptick in the use of the ECB’s regular repo facilities: the one-week main refinancing operation (MRO) and the three-month longer-term refinancing operation (LTRO). Following quantitative easing, we have seen a degree of stigma associated with using the ECB repo operations, with the perception that use could imply that a bank is struggling to finance itself. Over September quarter-end, for example, the total uptake of the MRO and LTRO was a mere €2bn. Over December year-end this increased to €27bn.

Some market participants cite this spike in the MRO and LTRO uptake, at a time when excess reserves are still relatively high, as an indication of liquidity fragmentation, rather than a relative shortage of liquidity in itself. In other words, the excess reserves sitting in some Eurozone banks is not being mobilised effectively to banks that need it, meaning that these have to turn to the ECB repo facilities.

At the same time, we saw banks moving reserves out of central bank deposits and into government bond reserve repos, in order to reduce their excess reserve balances for year-end reporting. Finally, the USD-EUR cross-currency basis moved sharply lower, creating a 200bp pick-up for USDs into EUR for the turn, driving the repo-ESTR spread negative (similar to what we have observed at recent year-ends). As we reached the spot date<sup>3</sup> (December 27), when many specific bonds are traded in the EUR repo market, spot-next repo rates for core EUR governments were trading around flat to ESTR to 10bp through (compared with +6bp the previous day), while periphery governments traded around ESTR+12bp (1bp tighter). When reached the “Tom” date<sup>4</sup> (December 30), which is the most popular settlement date for EUR GC, core repo rates collapsed, printing at a low of 1.90% (ESTR-100bp).

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1 The Euro Short Term Rate, or ESTR, is the “risk-free” reference rate for the overnight interbank lending in the Eurozone.

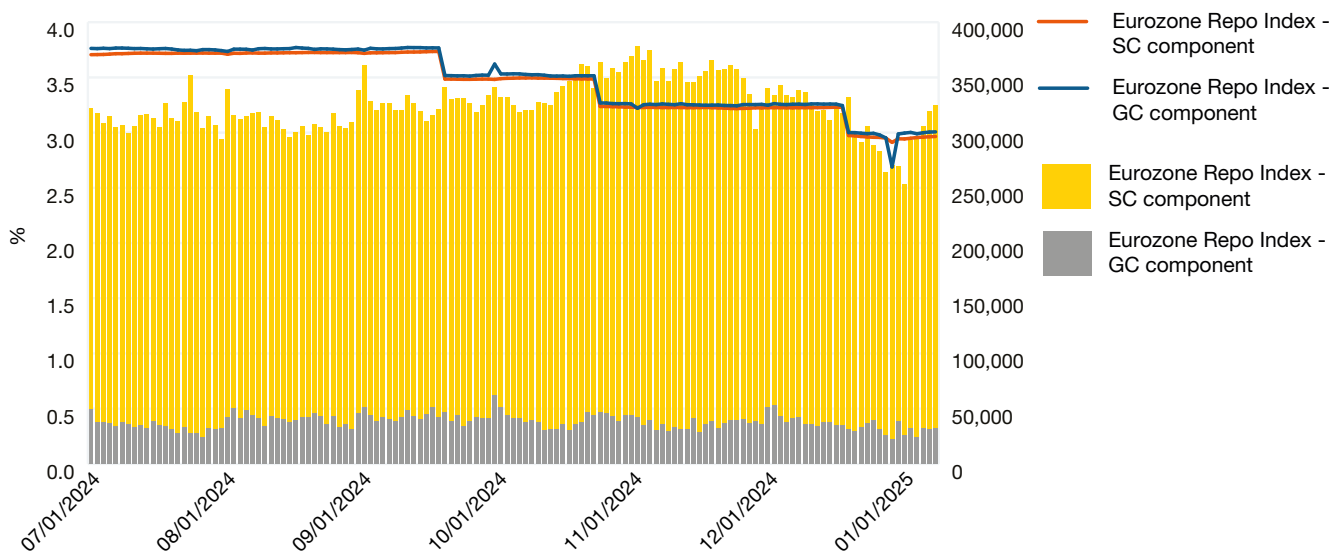
2 Targeted Longer-Term Refinancing Operations, or TLTROs, are favourable long-term loans offered to banks as part of the ECB’s objective of stimulating bank lending into the real economy.

3 Spot settlement is two business days following the trade date (T+2)

4 Tom settlement is one business day following the trade date (T+1)

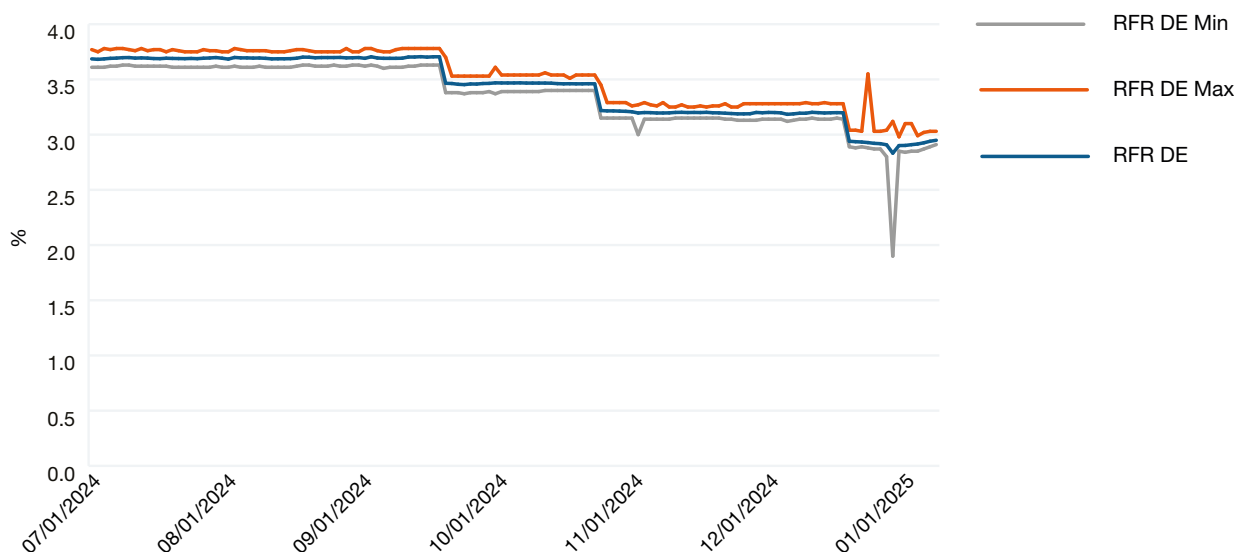
Figure 4 shows the EUR Repo Funds Rate (RFR) split out by specific collateral (SC) and general collateral (GC), with GC printing an average rate below SC, as a result of the move lower in the Tom market compared to Spot: 2.69% vs 2.91% (ordinarily specific bonds trade at a lower rate than general collateral)<sup>5</sup>. Figure 5 shows the range and average rates for the German RFR rate, and Figure 6 for Italy RFR. While Figure 7 shows the average RFR-ESTR spread for German, French, Italian, and Spanish GC. For the turn, France averaged ESTR-56bp and Germany ESTR-40bp, while Spain averaged ESTR-9bp and Italy+9bp. While perhaps not the biggest moves observed at year-end, this is quite a round trip from the implied levels being printed in October and November, and also illustrates the challenge of managing funding requirements for this particular point in time.

**Figure 4: EUR Repo Funds Rate – General Collateral & Specific Collateral**



Source: ICMA analysis using CME data

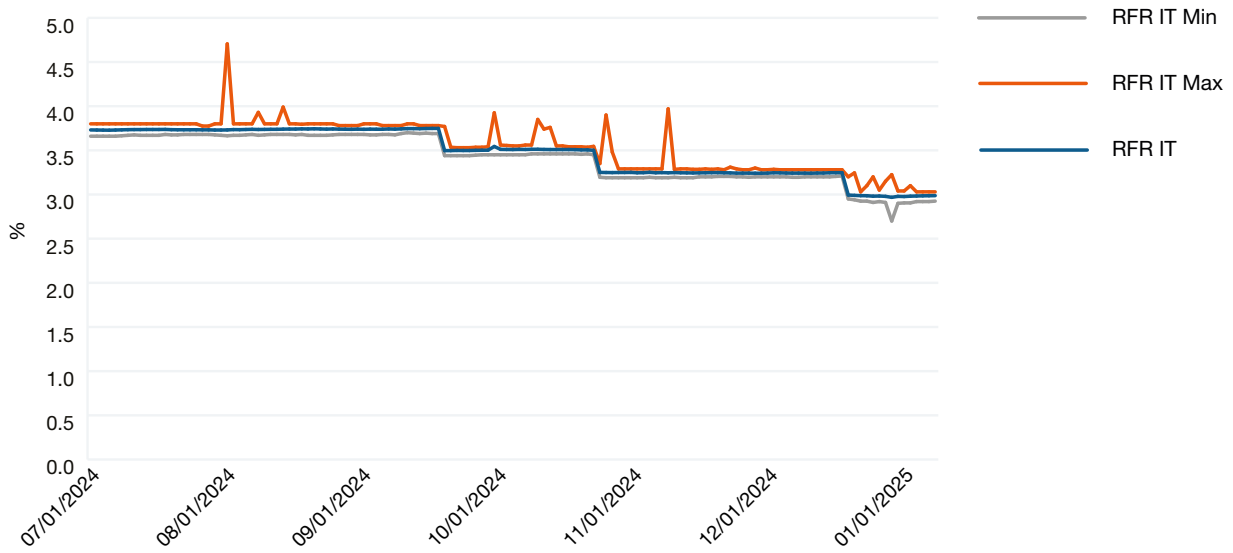
**Figure 5: Germany Repo Funds Rate**



Source: ICMA analysis using CME data

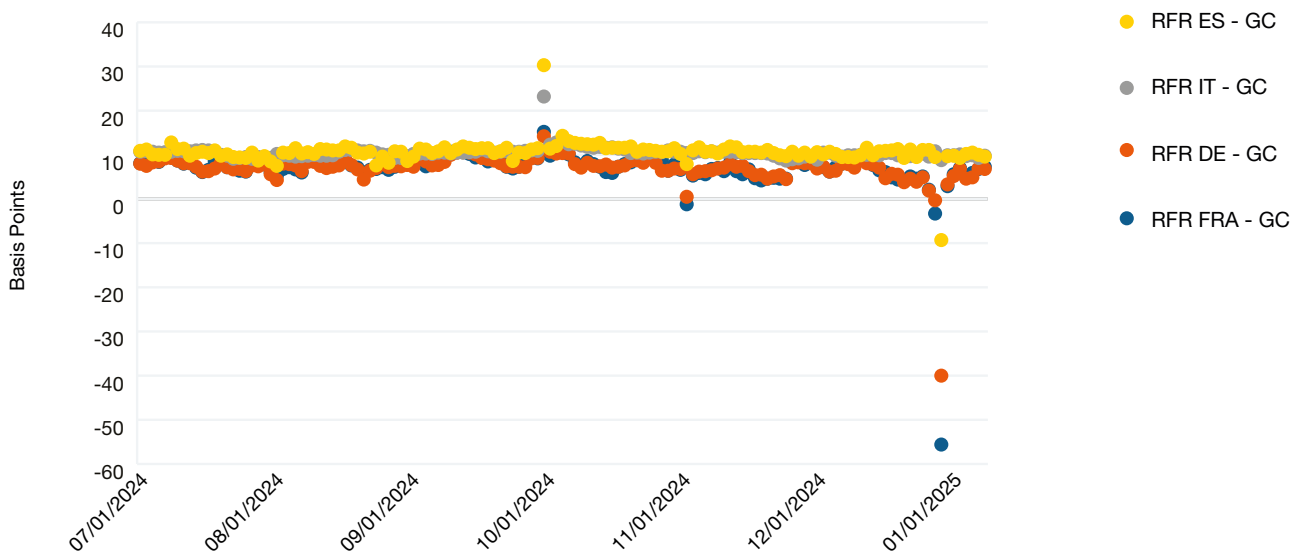
<sup>5</sup> Eurex observes similar price behaviour in GC and SC rates, as described in its [Repo Trading & Clearing 2024/25](#) report (see page 8)

Figure 6: Italy Repo Funds Rate



Source: ICMA analysis using CME data

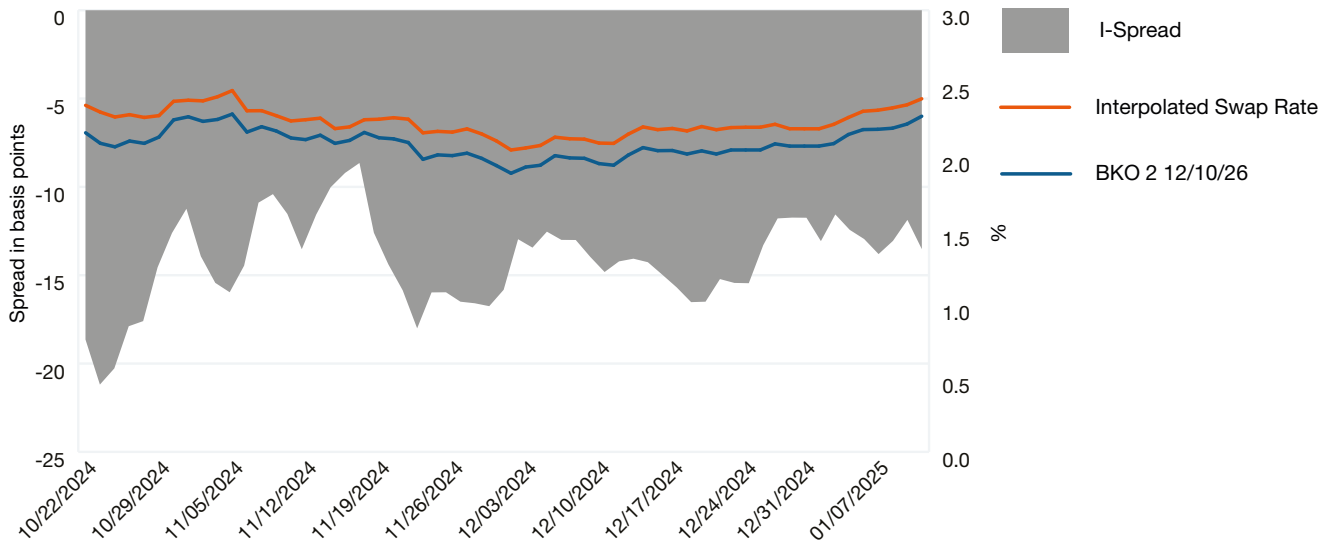
Figure 7: Repo Funds Rate - European Short Rate spread



Source: ICMA analysis using CME and Bloomberg data

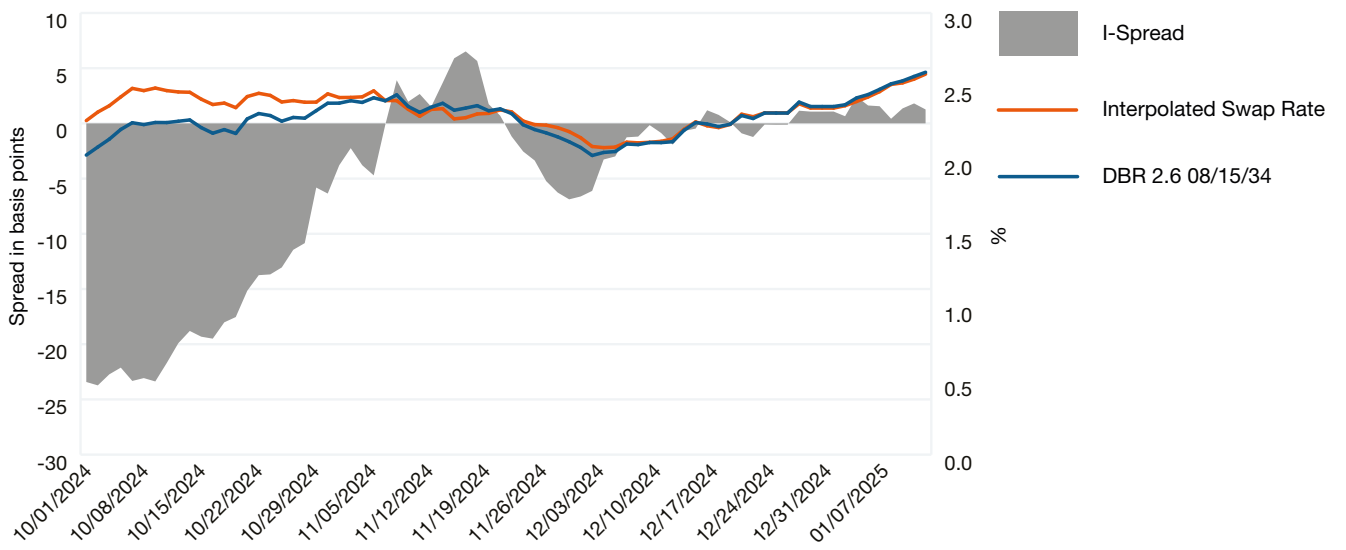


Figure 8: Schatz Swap Spread



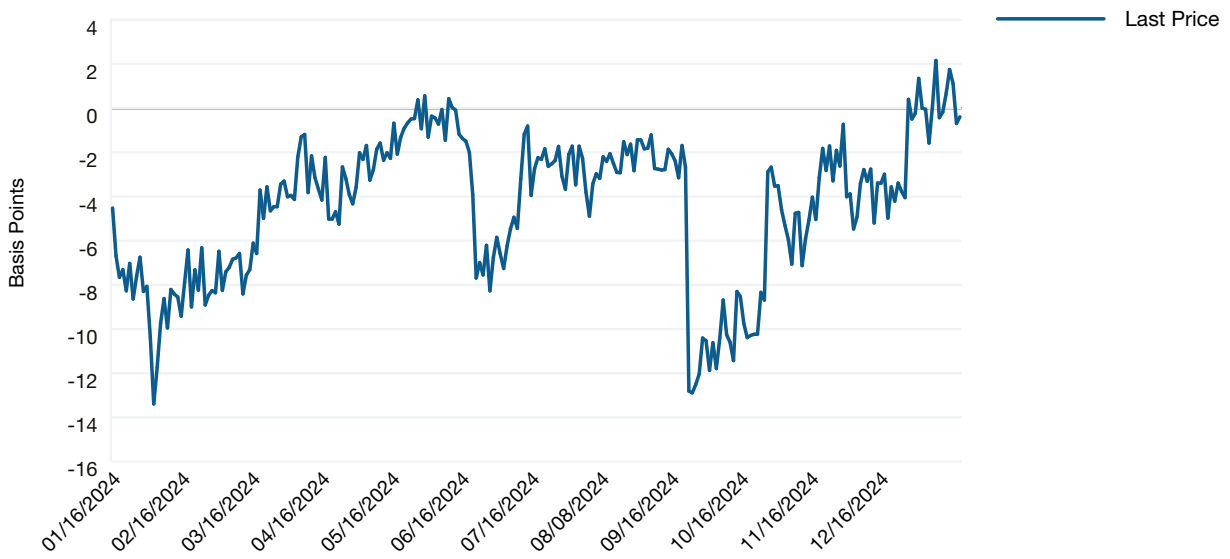
Source: ICMA analysis using Bloomberg data

Figure 9: Bund Swap Spread



Source: ICMA analysis using Bloomberg data

Figure 10: EUR-USD Cross Currency Basis



Source: ICMA analysis using CME data sourced from Bloomberg

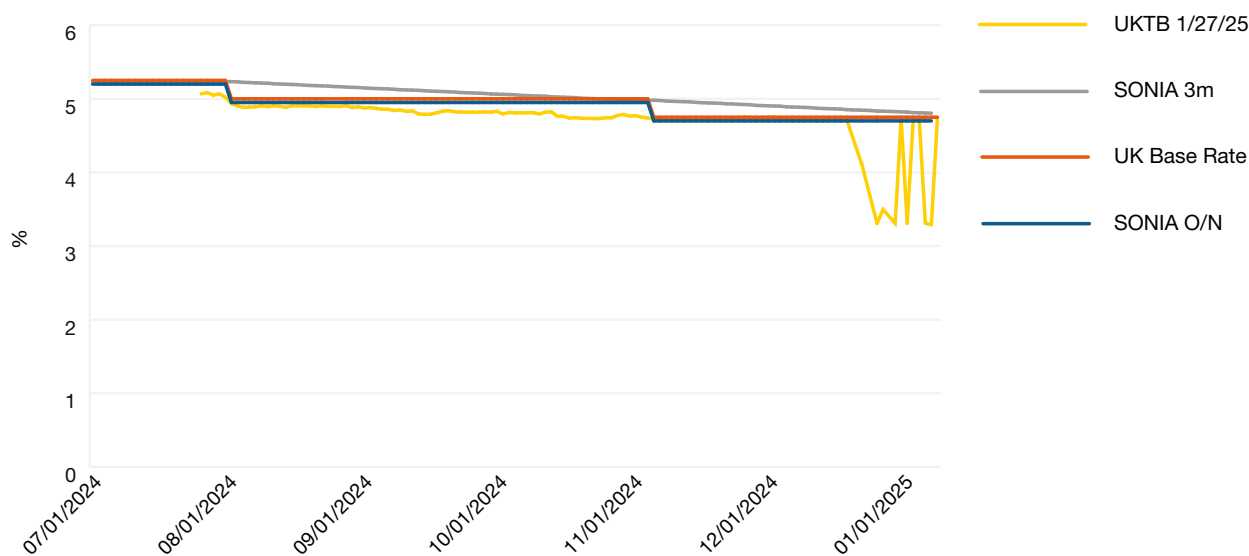
# GBP repo

Similar to EUR, the market began to price-in a sizeable year-end spike in GBP terms and forward repo rates starting in October. By early-to-mid November the implied turn was around SONIA+60bp to +80bp,<sup>6</sup> compared with current GC rates of around SONIA+8bp. The implied began to cheapen as we moved deeper into December, but as we approached the date the market became thin and volatile. While ICMA does not have access to GBP repo rates, we have used the 1/27/25 UK T-Bill as proxy to illustrate the choppiness in secured funding rates going into the turn (see Figure 11).

As we reached December 30, the overnight rate for gilts fixed at 5.03% (SONIA+33bp), and on December 31 it fixed at 4.98% (SONIA+28bp), having started the day at around SONIA+4-bp. Reported volumes suggest that much of the street's funding had been executed well in advance.

One interesting observation is a drop in the use of the Bank of England's Short Term Repo facility over year-end (see Figure 12), falling by £5bn (to £38.1bn) on December 19 (for a two-week term covering to turn), before rebounding by £8bn in the January 2 tender (to £46.2bn). Given that the STR would provide banks with sterling funding approximately 50bp cheaper compared to market rates, this can be attributed to the need to take advantage of netting opportunities in order to optimise balance sheet usage over year-end. This again highlights the importance of managing balance sheet over the turn, and a relative lack of sensitivity to the cost of doing so.

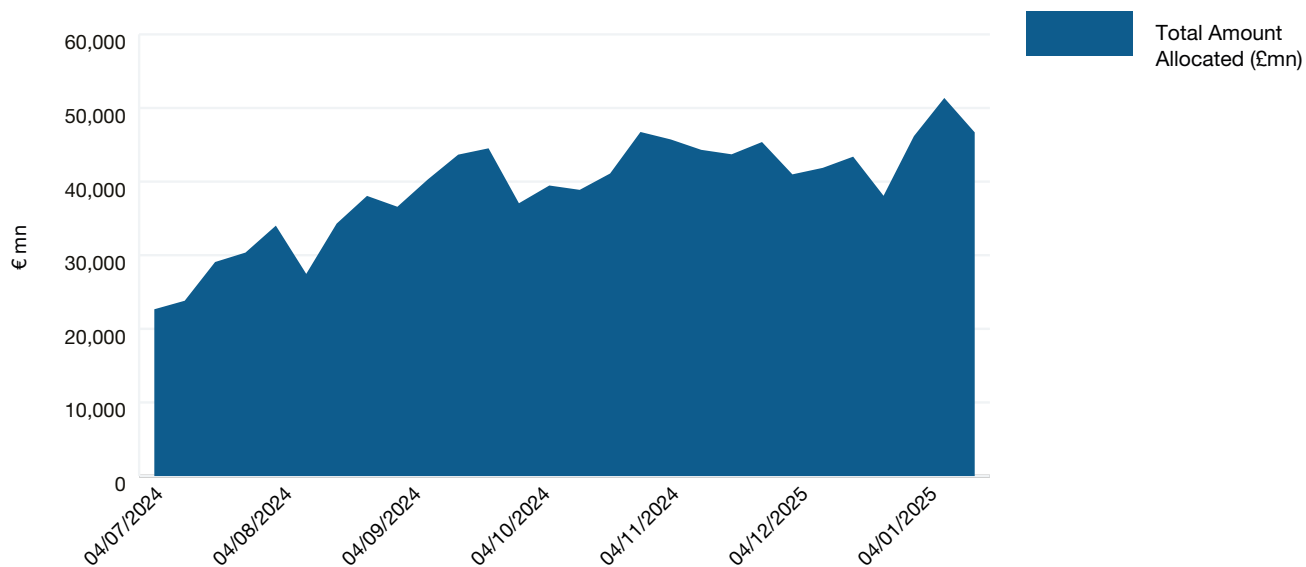
**Figure 11: GBP Money Market Rates**



Source: ICMA analysis using Bloomberg data

<sup>6</sup> The Sterling Overnight Index Average, or SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.

Figure 12: Bank of England Short-Term Repo Facility



Source: ICMA analysis using Bloomberg data

# USD repo

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The USD turn similarly saw increasing interest and richening post the September quarter-end spike in rates. As well as a focus on the impacts of end of year reporting requirements, and the spillover effect of the ongoing equity rally on G-SIB balance sheets, the final week of the year would also see a sizeable settlement in new US Treasury issuance (some \$120bn), even if this was offset by large (\$85bn) bill paydowns. Implied rates peaked early-to-mid November, with US Treasury repo pricing in SOFR+100bp<sup>7</sup> for the turn, and MBS<sup>8</sup> SOFR+120bp.

Positioning was also a major consideration in the forward pricing of the turn. US Treasury basis trades have been a regular play for hedge funds, and in early November the March 5-year contract was providing an implied repo rate in the range of SOFR+20bp to +30bp, providing an attractive carry proposition compared to actual repo levels, even with a spike in year-end funding rates (around 10 to 15bp of adjusted carry).<sup>9</sup>

However, as we moved into December, the implied turn rate began to cheapen. On December 19 the Federal Reserve announced that it would introduce an additional morning window for its standing repo facility (SRF) beginning December 30 through January 3, with the intention of taking some of the pressure off year-end. This also seemed to help soften the turn, despite the fact that uptake of the SRF is usually relatively limited (the result of late day settlement, a lack of balance sheet netting opportunities, and potential stigma attached to its use).

On December 26, UST GC averaged 4.56%, printing a high of 4.78%, and with SOFR setting at 4.54%: the first time it fixed above its target range since September quarter-end. The same day the turn traded at 5.30% of USTs and 5.35% for MBS. On December 30, GC was trading closer to normal levels, opening at 4.50%, but then trading down to 3.80% in thin volume later afternoon. On December 31, UST GC was trading at 4.75% in the pre-market but quickly richened to 4.60% on the open. The bulk of inter-dealer activity was around 4.60% to 4.55%, before tightening closer to 4% late afternoon as liquidity thinned. Ultimately UST GC for the turn fixed at 4.54% with MBS at 4.55%; some 90bp-115bp tighter than the wides being priced in November.

Year-end was further helped by a large uptick in usage of the Federal Reserve's Overnight Reverse Repo facility (ON RRP), which reached \$473bn on December 31, compared to \$251bn on December 30 and \$240bn on January 2.

Figure 13 shows the GCF Repo Indices for USTs and MBS, as well as the SOFR and Effective Fed Funds rates, along with the ON RRP usage.

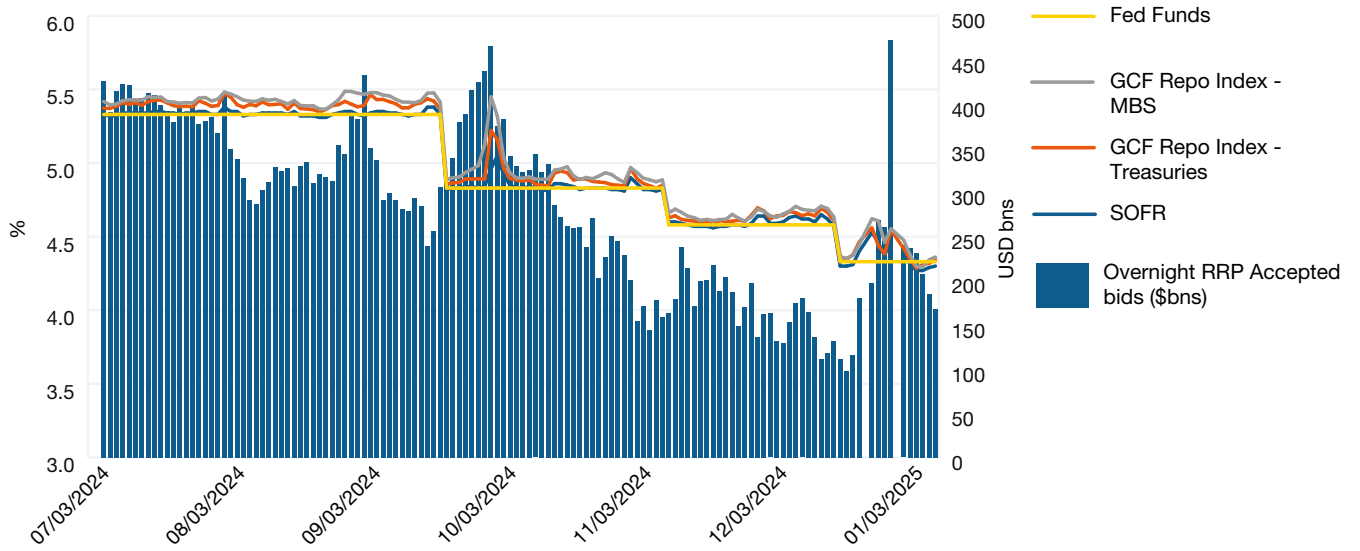
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<sup>7</sup> The Secured Overnight Financing Rate, or SOFR, is an index measure of borrowing overnight cash collateralised by US Treasuries.

<sup>8</sup> Mortgage-backed securities.

<sup>9</sup> In the context of bond futures, a basis trade involves buying or selling the future and simultaneously taking the opposite position in a deliverable bond (usually funded using the repo market). A "cash and carry" basis trade involves buying the cheapest-to-deliver bond in the relevant deliverable basket and selling the futures contract with a view to delivering the bond into the contract at expiry or unwinding just before. This is the synthetic equivalent of a term reverse repo, and in some cases (known as negative net basis), the implied repo rate of the long basis position is significantly higher than market repo rates, providing an arbitrage opportunity.

Figure 13: USD Repo Rates and RRP



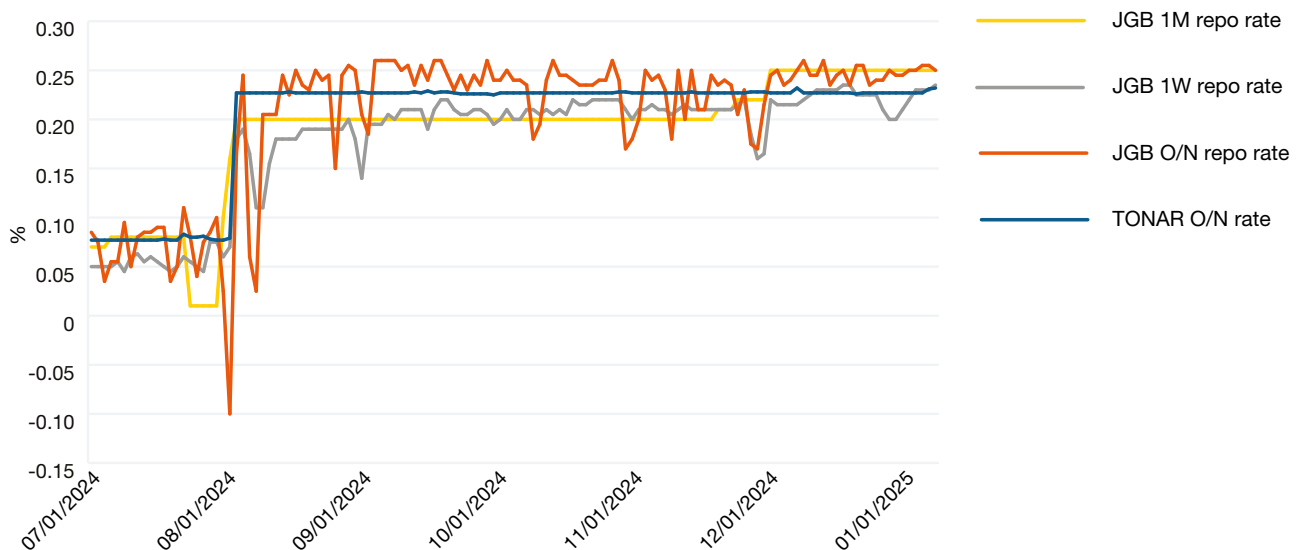
Source: ICMA analysis using Bloomberg data

# JPY repo

The JPY repo market saw relatively little stress or volatility over year-end, with JGB GC remaining well-offered over the period. This also seems to have been helped by a softening in the USDJPY currency basis, which moved from implying a turn differential of -26% in early October, to -12%/-14% mid-December, and settling around -4%/-10%, reducing arbitrage opportunities for holder of USDs to switch into JPY repo, which ordinarily would have driven rates lower.

Tom-next GC on December 27 opened with wide spreads, and originally traded tighter than usual, but quickly cheapened to normal levels, around +0.25%. Usage of the Bank of Japan's Securities Lending Facility (SLF) also increased over year-end (to ¥823bn), but was not to the same levels seen around BoJ Monetary Policy meetings.

Figure 14: JPY Repo Rates



Source: ICMA analysis using Bloomberg data

# Looking forward

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A number of market participants who contributed to this report also suggested some of the key themes for repo markets going into 2025. Chief among these is the anticipation of even more sovereign bond issuance, particularly with the US debt ceiling becoming a focus, as well as uncertainty around debt brakes in other jurisdictions. At the same time quantitative tightening (QT) is set to continue, putting even more collateral back in the market. However, there is likely to remain a significant amount of liquidity in the system, as central bank reserves remain high, although the transmission of liquidity could become a concern. Balance sheet and banks' ability to intermediate will likely become even more important, and ever more complex as multiple factors, such as hedge fund positioning or the spillover from equity market funding needs, become part of the equation. Some also flagged the impact of new regulations, such as the NSFR recalibration for reverse repos due to take place in the EU at the end of June, and how this could widen term rates in the coming months.

So, while the 2024 year-end was not as eventful as some of its predecessors, there seems to be plenty to keep the repo market on its toes throughout 2025.



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