

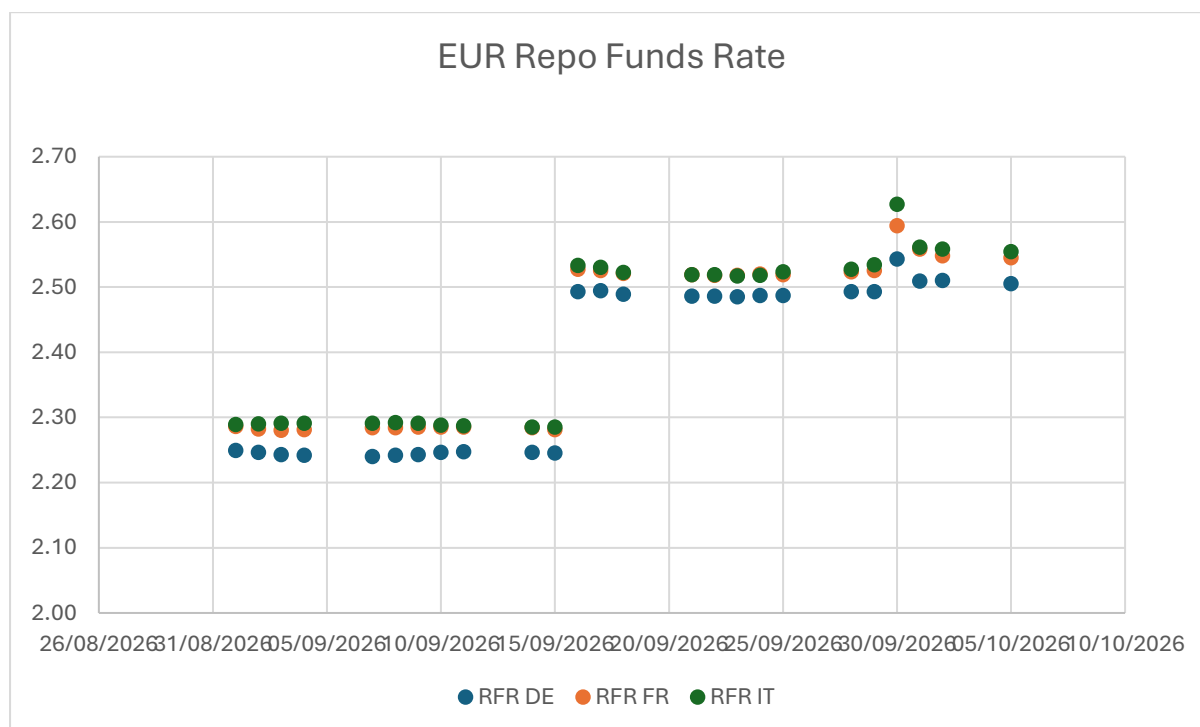
September quarter-end repo market summary

September quarter-end funding conditions were orderly overall, although the headline result conceals three quite different regional experiences. EUR repo absorbed a visible but short-lived turn before retaining a modest post-quarter-end risk premium, particularly in France and Italy. Sterling experienced the most pronounced balance-sheet-driven dislocation, despite liquidity supplied through Bank of England operations remaining substantial. By contrast, USD repo passed quarter-end with little apparent stress, supported by strong cash demand and increasingly effective intermediation.

This is against a backdrop of elevated market uncertainty and volatility, which has become more manifest in the price action of the underlying bond market.

EUR: orderly turn, but a more persistent sovereign-risk premium

The EUR repo market navigated quarter-end without a broader funding disruption, despite exceptional volatility in European government bonds. German GC rose to around ESTR +30bp and Italian GC to approximately ESTR +35bp on 30 September, before both retraced much of the move. The country-level GC chart clearly captures this temporary quarter-end spike and its subsequent normalisation.

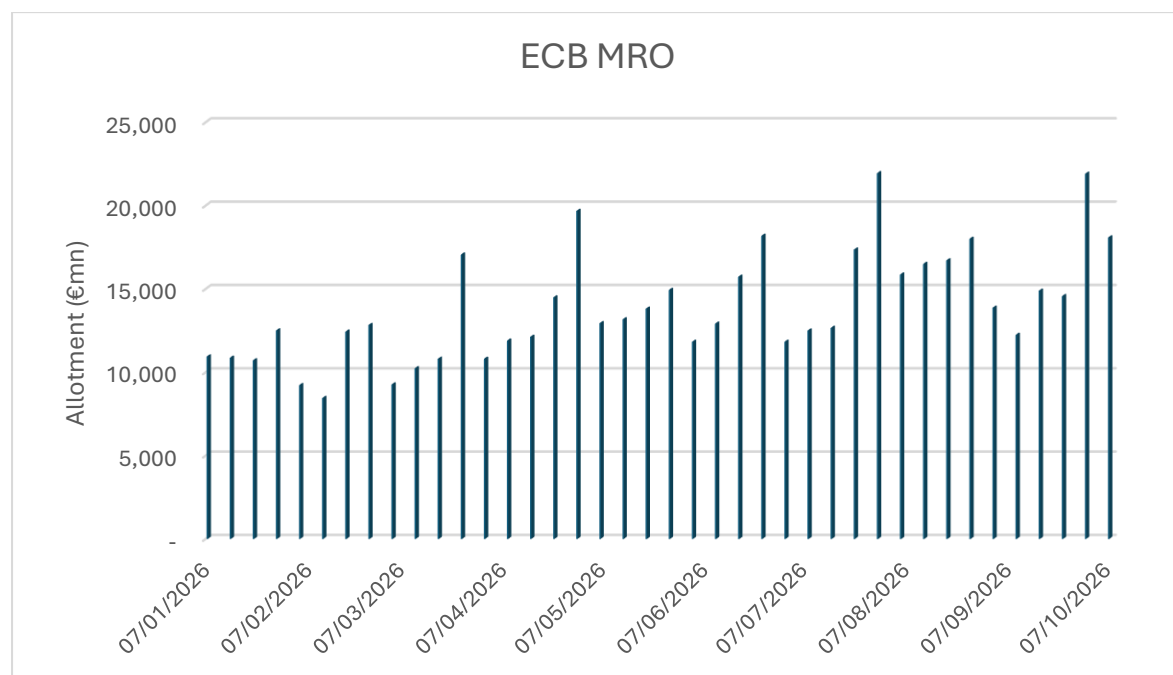


Source: ICMA analysis using CME data

However, the more important development was the residual “hangover” after the reporting date. French and Italian GC remained approximately 3-4bp above their pre-quarter-end levels, compared with a smaller residual move in German collateral. French S/N GC was around ESTR +13bp and German GC around ESTR +9bp, while Italian GC averaged roughly ESTR +14.5bp later in the week, compared with ESTR +11.5bp before quarter-end.

This dispersion suggests that the post-quarter-end premium was not simply a generic scarcity-of-balance-sheet effect. It increasingly reflected collateral-specific risk, dealer positioning and the heightened volatility and spread widening in French and Italian cash markets. In France, dealers offered OATs in the three-to-six-month sector as they reduced exposure and protected funding into year-end, pushing both tenors to around ESTR +18bp, approximately 2bp wider over the week.

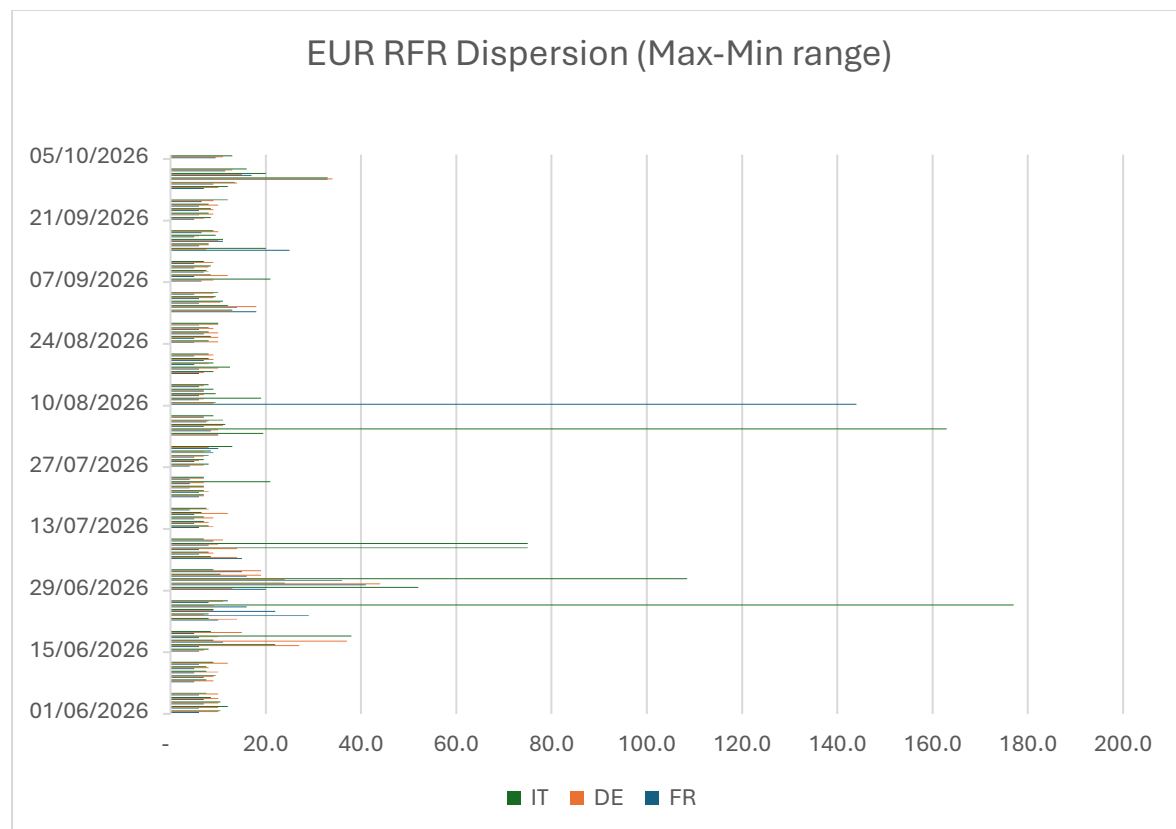
Importantly, the widening did not translate into an inability to finance the underlying collateral. Short-dated funding remained available, supported by excess liquidity and a broad base of central-bank, national central-bank and DMO cash. The ECB allotment chart also shows continued regular use of the Eurosystem liquidity operation, with the 30 September allotment at approximately €21.9bn.



Source: ICMA analysis using ECB data

The distinction is therefore between funding availability and funding cost. The vanilla funding base remained solid, but term capacity became shallower and more expensive as dealers incorporated greater volatility, credit sensitivity and year-end balance-sheet costs. The country-dispersion chart is particularly helpful here: it shows a common quarter-end effect across Germany, France and Italy,

followed by a less uniform normalisation, with the higher residual premium concentrated in France and Italy.



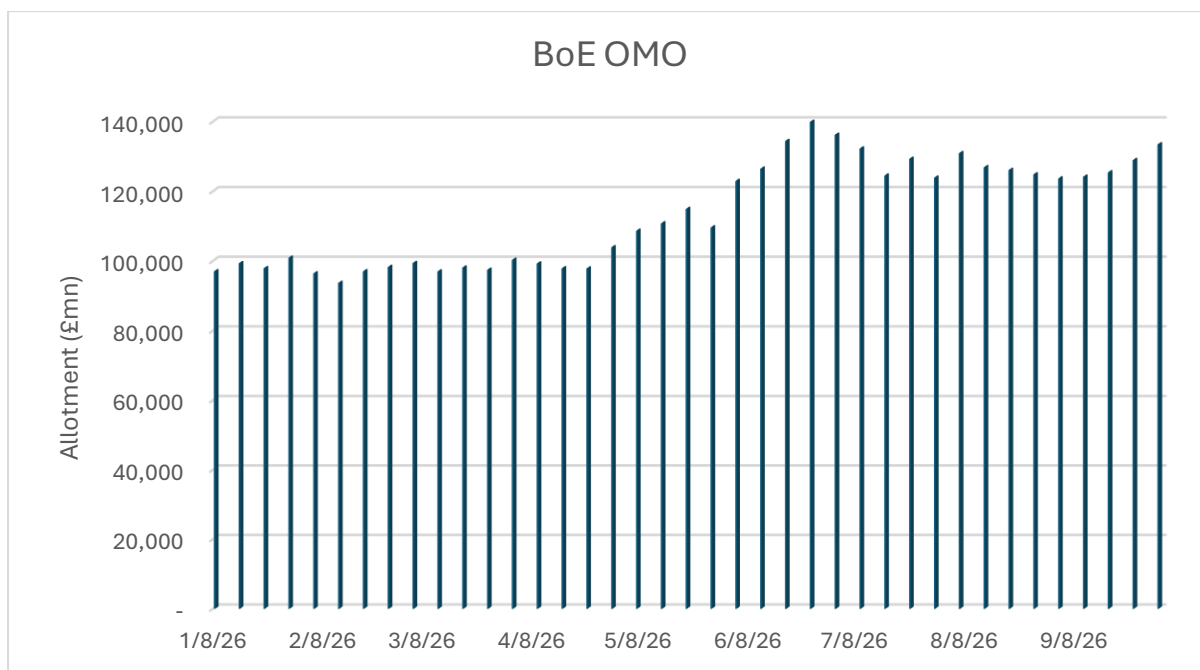
Source: ICMA analysis using CME data

EUR conclusion: quarter-end itself was relatively well contained, but the subsequent divergence between German, French and Italian GC points to a gradual reintroduction of sovereign and balance-sheet risk into term repo pricing. This remains a repricing story rather than a funding-crisis story.

GBP: the sharpest turn and the clearest balance-sheet signal

The sterling repo market experienced the largest quarter-end dislocation of the three currencies. The turn had been trading around 4.10%, already approximately 25-30bp above normal levels, before overnight funding jumped to around 4.50-4.60% on the final day.

The scale of the move was notable because it was not accompanied by an obvious withdrawal of central-bank liquidity. Bank of England OMO balances stood at approximately £133.4bn on 1 October, having been around £125.4bn two weeks earlier. This supports the interpretation that the spike was driven less by aggregate cash scarcity and more by the distribution and availability of dealer balance sheet.



Source: ICMA analysis using Bank of England data

Market colour suggests that intermediation capacity was concentrated among a relatively small number of UK banks, leaving other participants more dependent on screen liquidity as quarter-end approached. DMO activity, including the sale of specials and associated cash raising, may also have contributed to the pressure.

The repo turn was also materially more pronounced than the corresponding FX turn. That divergence is relevant for year-end because it implies that secured-market balance-sheet constraints can generate repo-specific volatility even when other sterling funding indicators appear comparatively calm. Some post-quarter-end hangover remained at the end of the week, although the gilt futures basis was stable and the underlying repo curve continued to trade relatively close to cash.

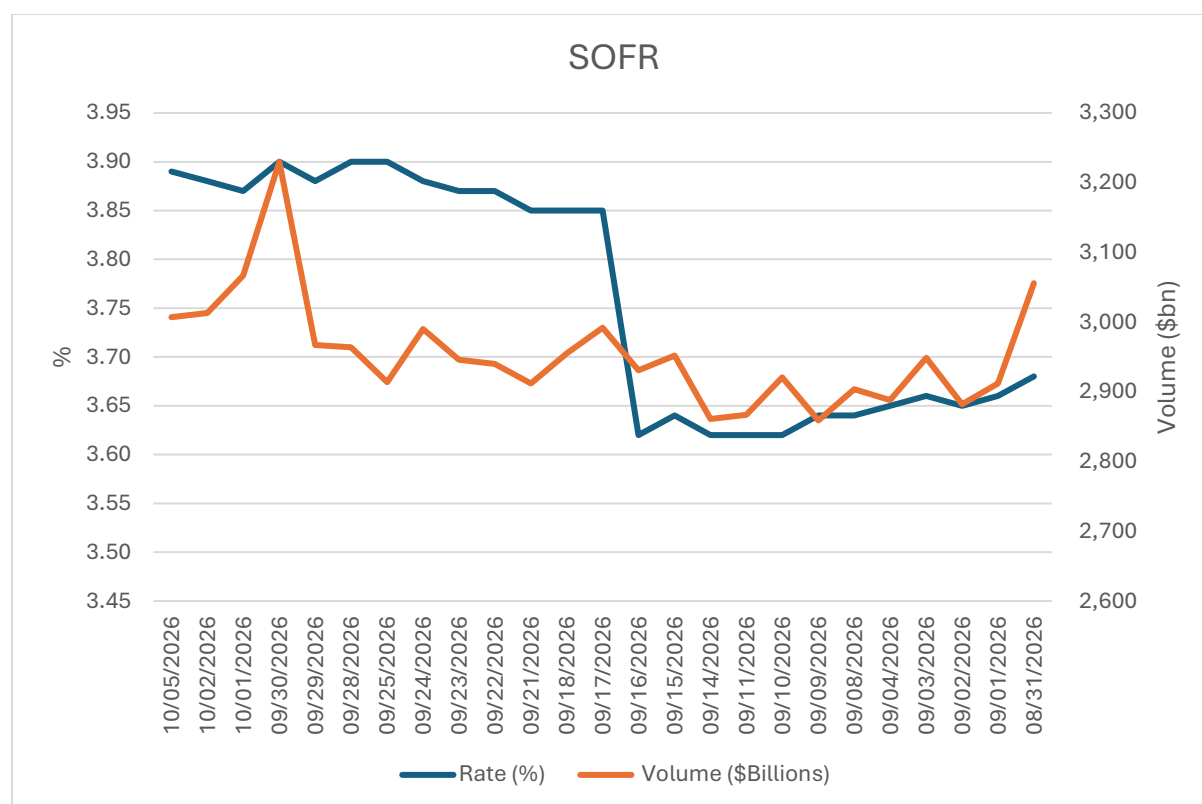
GBP conclusion: sterling provided the clearest example of a quarter-end balance-sheet bottleneck. Liquidity was present in aggregate, but the capacity to transform that liquidity into repo market intermediation was unevenly distributed. The experience argues for caution when using central-bank facility balances alone as an indicator of secured-funding resilience.

USD: abundant liquidity and effective intermediation

USD repo delivered the most benign quarter-end outcome. GC averaged around 3.92% during the turn, broadly unchanged from the preceding day, and briefly traded as low as 2.90% intraday. This made the September reporting date one of the richest, rather than one of the most expensive, recent quarter-ends for secured dollar funding.

The SOFR chart reinforces the point. The published rate was 3.90% on 30 September, compared with 3.88% on 29 September and 3.87% on 1 October. Transaction volume rose to approximately \$3.23tn

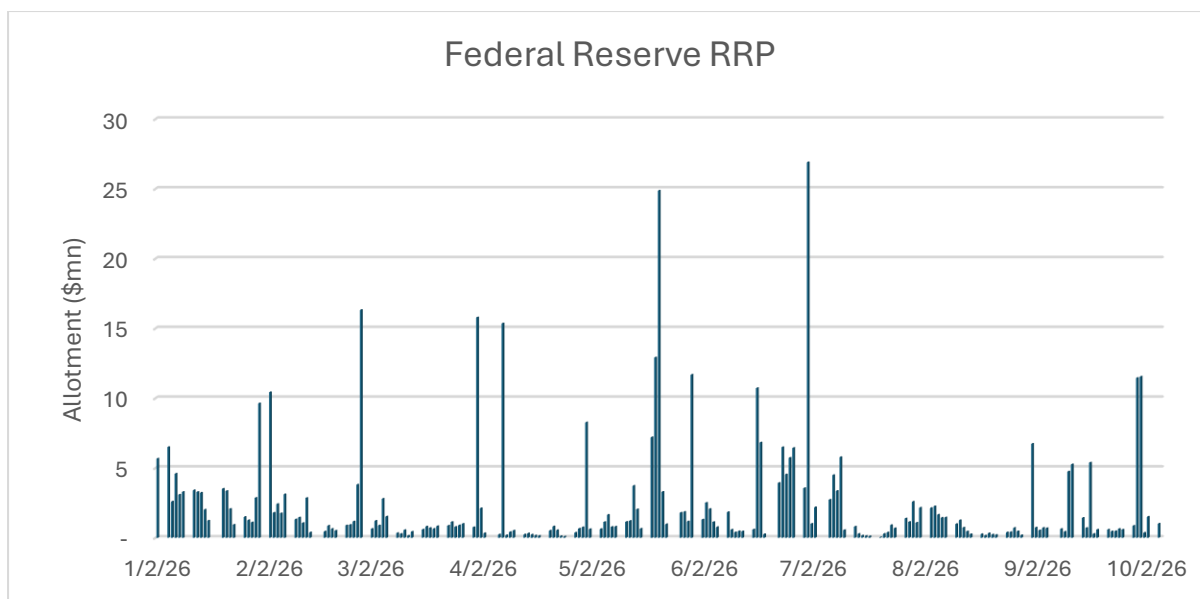
on quarter-end, from about \$2.97tn the previous day, indicating that the stable rate was accompanied by high market activity rather than an absence of trading.



Source: ICMA analysis using Federal Reserve Bank of New York data

Several structural factors supported this result. Hedge-fund leverage and Treasury basis positioning remained relatively subdued, reducing demand for leveraged balance sheet. Money-market funds continued to provide strong repo demand, while primary-dealer Treasury inventories were close to local lows. At the same time, broader sponsored-repo participation increased the market's capacity to intermediate activity over the reporting date.

There was also little evidence of a post-quarter-end hangover. GC opened around 3.90% on the following sessions before cheapening modestly later in the day, suggesting a change in intraday cash timing rather than a persistent funding shortage. The very low level of the Federal Reserve's overnight reverse-repo facility provides additional context: usage was approximately \$1.5bn on 30 September and \$0.35bn on 1 October, underlining how little excess cash remained parked at the facility.



Source: ICMA analysis using Federal Reserve Bank of St. Louis data

USD conclusion: the quarter-end result illustrates the resilience created by low leveraged positioning, strong private-sector cash demand and expanded sponsored-repo intermediation. Unlike EUR and GBP, there was neither a material turn premium nor a meaningful post-quarter-end funding hangover.

Overall conclusion

The September quarter-end demonstrated that abundant system liquidity does not necessarily produce identical repo outcomes. EUR markets experienced an orderly but visible turn, followed by a modest and increasingly collateral-specific premium in France and Italy. GBP recorded the sharpest temporary dislocation, highlighting the importance of how balance-sheet capacity is distributed across intermediaries. USD repo was exceptionally smooth, with strong volumes and little price pressure, illustrating the benefit of low leveraged positioning and broader sponsored-repo capacity.

Across all three currencies, repo markets remained more stable than the underlying government bond markets that aggregate liquidity remained abundant. The main message is therefore not one of systemic funding stress, but of growing differentiation: by collateral in EUR, by intermediary in GBP and by market structure in USD.

Attention will now increasingly turn to year-end when regulatory reporting incentives and balance-sheet management considerations have historically amplified the dynamics observed at quarter-end.