The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

ICI VIEWPOINTS

August 4, 2011

The Debt Ceiling Debate and Its Impact on Money Market Funds

Data on money market funds flows continue to draw attention, especially with today's report that net outflows totaled $66 billion in the week ending August 3. As ICI Chief Economist Brian Reid explained last week, several factors have been influencing recent flows. His analysis found that the standoff over the U.S. debt ceiling, concerns about Eurozone debt, and recent regulatory changes are among the major factors that could be affecting investors.

While it's still difficult to sort out which of these factors is having the most impact on the flows during the last three weeks, the weekly and daily data from July 27 to August 3 indicate that uncertainty about the debt ceiling was the primary force affecting money market fund assets during the past week. Taking a closer look at the data—both ICI's weekly figures and daily numbers from other providers—offers some indications of the effect of the August 2 deadline for raising the U.S. government's debt ceiling and the tense days of uncertainty that preceded the debt-and-deficit agreement signed by President Obama by the deadline.

ICI's weekly data show money market funds held roughly $2.6 trillion in assets as of August 3. That reflects $66 billion in net outflows from all types of money market funds during the past week—more than is typical at this time of year—with $77 billion flowing out of institutional money market funds. By contrast, retail money market funds saw inflows of $11 billion in the week ending August 3.

It appears that a large amount of this week's net outflow was related to concerns over the U.S. debt ceiling negotiations. That's supported by daily data from Crane Data Money Fund Intelligence for the same week, which show that institutional money market funds posted outflows on July 28, 29, and August 1. These funds then gained small inflows on August 2 and 3 once it was clear that the debt ceiling would be raised.

What might be overlooked in a focus on the data is just how well money market fund managers prepared for and managed another period of market stress. The past week's net outflows amounted to almost 5 percent of the total assets of institutional money market funds. The 2010 SEC amendments to money market fund regulations require funds to hold at least 30 percent of their assets in securities that will be liquid within five business days—a buffer that makes money market funds much more resilient when faced with redemptions. And money market fund managers have operated their funds above and beyond SEC requirements during this time of potential stress. For example, data from iMoneyNet show that, as of July 26, government money market funds held approximately 63 percent of their assets in securities that would mature within one week.

In summary, recent money market fund flows continue to reflect the uncertain and fluid nature of U.S. and global markets and events. Throughout this period, money market fund managers continue to manage portfolios to ensure they are positioned to weather these storms.

Source URL: *https://icinew-stage.ici.org/ICIViewpoints/TheDebtCeilingDebateandItsImpactonMoneyMarketFunds*