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Libor's Heir Hindered by Repo Volatility in Battle of Benchmarks.

- **Concern over SOFR's viability grows after year-end spike**
- **Yet some borrowers have been embracing it for new issuance**

The benchmark being eyed as a potential replacement for dollar Libor is facing renewed scrutiny after a year-end surge in the market underpinning the new rate. With more volatility possible, Wall Street is increasingly wondering if the nascent Secured Overnight Financing Rate will be up to the task.

Last month's jump in rates on overnight Treasury repurchase agreements — the market that supports SOFR — pushed the benchmark higher by almost 70 basis points over a two-day span. It has since retreated and was set at 2.43 percent for Wednesday. But given that both repo and SOFR are also susceptible to swings in Treasury-bill supply, which itself could become more erratic as the U.S. grapples with the reintroduction of the debt ceiling, some market veterans are forecasting further fluctuations ahead.

Concerns about SOFR range from a lack of term structure to tepid volumes in derivatives that are tied to it. And that has traders and strategists saying the new rate needs to make significant headway in 2019 if U.S. regulators expect it to eventually take the baton from Libor, which still underpins more than $200 trillion of dollar-denominated instruments.

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