

RP's, GC, FF

If I sell 1 MIL 10YR NOTE
I need to borrow the note & give the note holder
1 million\$. The lender of the note will earn the
RP rate. The lender of the note can then lend the
one MIL out @ GC, if there's a beneficial spread.

Say, 10YR Rate = 1.35
GC Rate = 3.00.

That benefits the owner of the note because he
will make the difference between those rates

Another Example

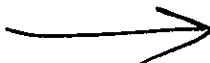
I'm long 1 5yr note. Coupon = 2.50. I see that the 5yr
is on special @ 1.35%. So, I lend the 5yr out and
receive 1 million\$^s @ a cost of 1.35%. I ~~then~~ then
turn around & lend the \$ out @ GC for 3%.
~~The~~ I earn the difference of the two rates
1.35 & 3.00%.

The risk is what I'm receiving in GC as collateral.

GC & FF are 2 different markets.

Federal Funds are o/n borrowings & lendings by banks
in the Federal Reserve system. ~~If I have extra \$ ~~to~~~~

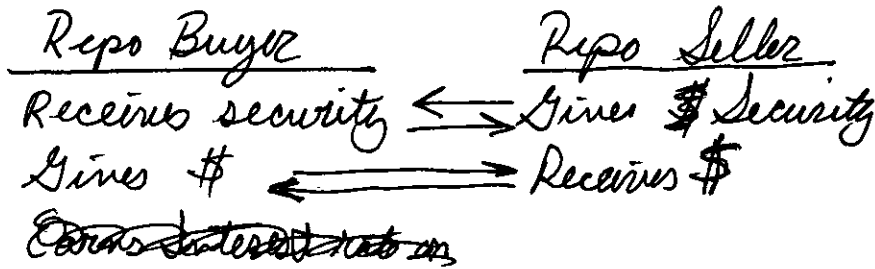
The Funds are based on reserve requirements.

If I have more reserves than I need, then, I'll lend
the excess out to another bank that ~~needs~~ needs
the \$ to meet reserves. 

The Interest rate on the loan is "The Federal ~~Funds~~ Funds Rate".

This lending & borrowing of Reserves is simply a redistribution of \$ within the system.

Participants: Commercial Banks, S&Ls, GSEs, Securities firms etc...



	<u>Receives Security</u>
Buyer	Earns Coupon Interest Rate
Seller	Pays Coupon Interest

	<u>Receives \$</u>
	OR SPECIAL RATE
	Pays GC Interest Rate
	Earns GC or Special I.R.

	Repo	Reverse Repo
	Borrower	LENDER
	Seller	Buyer
	Receives \$	Gives \$
NEAR LEG	Sells Securities	Buy Securities
FAR LEG	Buy " "	Sells " "

Basic motivation for transacting RPs is the borrowing & lending of cash.

Reverse Repo is from the buyers viewpoint. They are the same as a RP. They're simply being described from a different viewpoint.

Buyer of RP = opportunity to invest cash for a customized period of time.

Inside a trading firm RPs are used to finance positions (long), obtain access to cheaper funding cost of other speculative instruments & cover short positions in securities.

If the fed does "matched sales" they're simply doing Reverse RPs.

Fed Funds are uncollateralized lending rate between banks

Repos are collateralized, usually by U.S. Treasuries. When the fed is dealing w/ repos they are usually always collateralized by US T.