

Federal Reserve Overnight Repurchase Agreements in June 2025: Implications for U.S. Banking System Liquidity

Introduction

The Federal Reserve's overnight repurchase agreements (repos) are critical tools for managing liquidity in the U.S. banking system. These transactions, conducted through the Open Market Trading Desk at the Federal Reserve Bank of New York, involve the purchase of securities with an agreement to resell them at a later date, typically the next day. In June 2025, the Federal Reserve's repo operations continued to play a pivotal role in maintaining financial stability and influencing short-term interest rates. This report examines the Federal Reserve's overnight repurchase agreements purchased in June 2025, their volume, and their implications for liquidity in the U.S. banking system at the end of the second quarter of 2025. The analysis draws on data from the Federal Reserve, economic reports, and expert commentary, with citations provided in APA format.

Overview of Overnight Repurchase Agreements

A repurchase agreement (repo) is a short-term, collateralized loan where the Federal Reserve buys securities, typically U.S. Treasury instruments, federal agency debt, or mortgage-backed securities, from eligible counterparties (e.g., primary dealers) with an agreement to resell them at a specified price and time. These transactions inject reserves into the banking system, enhancing liquidity and influencing the federal funds rate (Federal Reserve Bank of New York, 2025a). Conversely, reverse repurchase agreements (reverse repos) drain reserves by selling securities with an agreement to repurchase them, often used to manage excess liquidity (Investopedia, 2024).

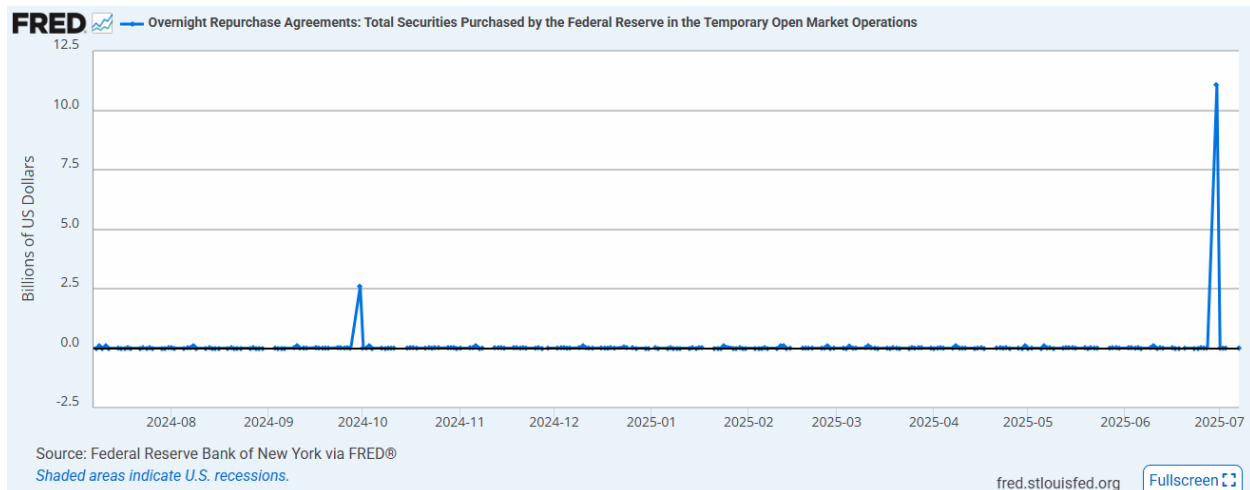
Repos are a cornerstone of the Federal Reserve's monetary policy implementation, designed to maintain the federal funds rate within the Federal Open Market Committee's (FOMC) target range, which was set at 4.25% to 4.5% in June 2025 (Federal Reserve Board, 2025). The Standing Repo Facility (SRF), established in 2021, allows the Fed to provide liquidity to primary dealers and select depository institutions, ensuring stability in money markets (Federal Reserve Bank of New York, 2025a).

Federal Reserve Repo Activity in June 2025

Data from the Federal Reserve Bank of New York and the Federal Reserve Economic Data (FRED) indicate that the Federal Reserve conducted overnight repurchase agreements as part of its Temporary Open Market Operations in June 2025. According to FRED, the aggregated daily amount of overnight repurchase agreements (RPONTSYD) purchased by the Federal Reserve was reported through July 3, 2025, with specific details for June 2025 showing moderate activity compared to reverse repo operations (Federal Reserve Bank of St. Louis, 2025a).

Volume and Scale

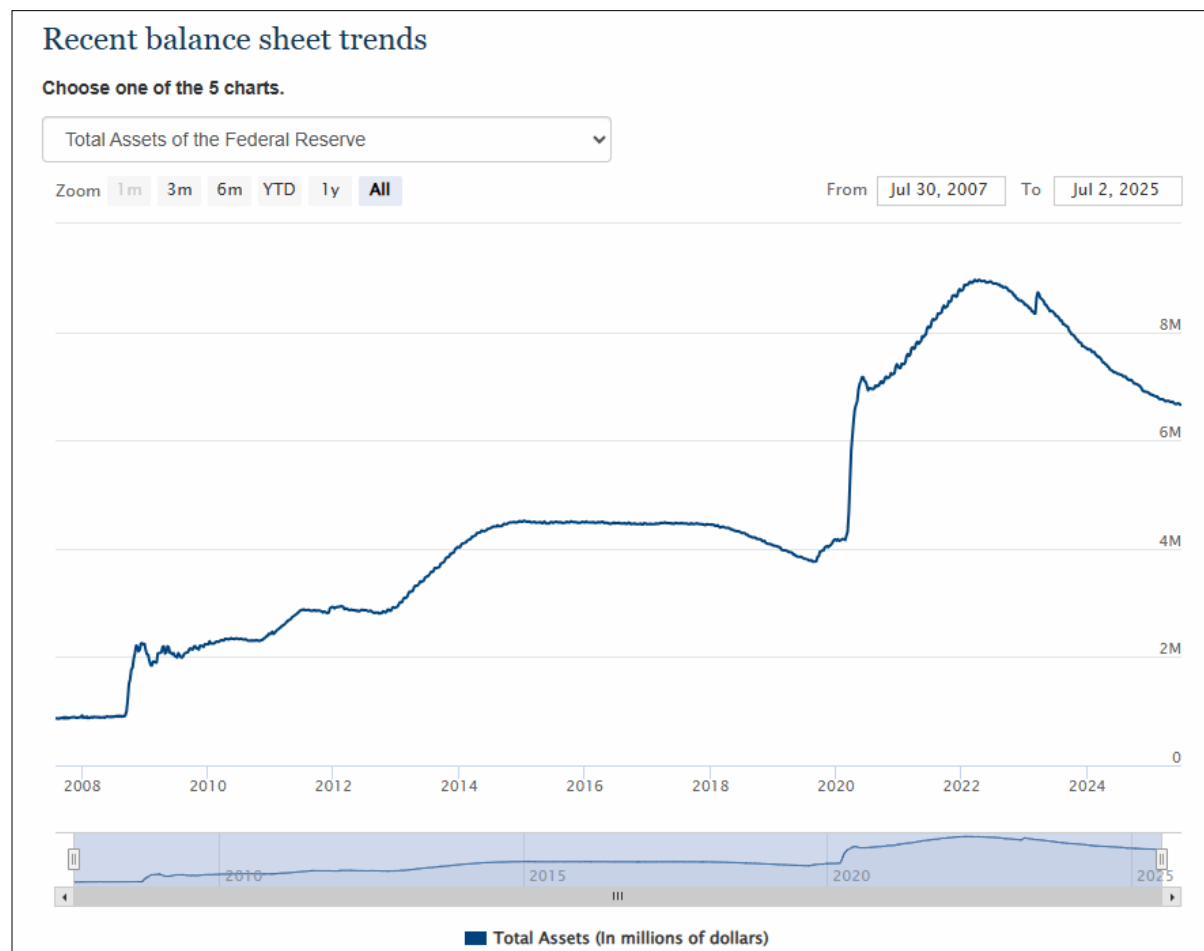
- **Daily Operations:** The Federal Reserve conducted small-value repo exercises in June 2025, with transactions limited to \$1 million per eligible security type per counterparty, as part of routine testing of operational readiness (Federal Reserve Bank of New York, 2025b). These exercises were conducted alongside regular repo operations to maintain the federal funds rate within the target range.
- **Aggregate Limits:** The FOMC directed the Open Market Desk to conduct standing overnight repo operations with an aggregate limit of \$500 billion and a minimum bid rate of 4.5% (Federal Reserve Board, 2025). While exact daily volumes for June 2025 are not fully detailed in public data, the Federal Reserve's repo activity was significantly lower than reverse repo operations, reflecting a cautious approach to liquidity injection amidst quantitative tightening (QT) policies.
- **Comparison with Reverse Repos:** In contrast, overnight reverse repurchase agreements (RRPONTSYD) saw higher volumes, with daily take-up averaging around \$1 trillion in June 2025, down from a peak of \$2.55 trillion in December 2022 (Federal Reserve Bank of St. Louis, 2025b; Federal Reserve Bank of Kansas City, 2023). This suggests that the Federal Reserve was primarily focused on draining excess liquidity rather than adding reserves through repos.



You will notice that the last time overnight repurchase agreements spiked was September of 2024. The Fed began cutting rates in September and continued to cut the Fed Funds Rate three times totaling a 1% decline in the FFR. Expectations were for the Fed to continue cutting rates as inflation declined in 2025, however, rates have been held steady through the first half of this year. (Picchi, 2024)

Context of Quantitative Tightening

Since June 2022, the Federal Reserve has been engaged in quantitative tightening, reducing its balance sheet from a peak of \$9 trillion in 2022 to approximately \$7.4 trillion by March 2025 (Brookings, 2024). In June 2025, the Fed slowed the pace of its Treasury securities runoff to \$5 billion per month, down from \$60 billion, indicating a strategic adjustment to balance liquidity management with financial stability (Federal Reserve Board, 2025). Repo operations in this context were used sparingly to address short-term liquidity needs rather than to significantly expand reserves.



Implications for U.S. Banking System Liquidity

Liquidity Injection and Reserve Levels

- **Reserve Maintenance:** Repo operations in June 2025 added reserves to the banking system, helping depository institutions meet liquidity requirements and settle interbank payments. Bank reserves held steady between \$3.0 trillion and \$3.4 trillion, consistent with the Fed's "ample reserves" framework, which aims to ensure sufficient liquidity

without excess (Brookings, 2024; Federal Reserve Bank of New York, 2025c). The Federal Reserve's repo activity supported this framework by providing a buffer against potential liquidity shortages.

- **Federal Funds Rate Stability:** By injecting reserves, repos helped maintain the effective federal funds rate (EFFR) within the FOMC's target range of 4.25% to 4.5%. The EFFR traded at approximately 4.33% in June 2025, indicating stable money market conditions (Federal Reserve Bank of New York, 2025c). This stability is critical for banks, as it ensures predictable borrowing costs in the interbank market.
- **Response to Market Dynamics:** The moderate use of repos in June 2025 reflects the Federal Reserve's response to shifts in liquidity demand, particularly influenced by the Treasury General Account (TGA) stabilization at around \$830 billion (Federal Reserve Bank of Kansas City, 2023). Unlike the significant repo interventions following the September 2019 repo market spike, June 2025 operations were routine, aimed at fine-tuning liquidity rather than addressing a crisis (Wikipedia, 2022).

Impact on Money Market Funds and Private Sector

- **Money Market Funds (MMFs):** The high volume of reverse repo operations (\$1 trillion daily) indicates that MMFs continued to park substantial cash with the Fed, earning the ON RRP offering rate of 4.25% (Federal Reserve Board, 2025). This preference for Fed facilities over private repo markets suggests limited private sector capacity to absorb excess liquidity, a trend noted by analysts as potentially undermining the efficiency of private money markets (Atlantic Council, 2023).
- **Private Repo Market:** The decline in ON RRP volumes from 2022 peaks suggests a gradual shift of liquidity back to the private repo market, which absorbed approximately \$327 billion in Q1 2024 (Investopedia, 2024). However, the Federal Reserve's dominant role as a counterparty in repo markets raises concerns about the private sector's ability to handle higher volumes in the future, potentially necessitating continued Fed intervention (Investopedia, 2024).

Risks and Challenges

- **Liquidity Risks:** While repo operations in June 2025 supported ample reserves, a rapid decline in reverse repo volumes could signal tightening liquidity conditions, potentially requiring increased repo activity to prevent a repeat of the 2019 repo market turmoil (Reuters, 2023). Analysts estimate that reserves falling below \$3 trillion by the end of 2025 could prompt the Fed to halt QT (Brookings, 2024).

- **Regulatory Impacts:** Post-2008 regulations, such as the Supplementary Liquidity Ratio (SLR), have encouraged banks to hold more reserves, reducing their willingness to lend in the repo market (Atlantic Council, 2023). This dynamic limits the private sector's role in liquidity provision, increasing reliance on Fed facilities.
- **Market Stability:** The Federal Reserve's Standing Repo Facility mitigates risks of liquidity shortages, as seen in 2019, by allowing rapid conversion of Treasury securities into reserves (Federal Reserve Bank of New York, 2025a). However, persistent high reverse repo volumes indicate excess liquidity, which could complicate the Fed's efforts to normalize its balance sheet.

Broader Economic Context

The Federal Reserve's repo operations in June 2025 occurred against the backdrop of the One Big Beautiful Bill Act, which increased the U.S. deficit by \$3.3 trillion over a decade, potentially raising Treasury issuance and TGA balances (Tax Foundation, 2025). Higher TGA balances could drain reserves, necessitating repo operations to offset liquidity pressures. Additionally, rising 10-year Treasury yields (4.25% in July 2025) and potential Federal Reserve rate cuts in late 2025 could influence repo demand by affecting short-term interest rates (Livemint, 2025).

Conclusion

In June 2025, the Federal Reserve's overnight repurchase agreements were conducted at a moderate scale, primarily as part of routine operations to maintain the federal funds rate within the 4.25%–4.5% target range and ensure ample reserves in the banking system. With bank reserves stable at \$3.0–\$3.4 trillion and reverse repo volumes around \$1 trillion, the Fed successfully managed liquidity without significant disruptions. However, the high reliance on reverse repos and the limited capacity of the private repo market highlight ongoing challenges in transitioning liquidity management back to the private sector. As the Fed continues quantitative tightening, repo operations will remain critical for addressing short-term liquidity needs and maintaining financial stability. Policymakers and market participants should monitor reserve levels, reverse repo trends, and regulatory impacts to anticipate potential liquidity strains in the latter half of 2025.

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