

SOFR Indicative Rate Service



IRD

TraditionDATA, along with data from Bank of New York Mellon, have launched a data service that provides an intraday “day-ahead” insight into the level at which the Federal Reserve Bank of New York SOFR Rate is likely to be published tomorrow.

Why is this important? : Given the loss of confidence in LIBOR as the benchmark daily rate set for USD short term rates, the Federal Reserve convened the industry wide Alternative Reference Rates Committee (ARRC) which in 2017 identified SOFR as its preferred LIBOR replacement. At the Financial Stability Oversight Council (FSOC) Principals Meeting on June 11, 2021, regulators reinforced the need to move from USD LIBOR to alternative reference rates, with a focus on SOFR. Trading in financial instruments linked to SOFR, both cash and derivatives, has been gaining traction and SOFR now forms an important part of the USD rates market structure.



Market Relevance

Transparency and leading indicators of information are critical in every market. Tomorrow at 8am the NY Fed will publish the SOFR rate by calculating the volume-weighted median (50th percentile) of transactions in three overnight US Treasury repo markets:

Tri-party Repo cleared through BNYM, General Collateral Finance (GCF) Repo cleared through FICC, and Bilateral Repo (DVP).

This rate will form the benchmark interest rate for dollar-denominated derivatives and loans around the world.

“Where will the SOFR rate fix today for publication tomorrow?” is the question to which everyone wants the answer.

Now you have the answer. Today.



Market Insight

While the New York Fed publishes the SOFR rate at 8:00 am the next business day after the underlying overnight trades are executed, the Tradition/BNYM Intraday SOFR calculation is published real-time(1) throughout the day as overnight trades are effected, using the same methodology as the FRBNY(2). The rate calculated by Tradition provides a window into where the SOFR rate will fix today and publish tomorrow and the level of activity in that day’s overnight repo market. Tradition facilitates trades on Tri-party, GCF and DVP repo, and BNYM provides the clearing and settlement infrastructure for all Tri-party repo.



Delivery Channels and Frequency

The indicative SOFR rate is available directly from Tradition and AWS Data Exchange. Shortly it will also be available through BNYM’s Marketplace. The rate is available throughout the day on an hourly snap basis and as an end-of-day rate at 4:30pm.



Value experienced

Our SOFR Indicative Rate Service helps inform your decision making whether you participate directly in the overnight repo market or you leverage financial instruments where SOFR is used in determining the amount of interest paid.

As a result of Tradition's market leading position in Repo trading in the interdealer broker market and BNYM's position as the industry's primary clearing house for tri-party Repo, the indicative rate we calculate offers the following benefits:

- ▶ It is calculated from a data set that represents a significant portion of the daily repo volume going into the NYFRB calculation.
- ▶ It aligns with the NYFRB's calculation conventions to compute SOFR, i.e. we remove overnight repo trades that the Fed does not include in their SOFR calculation (e.g. specials, trades with the Fed).
- ▶ It offers significant value around month-end and FOMC meeting dates when SOFR has historically been most volatile.

While SOFR is only one of the alternative reference rates that will be used to replace LIBOR, it is the one that the ARRC has recommended and is in active use today. Along with the anticipated SOFR rate, TraditionDATA offers SOFR derivative pricing including basis swaps against other benchmarks and SOFR spread over treasury swaps.

Footnotes:

¹⁾ The rate is calculated real time from 7am to approximately 4:30pm each NY business day by combining repo trades processed at both Tradition and BNYM. The combined sets of trades are aggregated and anonymized prior to being used to compute our median rate which is published to subscribers. Throughout the day, the rate will update dynamically taking into account our respective processing timeframes and transaction activity.

²⁾ https://www.newyorkfed.org/markets/reference-rates/additional-information-about-reference-rates#gpr_bgcr_sofr_calculation_methodology

About us

TraditionDATA provides consistent, high-quality financial market data that reflect real price interest in global OTC swaps markets, covering FX & Money Markets, Interest Rate Derivatives, Credit & Fixed Income, and Energy & Commodities. Data can be delivered directly from Tradition or from one of our global or regional distribution partners. Please contact your local TraditionDATA sales person.

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