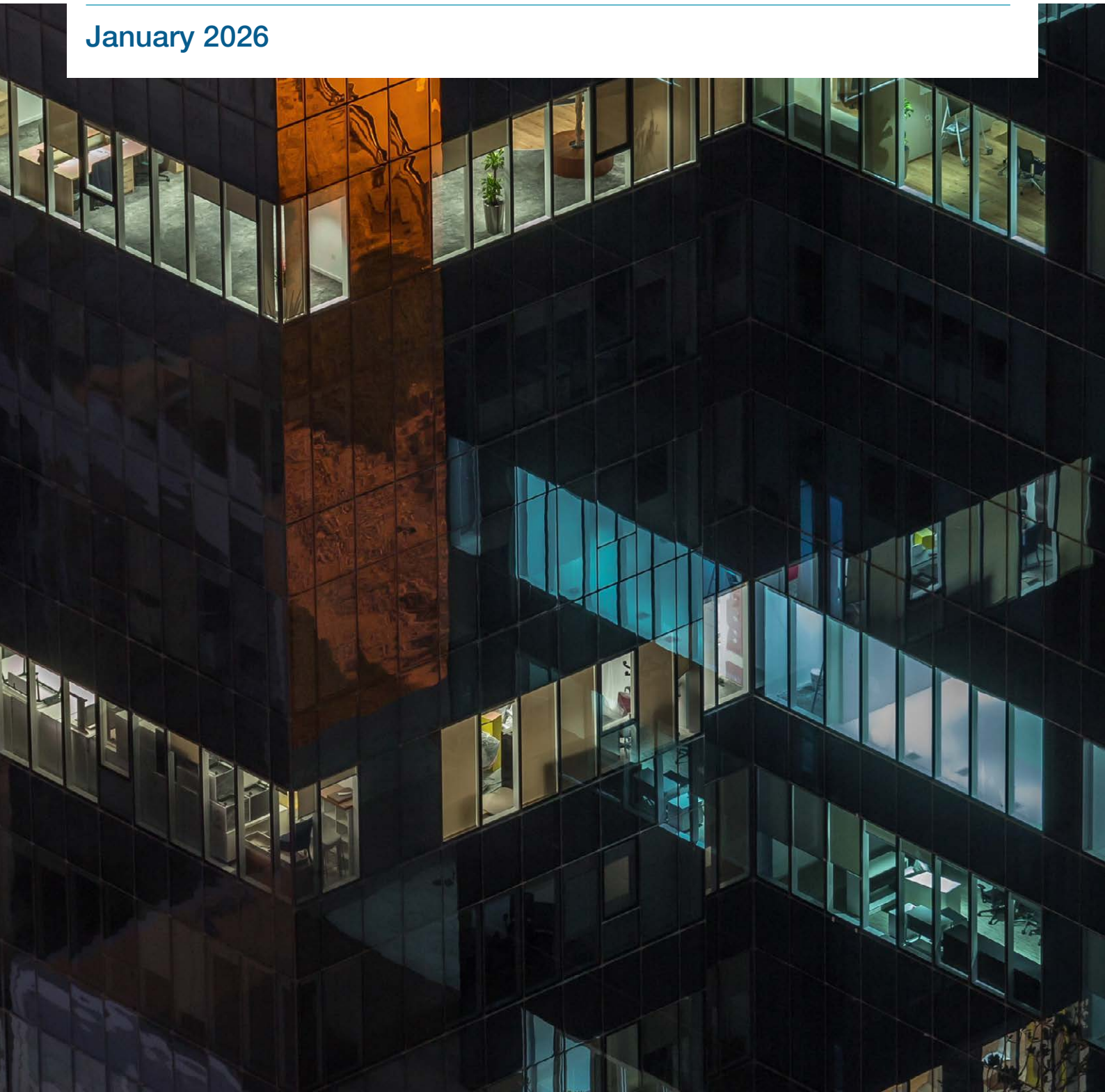
ICMA
International Capital Market Association

The European repo market at 2025 year-end

An ICMA ERCC briefing note

January 2026



ICMA would like to thank Bloomberg and CME Group Benchmark Administration Limited, the provider of Repo Funds Rate (RFR), whose data is also used extensively in this analysis.

ICMA would like to extend its gratitude to AXA IM, Bank of America, BlackRock, Credit Agricole CIB, Eurex, Goldman Sachs, HSBC, JP Morgan, and UniCredit who provided insights and commentary which is the basis of this report.

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

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Context

This is the tenth ICMA European Repo and Collateral Council (ERCC) analysis of the repo market at calendar year-end. The first, published in February 2017, followed the extraordinary 2016 turn, which, particularly in the EUR market, saw seismic dislocations that practically closed the market. Here, a combination of bond market positioning, excess reserves and a shortage of high quality liquid assets (the result of quantitative easing), an imbalance of onshore and offshore USD bank reserves, and various regulatory and reporting pressures on bank balance sheets all combined to produce the perfect storm. Since then, each of these dynamics is carefully monitored by repo market participants as year-end comes into sight, with pre-funding occurring as early as the third quarter. This behaviour became particularly acute in the post-Covid years as central banks scaled up their QE programs. 2024 year-end was possibly the least eventful in recent history, which could at least partially be attributed to quantitative normalisation. The 2025 turn has largely mirrored that of 2024, and while the same factors come into play, their impacts are less distortive.

Overview

Since 2024, the year-end paradigm has shifted from one of surplus reserves and potential collateral scarcity to that of more traditional funding pressures. This is largely the result of central bank quantitative normalisation, which has seen bond holdings sold back into the market and a steady decline in excess reserves (see Figure 1), along with a sizeable net increase in government bond issuance. Accordingly, the expectation for the turn was for a spike in rates (repo cheapening) rather than the prospect of a sharp drop in rates (repo tightening) which has characterised recent year-ends.

Despite the change in direction, the extent of any price dislocation remains largely a consequence of limited bank balance sheets and the ability, or willingness, of repo dealers to intermediate over the date. Similar to the previous year, the continued strong rally in equity markets gave rise to fears of less bank capacity for fixed income funding, particularly among prime brokers. The CME Total Return Future of the S&P 500 adjusted for financing rates (based on the Federal Reserve Effective Funds Rate) has become a benchmark for gauging equity financing demand (see Figure 2), which potentially impacts the availability, and cost, of funding less-dynamic bond holdings. Here, leveraged positioning in bond markets, as well as banks' balance sheet efficiency, are also important considerations.

The FX basis swap can also play a distortive role over year-end, particularly as the offshore demand for USD puts downward pressure on the rates of domestic currencies (reflected by a pronounced negative basis).[1] Going into year-end, both the EUR and GBP basis remained close to zero, while the JPY basis, although negative, cheapened slightly (see Figure 3).

The availability of central bank repo facilities is another important factor, which, to the extent they are utilised, help to provide a ceiling, and floor, for repo rates, including over year-end; although stigma or balance sheet constraints can play a role in banks' usage.

A final consideration is the duration of the turn. The longer the number of days the market is closed, the more impactful any funding dislocations, making participants more inclined to lock in any funding early (usually at a premium). 2025 was only a two-day holiday in most jurisdictions.

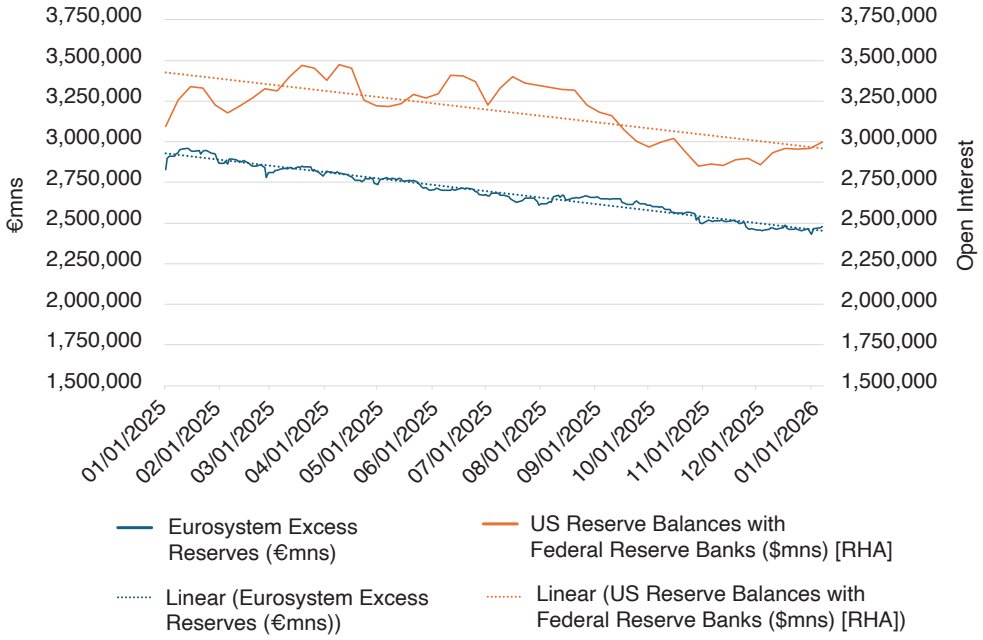
As a high-level observation, the market expectation for the 2025 year-end was an upside risk to repo rates as a result of net

1 Interest rate parity theory suggests that the foreign exchange forwards markets will always ensure that the relative LIBOR cost of borrowing in any currency will be the same. However, it can often be cheaper to borrow in one currency through the FX forwards. The currency basis swap reflects this relative disparity. Basis swaps are usually expressed as one currency against the USD, and a negative basis suggests a relative cheapness to borrow in that currency with respect to USD.

financing demand and a potential squeeze on bank intermediation. Accordingly, the turn for most currencies was pricing-in a reasonable premium to current OIS[2]-spreads as we moved into the fourth quarter. As we got closer to the date, this premium steadily eroded, and any volatility observed over the final days of the year was relatively contained.

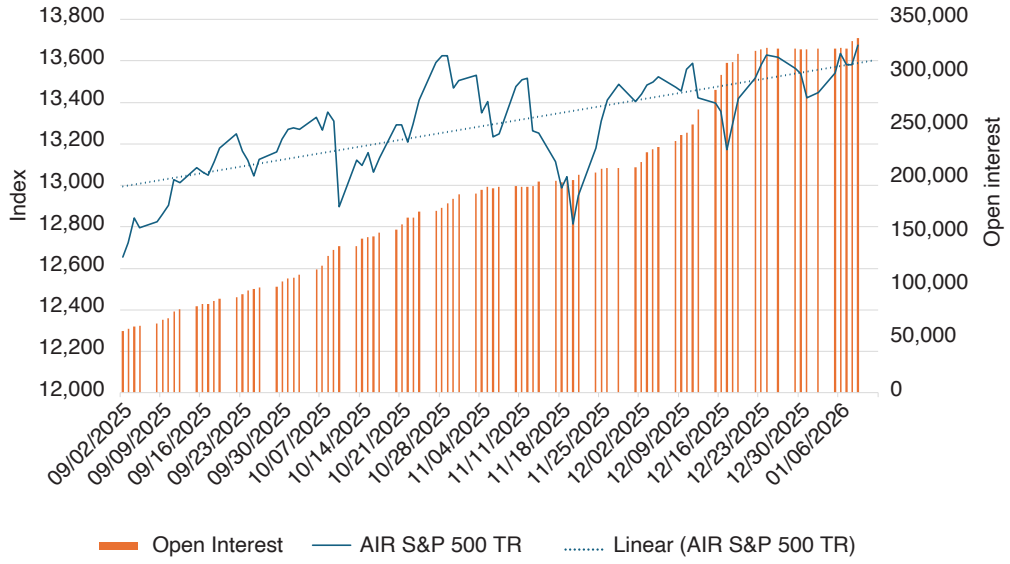
And while the year-end may not have been as dramatic as some that we have experienced in past years, it does provide clues about current repo market conditions, as well as expectations for future market dynamics and behaviour.

Figure 1: Central Bank Excess Reserves (Eurosystem & Federal Reserve)



Source: ICMA analysis using Bloomberg data

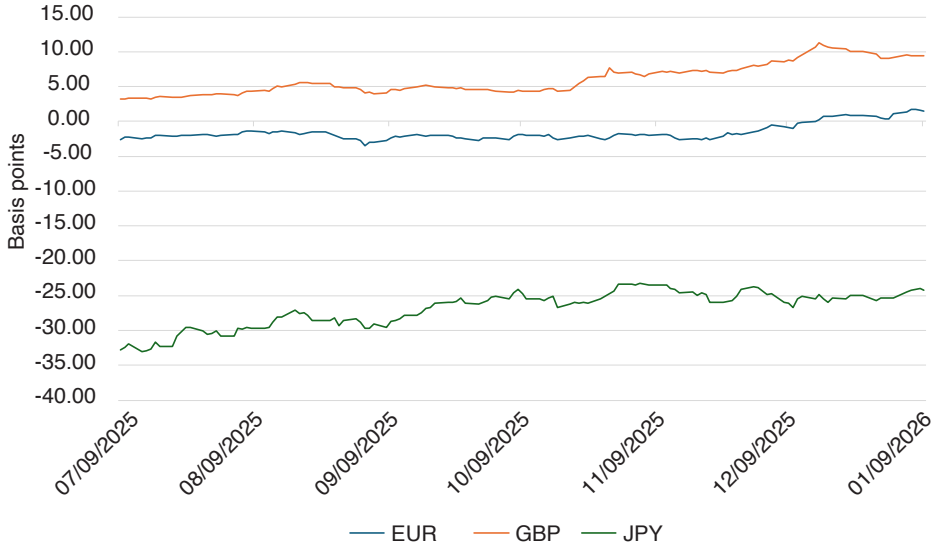
Figure 2: CME Adjusted Interest Rate S&P 500 Total Return Future



Source: ICMA analysis using CME data sourced from Bloomberg

2 Overnight Index Swaps (widely used as a generic money market benchmark rate).

Figure 3: USD Cross Currency Basis Swap



Source: ICMA analysis using Bloomberg data

EUR repo

While excess reserves were notably smaller than a year previous, and government bond collateral supply meaningfully larger, which skewed the risk to year-end repo rates to the upside, the EUR market was still enjoying ample liquidity (in excess of €2.5tn). That said, as we rolled into October, term rates were implying a turn rate of ESTR+40bp to +50bp[3] for core government bonds, and ESTR+70bp for non-core, compared to around +5bp and +8bp for regular short-dates. It is perhaps notable that at a similar point in the lead up to the 2024 year-end, DE GC for the turn was priced around ESTR+80bp, while IT GC traded at ESTR+300bp, suggesting that the subsequent collapse in rates in the final days of the year had not been forgotten.

While participants report that there was some early trading activity at or close to these elevated levels, as firms took precautions against a lack of dealer capacity as we reached year-end, particularly with the risk of balance sheet being re-allocated toward equity financing and away from the repo desks, pre-funding volumes were not as high as those observed a year earlier.

As we neared the end of December, so turn premia trended to zero, until December 29 (the spot date for year-end), when the market became volatile. In particular, non-core GC rates spiked, with IT printing ESTR+25bp in the interbank market, while specials asymmetrically richened. This can be seen in the Euro Repo Funds Rate (RFR)[4] where the GC (General Collateral) and SC (Specific Collateral) rates diverge (see Figure 4). Core GC also tightened slightly, with DE GC averaging around ESTR+3bp.

The divergence between core and non-core can be seen in Figure 5, while the general widening in GC vs SC s is highlighted in Figure 6.

As we reached December 30, tom-next GC rates moved lower as it became clear that there was no shortage of cash, with core GC tightening below the ECB Deposit Rate, and non-core averaging around ESTR+8bp. As we rolled into December 31, rates slid further with overnight DE GC averaging ESTR-10bp. However, it is important to note that most EUR repo funding is transacted on a spot-next (T+2) basis (which is reflected in the volume weighted RFR rates).

It is also worth noting that the ECB repo facilities, which generally enjoy little uptake, saw only a marginal uptick in usage over the year-end. In the final weeks of 2025, the short-term Main Refinancing Operations (MRO) and Longer-Term Refinancing Operations (LTRO) saw only €36.7bn takedown (compared with €34.1bn at the end of 2024). And while there was an increase in the shorter-dated MRO facility, it was broadly offset by a reduction in the 3-month LTRO, implying that those banks with funding requirements were happy to revert back to the market post year-end, rather than locking at funding for term. A combination of ample reserves and some lingering stigma with facility usage continues to negate the uptake and impact of the ECB operations for now.

Positioning, in addition to collateral scarcity, has been an important consideration across a number of previous year-ends, which can be observed in the relative richness of the underlying bond market. Using German benchmark swaps spreads as a gauge, we see that bond markets cheapened going into the final weeks of 2025 (see Figures 8 and 9).

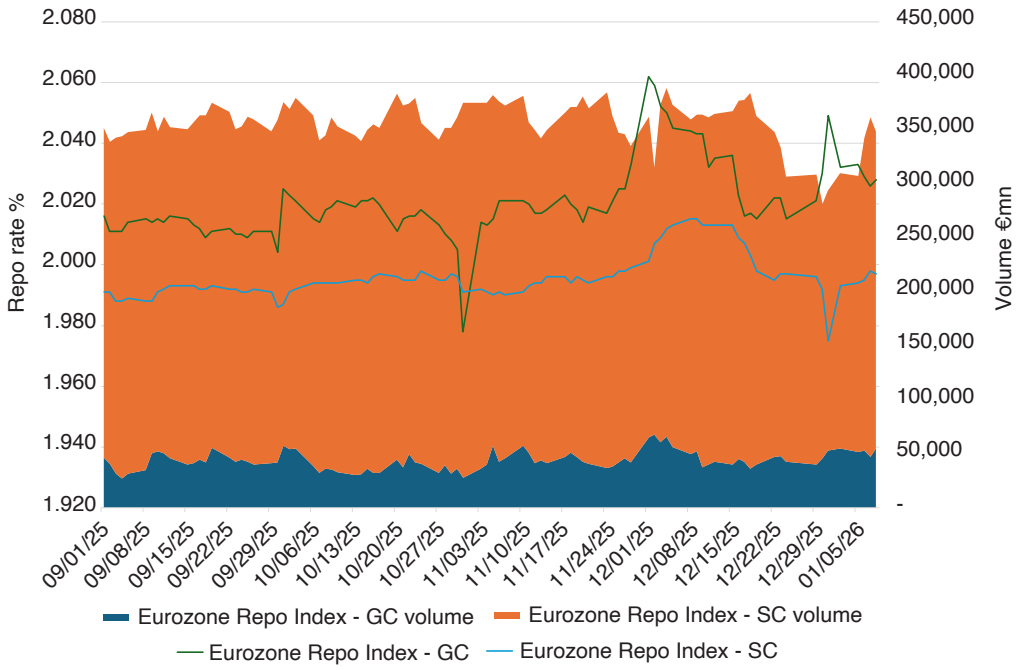
Meanwhile, the USDEUR FX Basis, which was close to flat, slightly cheapened into year-end, suggesting little in the way of funding stresses.

Finally, CCPs report higher volumes of cleared EUR repo going into December, including by non-banks, which would also have contributed positively to dealer intermediation capacity, thereby further assuaging any year-end pressures.

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

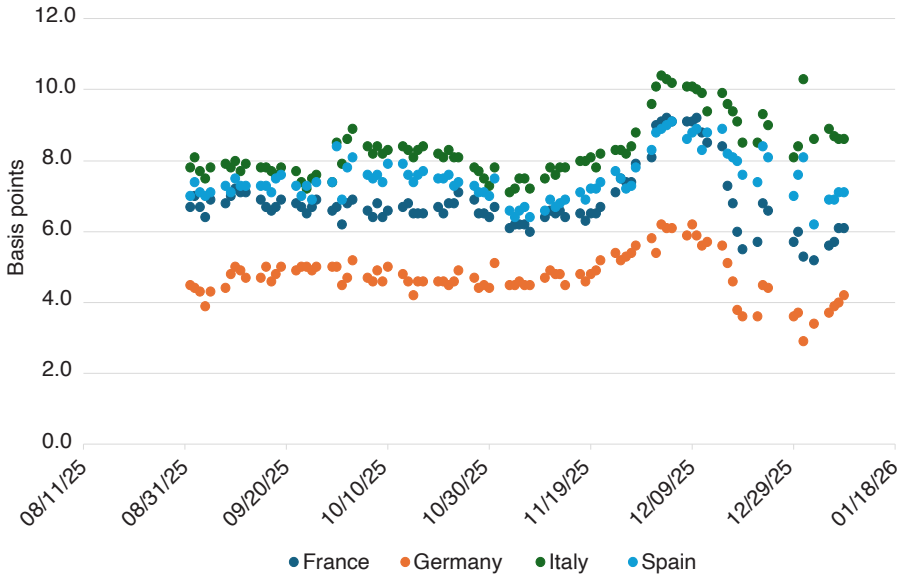
4 The Euro Repo Funds Rate (RFR) is a daily euro repo index calculated from trades executed on the BrokerTec and MTS electronic platforms. All eligible repo trades are centrally cleared and RFR Euro is calculated and published by CME Group Benchmark Administration Limited. RFR Euro is calculated with repo trades that use sovereign government bonds issued by any country in the Eurozone.

Figure 4: RFR EUR – General Collateral & Specific Collateral



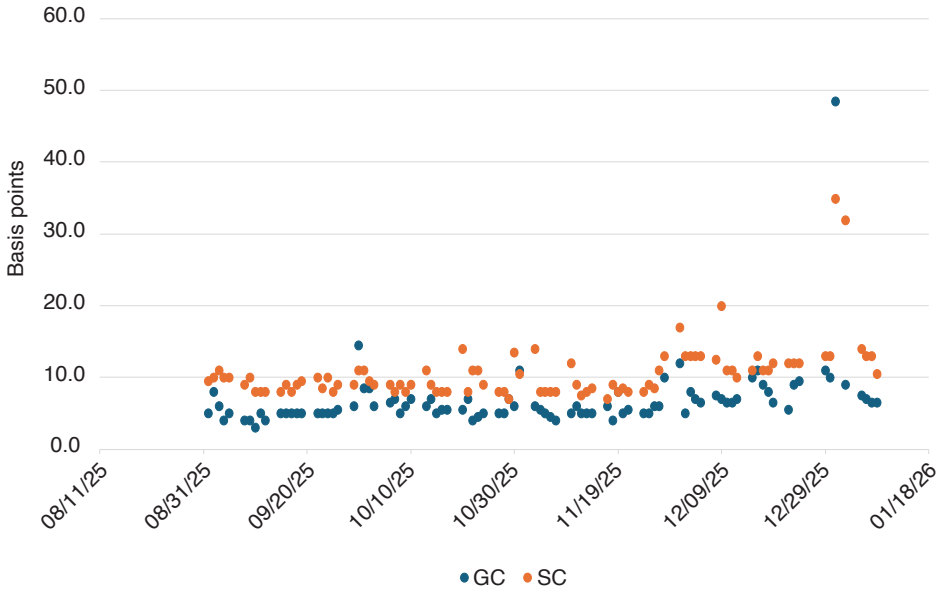
Source: ICMA analysis using CME data

Figure 5: RFR-ESTR spread



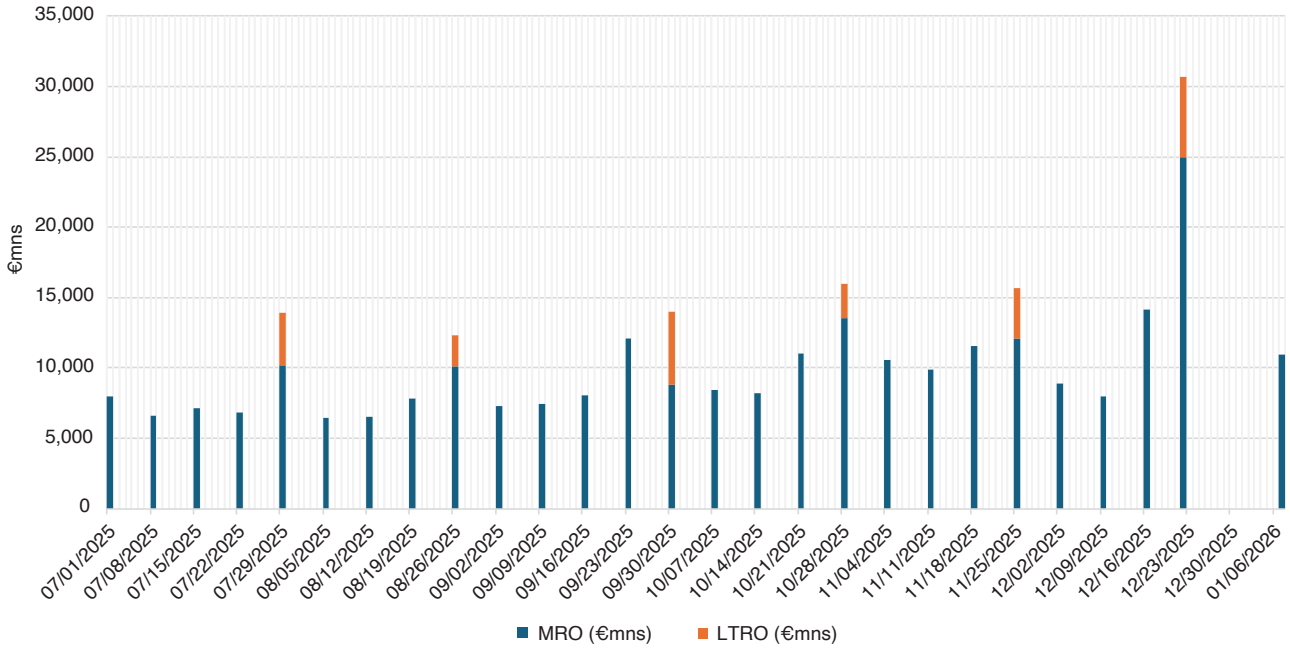
Source: ICMA analysis using CME and Bloomberg data

Figure 6: EUR RFR High-Low range



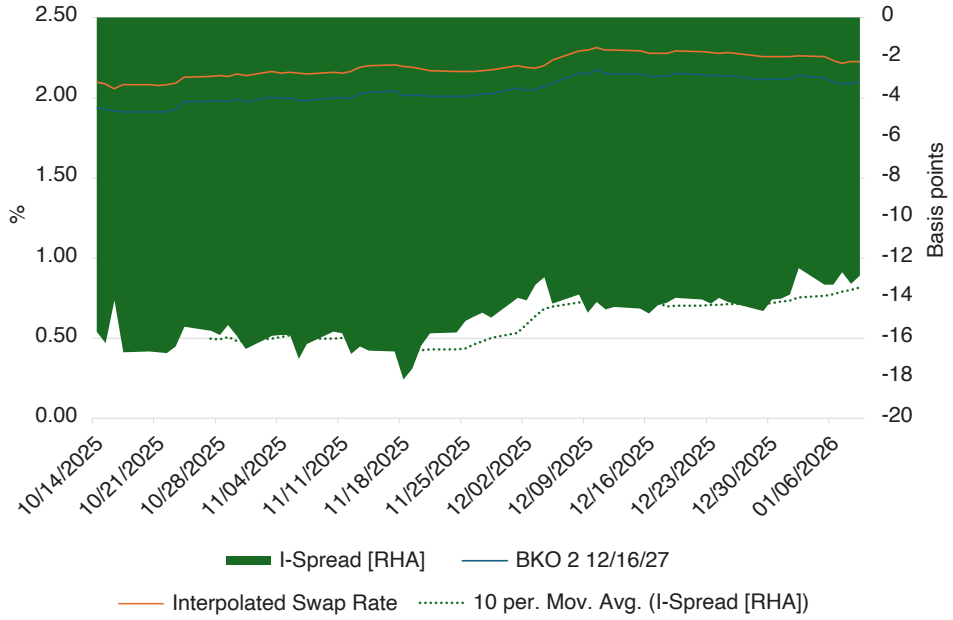
Source: ICMA analysis using CME data

Figure 7: ECB Monetary operations



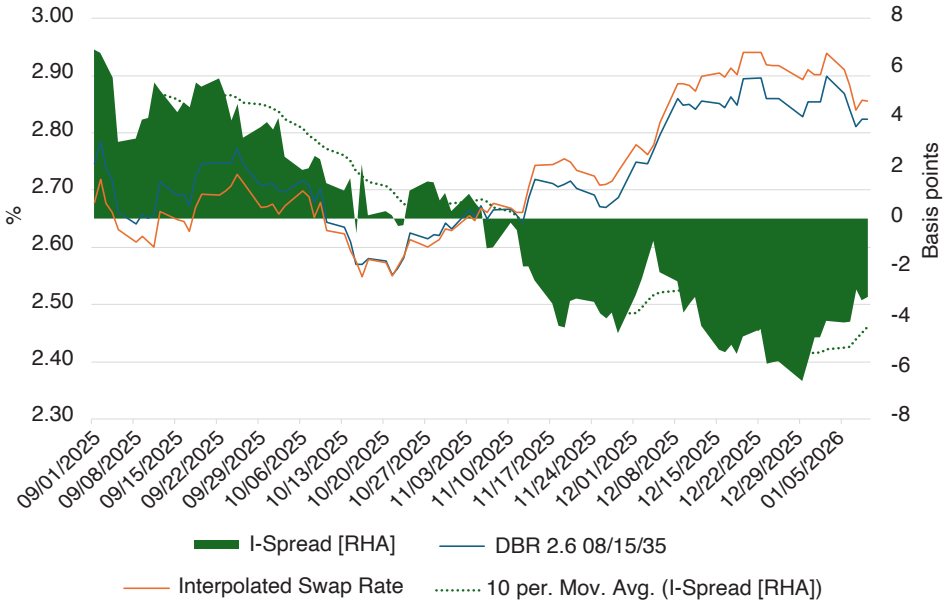
Source: ICMA analysis using ECB data

Figure 8: Schatz Swap Spread



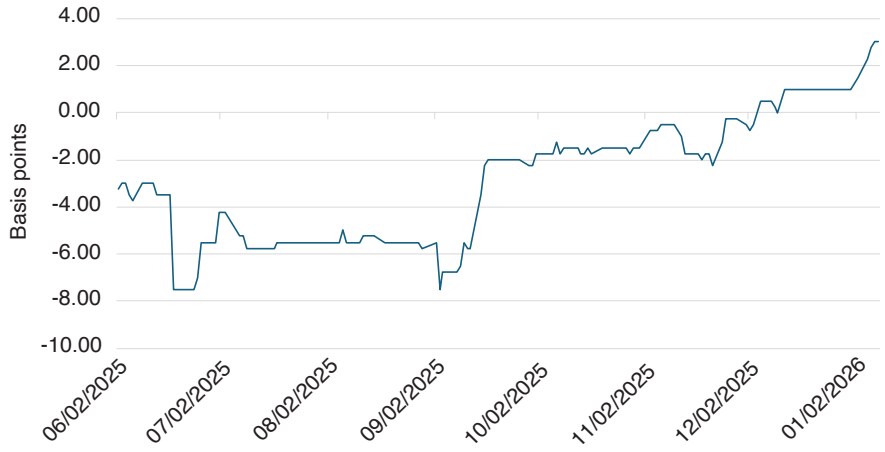
Source: ICMA analysis using Bloomberg data

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

2025 proved to be a volatile year for the gilt repo market, with a series of spikes in the GC-SONIA[5] spread, such as June quarter-end which saw rates widen to SONIA+54bp, from neutral levels of around SONIA+10bp. The second half of the year saw further bumps with large money market fund outflows and reduced activity from structural market participants, such as LDI funds. Following roll-offs in the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprise (TFSME), Canadian year-end (October 31) saw GC rates widen to SONIA+75bp. Accordingly the market began to price in a year-end funding spike, with an implied bid-ask for the turn in mid-November peaking at SONIA+100bp/70bp. As we moved into December, year-end pricing began to edge lower to around SONIA+65bp, which was similar to where it had been priced leading up to the 2024 year-end.

As we finally reached December 30, tom-next (December 31- January 2) opened at SONIA+48bp (4.20%, then traded up to SONIA+58bp (4.30), before settling in a range of SONIA +28/+38 (4.00-4.10%). The following day, the overnight rate (still December 31-Januray 2), dropped lower, averaging 3.76% (SONIA+4bp) and printing as low as 3.51% (SONIA-21bp), largely the result of most funding having been executed the previous day in the tom-next market, leaving a shortage of collateral in the overnight market. However, given the relative volumes traded between the two dates, GC averaged around SONIA+35bp (4.07%).

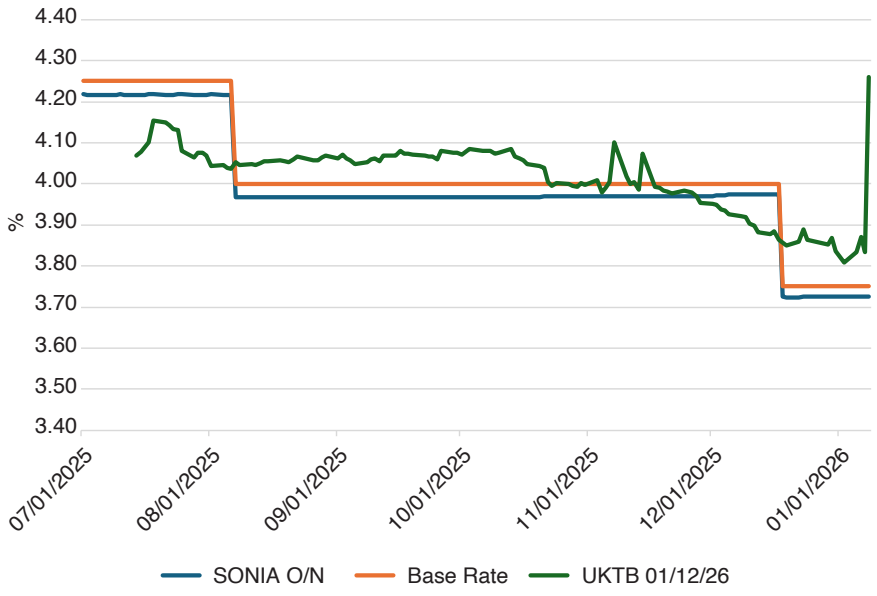
Since ICMA does not have access to GBP repo data, we use short-dated T-bills (in this case the January 12 maturity as a proxy for movements in repo rates (see Figure 11).

Market participants point out that the Sterling Repo Index Rate Overnight Trimmed (RFR GBP SRIROT) index is perhaps a better gauge of where the gilt repo market trades, since this is not based purely on GC DBV[6] trades, but also accounts for the majority of volume in specifics. This fixed at 4.065% for the turn, or SOINA+34bp. Figure 12 shows the SRIROT-SONIA spread in the two weeks leading up the turn, with a comparison of the same moves observed leading into the 2025 year-end.

Market participants also note that along with firms pre-positioning their year-end funding, as seen in widening term GC-SONIA spreads, the Bank of England repo facilities, in the form of the Short-Term Repo (STR) and Indexed Long-Term repo operations, helped to anchor the supply of reserves. While uptake of the STR on December 23 came in at £98.2bn, only £0.9bn higher than the previous week, overall reserves through the operations reached £656.8bn over year-end, which was enough to keep the observed price widening relatively contained (see Figure 13).

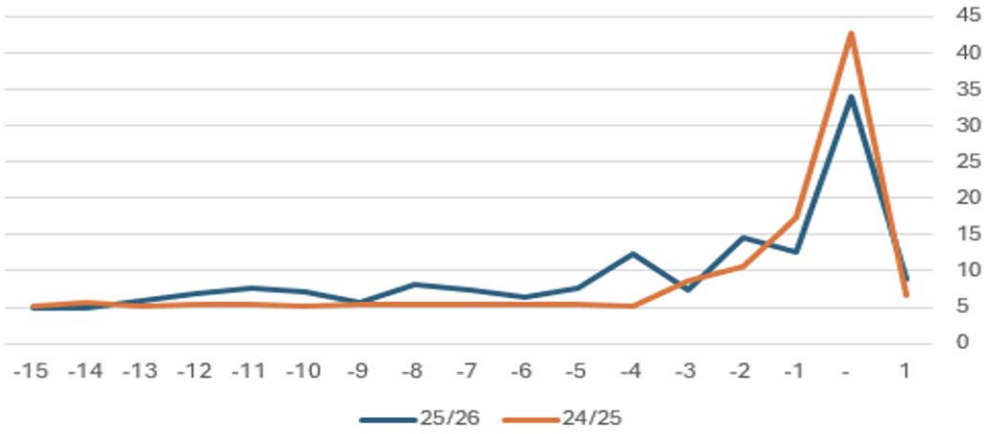
5 The Sterling Overnight Index Average, or SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.
6 DBV, or 'Delivery By Value', is a mechanism whereby a CREST member who has borrowed money against overnight gilt collateral may have gilts on its account to the required value delivered automatically by the system to the CREST account of the money lender.

Figure 11: GBP Money Market Rates



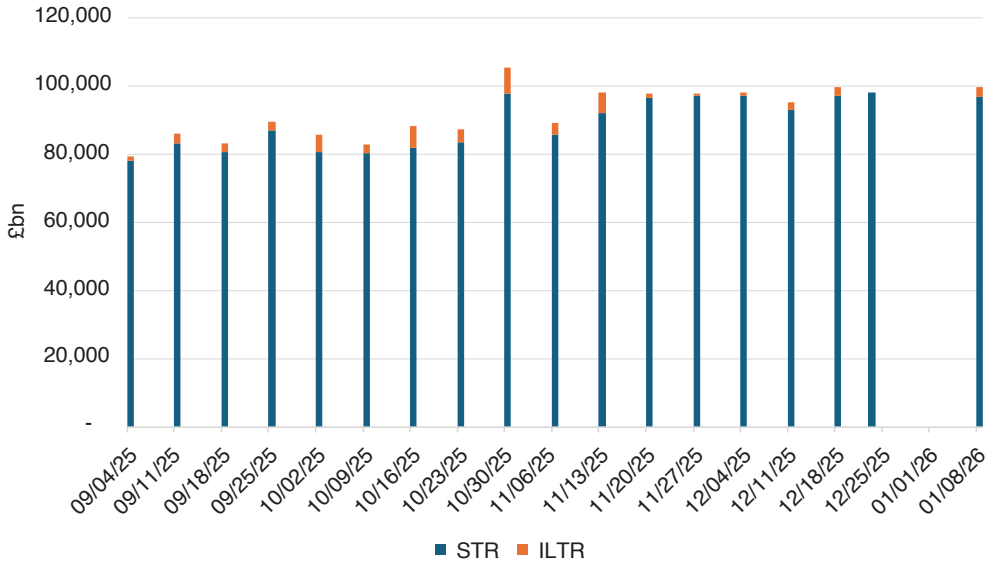
Source: ICMA analysis using Bloomberg data

Figure 12: RFR GBP SRIROT vs SONIA



Source: Goldman Sachs using CME Data

Figure 13: Bank of England Sterling Monetary Framework Operations



Source: ICMA analysis using Bank of England data

USD repo

2025 had been a fairly choppy year for the US funding market, characterised in the first half of the year by the tariff announcements, and the latter half by the government shut-down, the subsequent debt-ceiling resolution, and the rebuilding of the Treasury General Account (TGA). Unsurprisingly, the market was bracing itself for a potentially volatile year-end, exacerbated by concerns of reduced balance sheet for repo in favour of more lucrative equity financing (see Figure 2). Between early November up to the last week of December, some $70bn of GC repo traded for the turn dates (December 31 – January 2) in the forward markets, at levels starting at 4.27% and edging lower to 4.00% (versus an expected Fed Fund rate of around 3.65%). This tightening was helped by the post-December FOMC announcement that the Fed would start buying short-maturity Treasury Bills as part of a new reserve management program, aimed at ensuring ample liquidity, with an articulated goal of easing pressure on year-end funding. The program would start with $40bn of monthly purchases.

As we finally reached regular settlement (December 30) for the turn, rates fell below 4.00%, with tom-next GC richening to 3.92%. In the morning session on December 31, overnight GC averaged 3.91%, before tightening down to the low 3.50%s in the afternoon. UST GC averaged 3.887% and SOFR 3.87% for the turn (see Figure 14). In relative terms, this was a widening of around 15bp to Fed Funds, compared with the neutral average (see Figure 15).

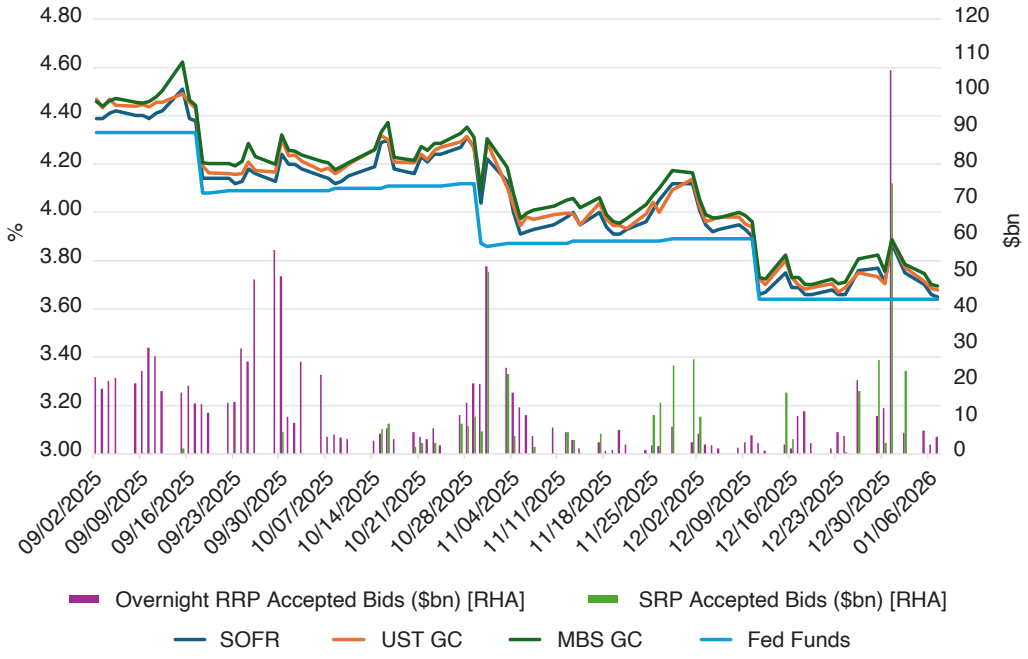
Market participants attribute the relatively easy year-end to a number of factors. Firstly, there was less pressure than usual on banks to reduce balance sheet to optimise GSIB scores,[7] largely as a result of a reduction in cross-jurisdictional exposures. Secondly, banks were finding more opportunities to net leverage ratio exposures from their repo intermediation activity due to a notable increase in non-bank central clearing, catalysed by the upcoming SEC clearing mandate.

Thirdly, participants point to the usage of the Fed's Standing Repurchase Agreement (SRP) operations. Seldom used, partly due to stigma and largely because excess reserves remain comfortably in surplus (see Figure 1), it saw $74.6bn of uptake on December 31 ($31.5bn UST and $43.1bn MBS). The Fed had recently rebranded the facility to encourage greater participation, with the aim of setting an effective ceiling for repo rates as excess reserves eventually normalised. And it appears to have worked.

Interestingly however, the Fed's Overnight Reverse Repurchase Agreement (ONRRP), which is used for mopping up excess liquidity, also saw a huge spike, to almost $106bn. This seems to suggest that the Fed effectively played the role of sizeable repo intermediary over the turn, substituting for a significant amount of private market activity. (See Figure 14.)

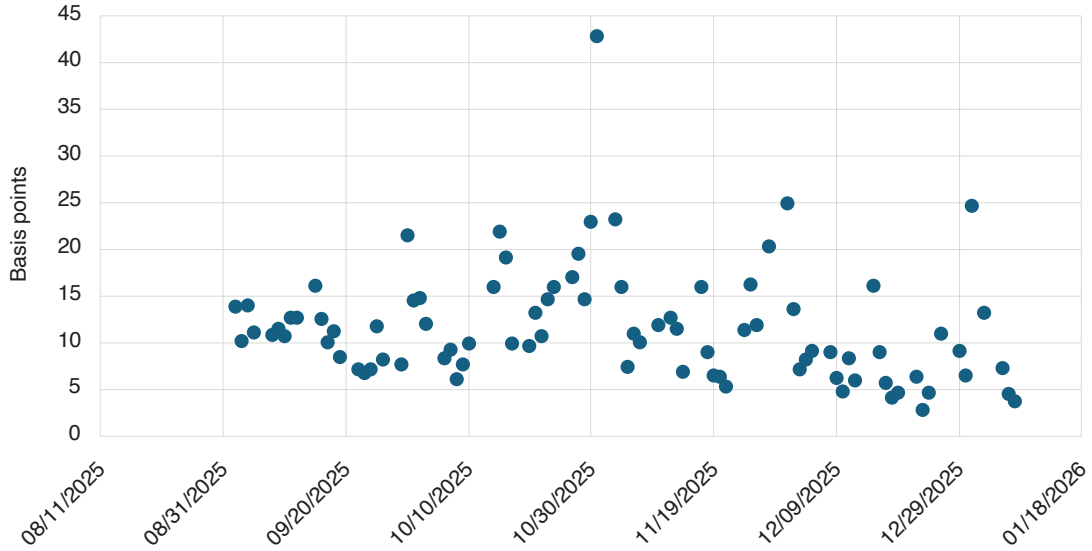
7 The size of year-end balance sheet exposures is one of the key metrics used to score the systemic importance of Global Systemically Important Banks (G-SIBs), which in turn impacts their regulatory capital requirements.

Figure 14: USD Repo Rates and Fed repo facilities



Source: ICMA analysis using Bloomberg and Federal Reserve data

Figure 15: UST GC versus Fed Funds rate



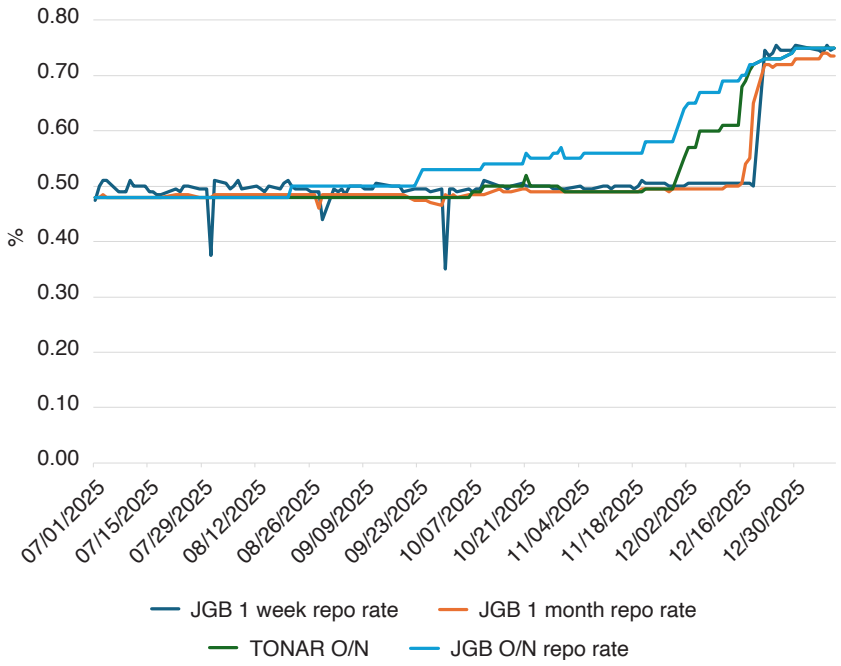
Source: ICMA analysis using Bloomberg data

JPY repo

Just as at 2024 year-end, the JGB repo market behaved relatively calmly over the 2025 turn. On December 29, tom-next GC opened slightly tighter (around 0.65% to 0.75%), but the market soon turned better offered, which saw rates trade in a 0.70% to 0.75% range.

This calmness is attributed to two main factors. Firstly, life insurers were heavy providers of long-term GC over year-end, helping to create ample collateral supply. A large drop in the usage of Bank of Japan's Securities Lending Facility (SLF), which saw an uptake of ¥710bn following the December rate hike but only ¥180bn for the December 30 – January 5 period, suggests that there were little in the way of collateral scarcity concerns. Secondly, the currency basis remained relatively stable, indicating no meaningful funding pressures.

Figure 16: JPY Repo Rates



Source: ICMA analysis using Bloomberg data

Looking forward

Compared to previous year-ends, 2025 was relatively uneventful, even if markets had been pricing in the risk of potential funding pressures well in advance. And as we move into a new paradigm of quantitative normalisation and the eventual rundown of excess liquidity, two themes emerge.

Firstly, the significance of balance sheet management and optimisation by intermediaries, especially as underlying bond markets continue to expand, and where market positioning, particularly by leveraged players, puts more demand, and importance, on the effective functioning of repo markets. Measures to help relieve pressure on banks' balance sheets, particularly in periods of heightened volatility, can only help.

Secondly, the increasingly important role of central banks and the effective design of their monetary operations. As we saw both in the UK and US, the repo facilities were key to ensuring relative stability over the historically volatile turn and are likely to become even more critical over time. In the Eurozone, we should expect the MRO to take on more significance as we move deeper into 2026 and as excess reserves move closer to €2tn, eventually setting the floor for repo rates, rather than the ECB Depo Rate.

Looking beyond 2026, volatility and unpredictability in intraday liquidity may become more of a focal point than episodic distortions around periodic reporting dates, particularly as we move into a world of shorter settlement cycles and instant payments.

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