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INSTANT INSTABILITY: A MINSKYAN ACCOUNT OF THE U.S. TREASURIES MARKET DISRUPTION OF 2020

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This study analyzes the behavior of the United States treasuries markets during the most critical initial stage of the Covid-19 pandemic, especially in March 2020, as well as the stabilization measures adopted by the Federal Reserve. Grounded in a theoretical perspective inspired by Hyman Minsky, the paper starts from the premise that financial fragility is inherent to the very structure of monetary economies and posits that episodes of financial instability may be triggered instantaneously. Within this framework, the text examines how the pandemic caused financial stress, which affected treasuries markets, requiring massive intervention by the monetary authority to prevent the deepening of a debt-deflation process and recession.

The research problem is to understand how the Covid-19 pandemic affected U.S. repo markets and why the private sector's response—especially that of dealers and other intermediaries—was insufficient to stabilize liquidity and funding conditions. More specifically, the study seeks to explain why assets

considered the safest in the system, U.S. Treasury securities, lost value in March 2020; and why the Federal Reserve's actions were decisive in containing the crisis.

The main objective is to describe and interpret the episode known as the dash for cash of March 2020, relating the observed events in treasuries market to the aforementioned theoretical framework. The specific objectives include identifying the agents responsible for the extraordinary sales of public debt, analyzing the response of dealers and the limits of their intermediation capacity, examining the changes observed in different repo market segments, describing the instruments deployed by the Federal Reserve, and critically assessing to what extent the stabilization achieved resulted from public intervention rather than spontaneous market mechanisms.

The methodology is mostly qualitative, based on a case study. The paper combines contemporary references to the episode in question, such as official documents from the Federal Reserve, with descriptive statistics. The analytical procedure reconstructs chronologically the main events of March 2020, with the use of indicators such as treasury yields, bid-ask spreads, dealers' net positions, net purchases and sales of treasuries by different economic sectors and the use of emergency central bank facilities.

The results show that the financial crisis of March 2020 unfolded in two phases. In the first, between mid-February and early March, a flight to safety prevailed, with investors shifting from riskier assets to safer ones, pushing treasury yields downward. In the second phase, from the second week of March onward, a dash for cash emerged, characterized by widespread sales of both risky and safe assets, including U.S. Treasuries. At that point, treasury yields rose sharply, bid-ask spreads widened, and market liquidity deteriorated abruptly.

The text demonstrates that this selling pressure did not result from any intrinsic loss of the Treasuries' safe-haven status, but from an urgent need for liquidity among several agents. Among the main net sellers of public debt were foreign accounts, mutual funds, and hedge funds. Foreign monetary authorities sold

Treasuries to supply dollars in their domestic foreign exchange markets, while mutual funds had to liquidate assets to meet redemptions. Hedge funds, in turn, were pressured to pivot their strategies, most notably with the unwind highly leveraged Treasury cash-futures basis trades. By contrast, the main net buyers were the Federal Reserve itself and money market funds.

One important finding is that haircuts on Treasuries remained virtually stable during the period, suggesting that the market continued to treat these securities as the safest assets available. Thus, the central problem did not lie in the perceived credit risk of the collateral, but in the inability of some private intermediaries to expand their balance sheets sufficiently to absorb both the Treasuries sold in the spot market. The text argues that this limitation cannot be explained exclusively by prudential regulation, although it acknowledges that rules such as the Supplementary Leverage Ratio played an indirect role.

As for the policy response, the study concludes that traditional monetary policy instruments were insufficient to contain the deflagration of instability. Emergency cuts in the policy rate by the FOMC did not prevent the disruption of the treasuries market. Effective stabilization required more direct and comprehensive measures. First, the Federal Reserve began purchasing Treasuries on a large scale and in the amounts needed, thereby establishing a floor under their prices and restoring market functioning. According to the analysis, this measure was decisive in addressing the dealers' limited balance sheet capacity and, therefore, normalizing market operations.

In summary, the main findings confirm the central hypothesis of the research: the pandemic triggered a debt-deflation process with adverse effects on U.S. treasuries markets, and intervention by the Federal Reserve was indispensable to interrupt this dynamic. The study concludes that financial fragility was already embedded in the structure of these markets before the crisis and that, in critical moments, the intervention of an entity operating outside the logic of profit and survival constraints is necessary to prevent the generalized search for liquidity from turning into systemic collapse. Thus, the case of March 2020 reinforces the importance of the central bank as a dealer of last resort – that is, a stabilizing agent that trades in the core of the financial system.

Palavras-chave: financial instability; public debt markets; dealer of last resort.