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A buoy on funding tides: How client repo demand and dealer constraints lifted CORRA

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Abstract

The CORRA benchmark interest rate experienced sustained pressures in Canada around the Fall of 2025. The growing imbalance between repo lenders and borrowers meant that funding markets increasingly relied on Canadian banks' balance sheets to absorb this funding gap. The Bank of Canada's adjustments to its term repo operations, together with an eventual reduction in the imbalance between lenders and borrowers, both contributed to relieve pressures. The episode highlights that pressures on the CORRA benchmark can emerge from the interaction of client borrowing behavior, dealer balance sheet constraints, even if the level of settlement balances is in a range deemed sufficient to meet the requirement of the payment system and the prudential demand of its members.

Topics: Financial markets and funds management; Market functioning; Monetary policy; Monetary policy tools and implementation
JEL codes: E52, G23

Résumé

Le taux d'intérêt de référence CORRA a subi des pressions soutenues au Canada vers l'automne 2025. En raison du déséquilibre croissant entre prêteurs et emprunteurs sur le marché des pensions, les marchés de financement ont progressivement accru leur recours aux bilans des banques canadiennes pour combler la demande de fonds. Les ajustements apportés par la Banque du Canada à ses opérations de prise en pension à plus d'un jour, conjugués à la réduction ultérieure de ce déséquilibre, ont contribué à alléger les pressions. Cet épisode montre que le taux CORRA peut subir des pressions du fait de l'interaction entre le comportement d'emprunt des clients et les contraintes de bilan des courtiers, et ce, même lorsque le niveau des soldes de règlement se situe dans une fourchette jugée suffisante pour répondre aux exigences du système de paiement et à la demande de précaution de ses participants.

Sujets : Marchés financiers et gestion financière; Fonctionnement des marchés; Politique monétaire; Mesures de politique monétaire et mise en œuvre
Codes JEL : E52, G23

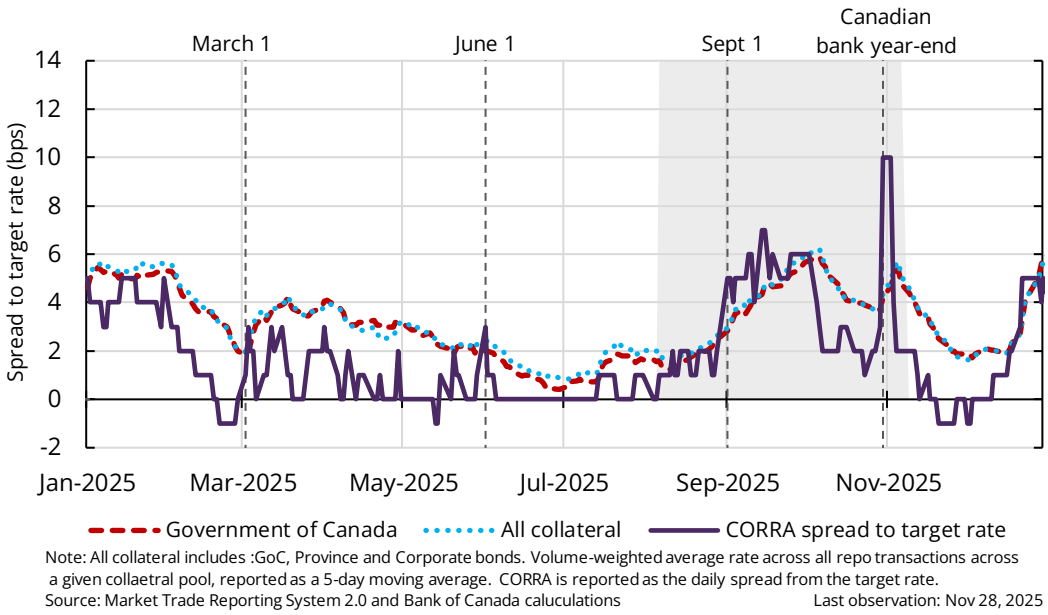
Quantitative tightening ("QT") was earmarked by the Bank of Canada to end sometime in 2025.[1] This normalization of monetary policy would mean, among other things, that the quantity of settlement balances ("SBs") held by Canadian financial institutions ("FIs") would reach a range deemed to be a new steady state and, with it, that the size of the central bank's balance sheet would stabilize. As the events unfolded and SBs approached this new range, the focus shifted towards the possibility of upward pressures lifting interest rates in funding markets.

Interest rates in funding markets stayed close to the target rate for most of 2025, until the Fall. The CORRA benchmark and broader measures of funding rates in repo markets started the year on a gliding path toward the overnight target rate, which concluded an earlier episode of funding pressures (Chart 1).[2] If we look through a few temporary spikes, funding rates remained benign until the end of summer. However, rates started to rise again, around mid-August, and this episode of renewed funding pressures extended throughout the Fall of 2025 and until early in November. Changes in the stock of outstanding settlement balances were initially cast as a leading explanation, even as other pressures were building beneath the surface.

[1] See Toni Gravelle's speech on January 16 2025. "Last year, I said we thought that QT, also known as balance sheet normalization, would end sometime in 2025" … "Earlier last year, we thought QT would end when our settlement balances declined to a $20 billion to $60 billion range." … "Due to our updated assessment of precautionary demand, we have revised the range upward to between $50 billion and $70 billion".

[2] CORRA is the Canadian Overnight Repo Rate Average. See Plong and Maru 2024-21 for a discussion of the Canadian repo market in 2024.

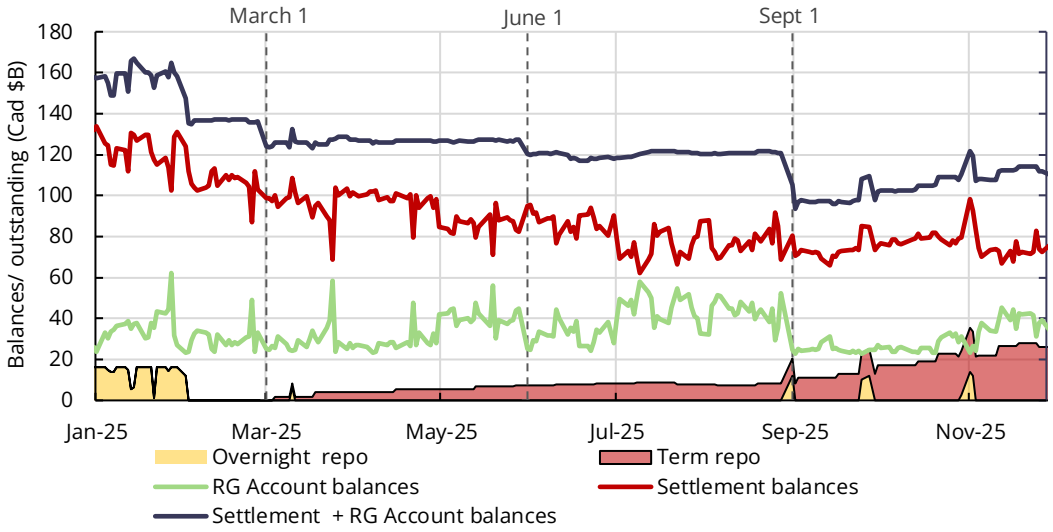
Chart 1: Funding rates were close to target in the first half of 2025



Note: All collateral includes :GoC, Province and Corporate bonds. Volume-weighted average rate across all repo transactions across a given collaetral pool, reported as a 5-day moving average. CORRA is reported as the daily spread from the target rate.
Source: Market Trade Reporting System 2.0 and Bank of Canada caluculations Last observation: Nov 28, 2025

Flows in and out of the Government of Canada (GoC) Receiver General (RG) account at the Bank of Canada were driving variations in SBs. Deposits flow to the RG account, and the stock of SBs held by banks decreases with it, when the government's outlays are lower than the receipts. Conversely, the stock of SBs increases when the government outlays are larger than its receipts. Relatively large flows happen, for instance, when a GoC security matures (flows out of the RG account) or during periods with large tax payments (flows into the RG account). From March to September, these flows in and out of the RG account played a key role in the variations in the stock of SBs held by FIs (Chart 2).

Chart 2: Settlement balances versus flows in and out of the Receiver General account



Note: Vertical dashed lines mark dates of GoC bond maturities during the observation period.
Source: Bank of Canada calculations

Last observation: Nov 28, 2025

A growing share of the SBs recirculated through the Receiver General account during the summer. The date of September 1st 2025 was significant because it marked the maturity of a large GoC bond.[3] In preparation of the large repayment of principal and interest, the RG account balance was gradually increased during the summer.[4] However, funds held in the RG account are not necessarily "trapped". Instead, much of the funds are available to eligible market participants through a daily morning auction of RG deposits (the AM-RG auction) and, in this way, the balances recirculate toward market participants.[5] As a result, the variations in the quantity of SBs held by FIs during the summer of 2025 reflect both the size of the RG account balance *as well as* changes in the demand of FIs participating at the daily AM-RG auction.

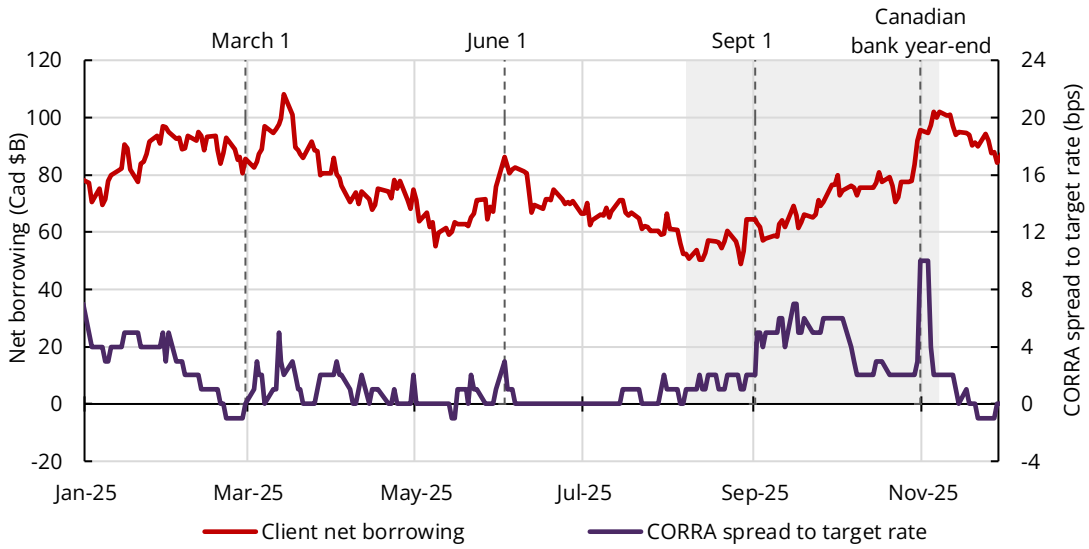
[3] Between the end of February and the end of August, there were three GoC bond maturities of which the BoC held a material amount, with the September being the largest. The BoC held $12.06B of the March 2025 bond, $4.83B of the 9.00% & 2.25% June 2025 bonds combined and $25.82B of the September 2025 bond.

[4] In particular, the RG uses bills and cash management bills to raise funds ahead of large bond maturities. This gradual accumulation implies that the decrease in settlement balances due to QT is also gradual, instead of lumped around the maturity of the bonds that the Bank of Canada holds.

[5] During the AM-RG auction, excess RG account cash balances are allocated among a group of eligible counterparties through an auction process administered by the Bank of Canada. More information about the AM-RG auction here.

Large GoC bond maturities slow the recirculation of SBs. When the $46.6B of GoC bonds matured on September 1st, funds were transferred out of the RG account to the bondholders as payment of the bond's principal and last coupon.[6] Some of these funds flowed to the Bank of Canada, since it held roughly half of the outstanding. The rest went to the other bondholders. This payment naturally decreases the amount offered at the AM-RG auction. However, as funds flow to bondholders, this payment eventually increases the SBs held by their FIs. Nonetheless, the quantity of funds that are immediately available in *funding markets* may initially decrease for a brief period after the bond maturity. This can happen when some of the repayment initially sits with FIs that are less active in the repo market. In such case, a maturing bond acts like a negative SB supply shock for repo market participants and can be associated with spikes in CORRA (Chart 1).

Chart 3: Net repo demand from dealers' clients also matters for CORRA



Note: Net borrowing is caclulated as total repo - reverse repo outstanding across all collateral types.
Source: Market Trade Reporting System 2.0 and Bank of Canada calculations
Last observation: Nov 28, 2026

[6] Dashed vertical lines in Chart 3 indicate Government of Canada bond maturities (payable) on March 3rd 2025, June 2nd 2025 and September 2nd 2025.

Client net repo demand was also rising. Given the size of the bond maturing on September 1st, it is not surprising to see a spike in CORRA on that date (Chart 1). What is different from other maturity dates earlier in the year is that CORRA stayed elevated for much longer in this case. The key reason for this is that the net demand from clients—asset managers that receive or provide funding to dealers—was rising around September 1st. The net borrowing from dealers by clients in repo, aggregated across terms and collateral types, started to rise in mid-August (Chart 3), and gradually increased by ~$40B throughout September and October of 2025, a significant increase. Dealers as a group played a critical intermediating role, bridging the gap as the balance tilted between the two sides of the repo market.

Client demand can push repo rates higher. In a *balanced* repo market, clients lend to dealers through reverse-repo transactions while other clients borrow from dealers roughly the same amount through repo transactions.[7] However, when a dealer faces an imbalance, say if its clients raise their demand to borrow, then it can bridge the difference by sourcing funds from other dealers, from other money markets or its bank holding company (but not every dealer is a bank affiliate). Each of these substitute sources of funds may come at higher costs. For instance, dealers (or their banks) closely monitor the liquidity of their balance sheet and, for this purpose, may target a level of SBs: they would not lend these unless at a higher rate. Alternatively, sourcing funds in other domestic or foreign money markets may imply a higher rate or be subject to higher regulatory costs.[8] As a result, repo rates tend to rise as clients borrow more than they lend, and as the two sides of the repo market grow further out of balance.[9]

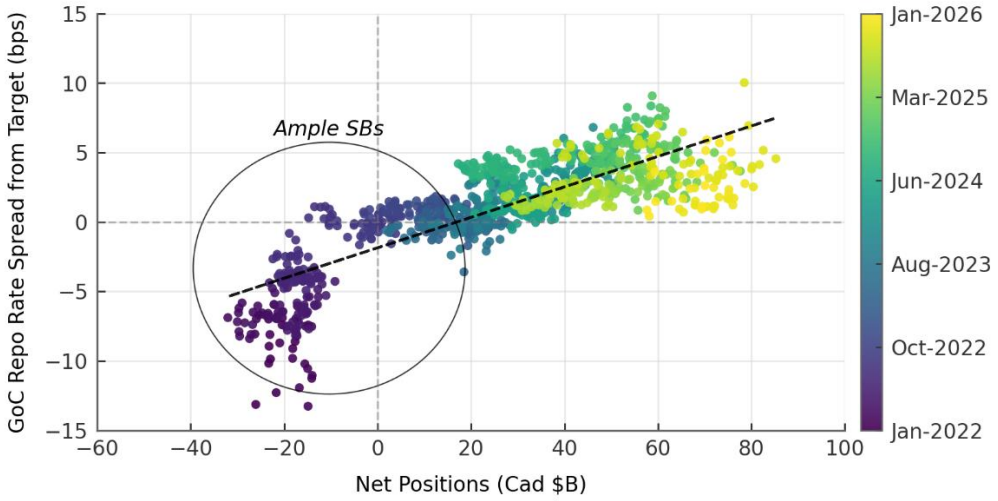
[7] We define repo transactions from the perspective of clients: a repo is when a client borrows funds from dealers and posts securities as collateral and reverse repos when a client lends funds to dealers and receives securities as collateral.

[8] For more information see Plong and Maru 2024-4. When cross-currency swap pricing is favourable, it becomes profitable to lend CAD and borrow a foreign currency. During this period, the level of front-end CORRA-SOFR cross-currency swap rates made such a trade unattractive.

[9] For more information see Fontaine et al. 2025-14.

Client net borrowing is a key factor driving CORRA in recent years. SBs were ample during the period before 2023, which is also a period when clients were lending more to dealers than they borrowed from them. This helped pushed repo rates substantially below the target rate.[10] However, client net repo demand has switched sign since 2023 : clients as group have become net borrowers (Chart 4). Variations in client net repo demand help explain pressures in funding markets (together with the constraints on the ability of dealers to balance the two sides of the market). This mechanism helps explain the elevated level of CORRA in 2024, its subsequent normalization in the first half of 2025, as well as the persistent surge in the Fall of 2025.[11]

Chart 4: The impact of client repo demand changed over time



Note: Net GoC postitions is the daily amount of repo-reverese repo outstanding.
GoC repo spread from target is based on the daily weighted average repo rate.
Observation period: Jan 2022 - Jan 2026

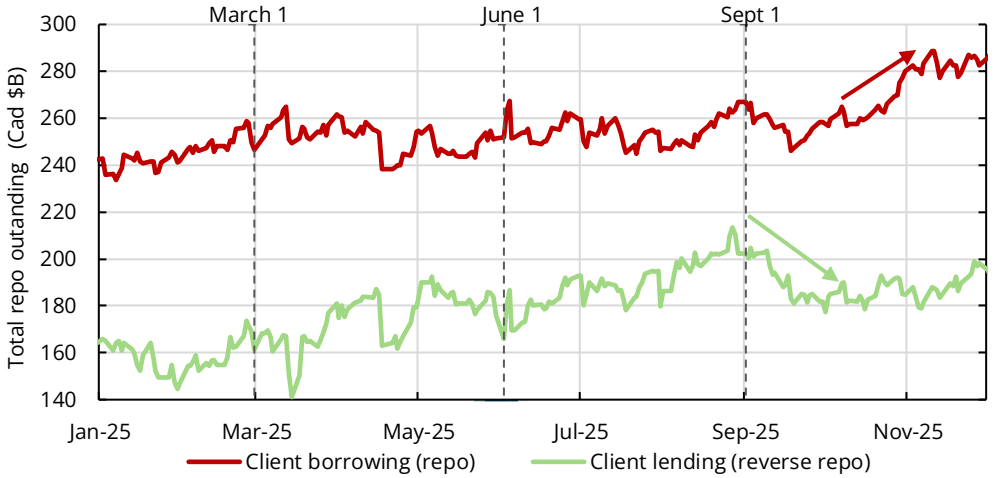
Source: Market Trade Reporting System 2.0 and Bank of Canada calculations Observation period: Jan 2022 - Jan 2026

[10] Part of the downward pressure on CORRA at the time could have come from bonds that traded "special" in the repo market.

[11] For a discussion of funding pressures during this period see Plong and Maru 2024-4 and Plong and Maru 2024-21. Additionally, more information can be found here about the reduction in the deposit rate which also contributed to the decline in CORRA over this period.

Both clients' lending and clients' borrowing can matter. The stock of client net repo borrowing gradually increased by ~$40B throughout August, September and October of 2025 (Chart 3). Client net borrowing is the difference between the outstanding stock of client repo borrowing and client reverse repo lending, which we sum across collateral, across terms and across all dealers. This captures the broad demand for and supply of funds by dealers' clients. Both sides of the equation played a role after September 1st (Chart 5). During August and September, the gap increased largely because clients reduced their lending to dealers. Then, during October, the gap widened further because clients increased their borrowing from dealers. Each leg contributed roughly half of the total increase in the net borrowing during this period.

Chart 5: Both borrowers and lenders increased clients' net borrowing



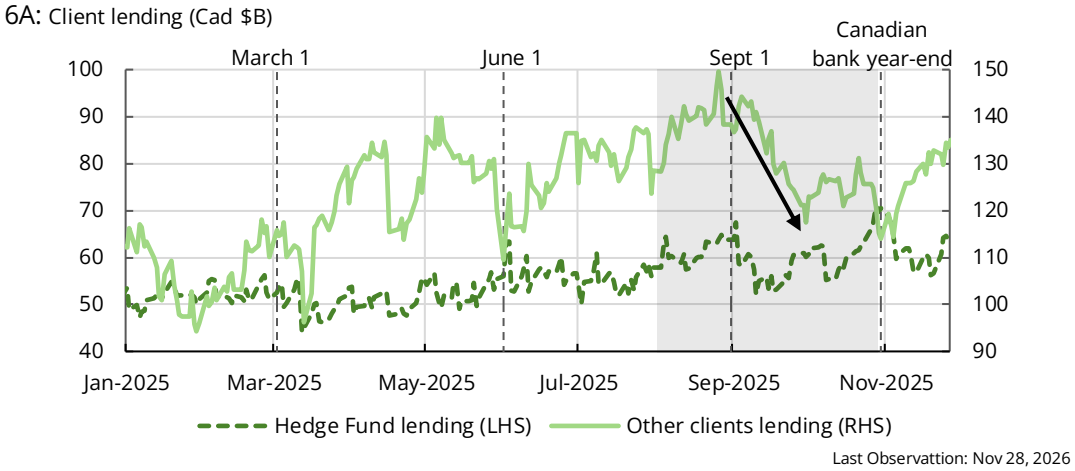
Note: Vertical dashed lines mark dates of GoC bond maturities in this sample period. Repo and reverse repo, includes all tenors and broad collateral types.
Source: Market Trade Reporting System 2.0 and Bank of Canada calculations Last observation: Nov 28, 2026

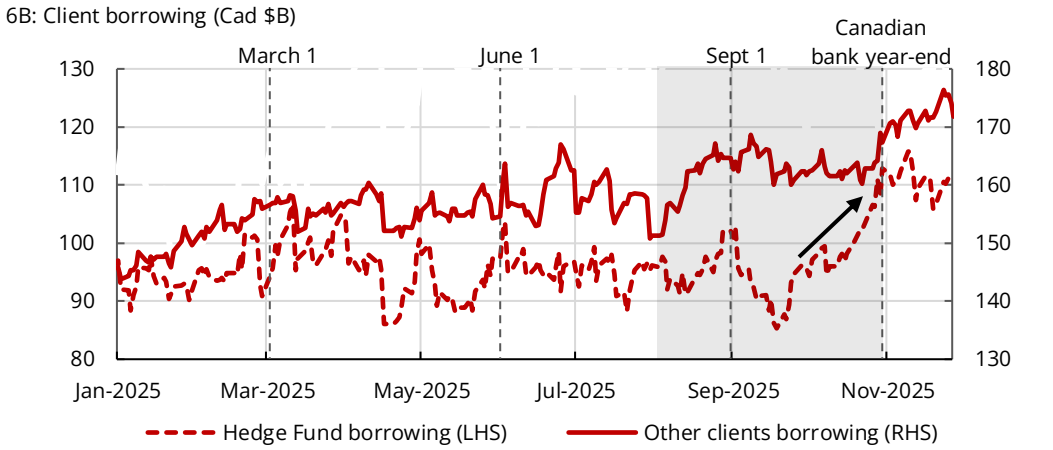
Pension plans drove the initial decline in lending. While clients such as hedge funds had been identified behind early episodes of repo funding pressure, the initial reduction in funds supplied to the repo market, around the period from September to October, was led by other clients, such as pension plans (Chart 6A).[12] However, the hedge funds also played a role behind the later increase in borrowing during that period (Chart 6B). Overall,

[12] See Toni Gravelle's 2025 speech for more information. For a summary discussion on repo market developments during 2023-2024 see Plong and Maru 2024-4.

this indicates that variations in client net repo borrowing reflect the interaction across a different client's types.

Chart 6: Hedge funds increased borrowing, while other clients decreased lending





Note: Vertical dashed lines mark dates of GoC bond maturities during the observation period.
Source: Market Trade Reporting System 2.0 and Bank of Canada calculations
Last observation: Nov 28, 2025

The Bank of Canada framework for the implementation of monetary policy. The Bank uses a range of tools to implement monetary policy.[13] In particular, when it judges that conditions warrant it on any given day, the Bank of Canada can use repo or reverse repo transactions to add or withdraw funds from the overnight market, respectively. These interventions by the Bank aim to reinforce the target for the overnight rate. However,

[13] More information about the Bank of Canada monetary policy implementation framework here.

during the period around September and October 2025, the Bank judged that an overnight repo operation was required on only a handful of days (Chart 2).

OIS rates started to reflect the persistent repo pressures. Overnight Indexed Swap rates (OIS rates) reflect expectations by market participants of what will be the average CORRA over a short horizon in the future. As the situation evolved, and despite CORRA setting only a few basis points above the target rate, OIS rates for short terms started to reflect expectations of a persistent spread between CORRA and the target rate.

The Bank of Canada balance sheet management operations played a relieving role. Term Repo operations ("TRs") are part of the Bank of Canada toolkit to manage the composition of its balance sheet.[14] Effective October 1, 2025, the Bank implemented some long-planned enhancements to increase the TRs' effectiveness. The Bank:

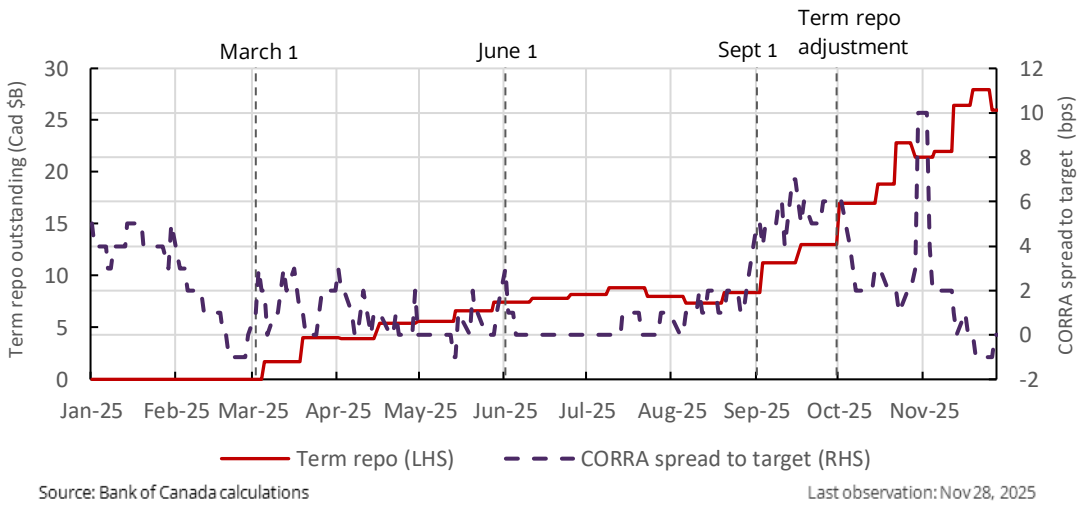
- Allowed unlimited collateral substitutions with a day ahead notice.
- Reinstated eligible collateral to federal and provincial inflation-linked bonds.
- Reinstated term repos backed by National Housing Act mortgage-backed securities ("NHA-MBS").

In addition, to increase the effectiveness of the term repos in managing its balance sheet the Bank (i) introduced weekly repo operations that offered a term of two weeks, which added flexibility, and (ii) at times set the Minimum Bid Rates (MBRs) at a small spread below the OIS rates, to offset building expectations of a persistent spread between CORRA and the target rate.[15]

[14] More information about the Bank of Canada balance sheet management toolkit can be found here.

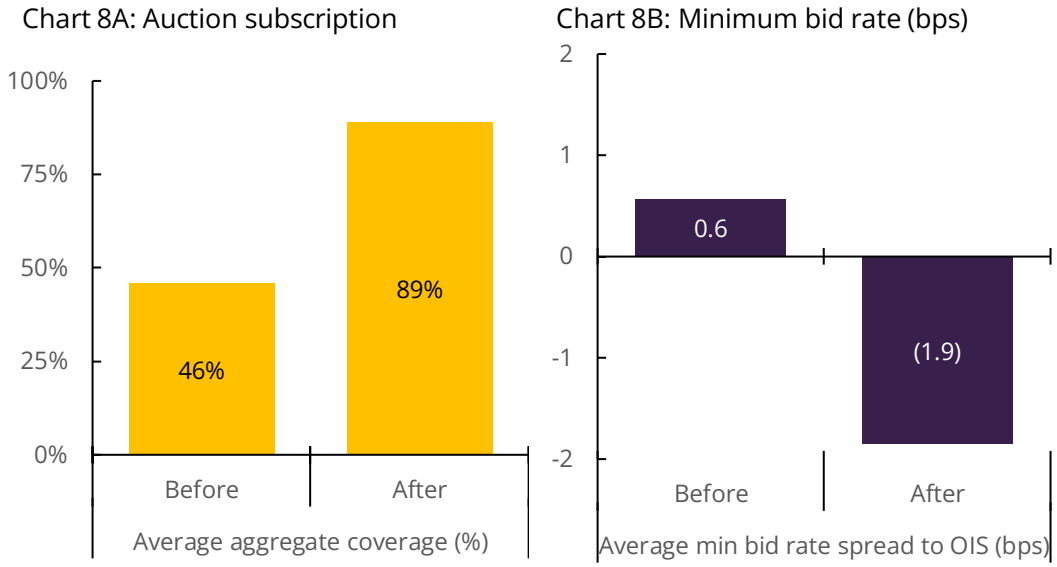
[15] The Bank of Canada TRs' terms and conditions provide that the MBR can be set at an appropriate spread to the corresponding OIS rate.

Chart 7: The Bank of Canada's term repo operations helped restore balance in the repo market



The enhancements helped raise the level of Bank of Canada outstanding term repos (Chart 7). The share of the auctioned amount taken up at each TR operation—the auction coverage ratio—rose from roughly 50 percent to close to 90 percent (Chart 8a). In addition, the simple average of MBRs was around 2 bps below OIS between October 1st and November 19th, when CORRA returned to target (Chart 8b). The MBR adjustments offset the effect of funding pressures and allowed for the auctions to clear a few basis points below OIS rates. Overall, this helped push market rates down, and CORRA with it. Effectively, the TRs had become a more flexible source of funds that dealers used to bridge the imbalance in the repo market.

Chart 8: Average term repo auction coverage and minimum bid rate



Note: "Before" runs from July 23rd August to the September 17th Auction. "After" runs from October 1st to the November 19th Auction. The Average Coverage Ratio is the average percentage of the term repo backed with BoC bond offered that is allocated on the auction date. Term repo were priced relative to the OIS rates with matched maturities as quoted before the auction time, but we report the spread using OIS quoted at the time of the auction (i.e., ~45 mins difference).

Conclusion

CORRA remained close to target in the first half of 2025. For much of the summer, fluctuations in settlement balances did not translate into CORRA pressures: clients net repo borrowing stayed relatively low and the AM-RG auctions recirculated funds between the RG account and the funding market.

Client net borrowing rose in late August. The imbalance in the repo market started to grow toward the end of the summer, leading to a persistent spread between CORRA and the target rate**.** With improved flexibility and lower cost of funds, TRs became more attractive to dealers and helped bridge some of the imbalance.

These events highlight that the imbalance between client borrowing and lending can drive funding conditions. What matters is the interaction between client net borrowing, the willingness of dealers to grow their balance sheets and the availability of alternative sources of funds to bridge

the two sides of the repo market. As the repo market ebbs and flows, funding pressures can arise even when settlement balances remain within the Bank's estimated steady state range.

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