TMPG Meeting Minutes

Date: May 16, 2023
Location: Blackrock, 50 Hudson Yards

TMPG attendees

Alberto Antonini (Tudor)
Richard Chambers (Goldman Sachs)
Deborah Cunningham (Federated Hermes)
Sunil Cutinho (CME Group)
David Finkelstein (Annaly)
Doug Friedman (Tradeweb)
Ari Kavour (Wells Fargo)
Laura Klimpel (DTCC)
John Madziyire (Vanguard)
Edward McLaren (Bank of America)
Priya Misra (TD Securities)
Andrea Pfenning (BNYM)
Jerry Pucci (BlackRock)
Carsten Schwarting (Barclays)
Rasmus Rueffer (ECB)
Marc Seidner (PIMCO)

New York Fed attendees

Anirudth Arikarevula
Veronika Batista
Frank Keane
Michelle Neal
Anna Nordstrom
Roberto Perli
Rania Perry
Jenny Phan
Julie Remache
Brett Rose
Janine Tramontana

U.S. Department of Treasury attendees

Josh Frost
Frederick Pietrangeli
Kyle Lee

- The meeting commenced on an administrative note, thanking Nathaniel Wuerffel of the Federal Reserve Bank of New York for his participation as he will no longer participate in TMPG work. The Chair then welcomed Anna Nordstrom of the Federal Reserve Bank of New York as a new ex-officio member to the TMPG, as well as new TMPG member Adam Nunes of Hudson River Trading.

- A member provided an update on SIFMA's work on an industry playbook for use in a non-standard close and settlement disruption in Treasury markets. This industry playbook was developed in response to a clearing bank outage. The member noted plans for SIFMA to share the latest playbook for feedback at an upcoming TMPG meeting[1].

- Members then turned to a discussion of market developments since the March TMPG meeting, particularly focusing on contingencies for Treasury debt payments, regional banking developments, credit outlook, and expectations for the path of policy.

    - TMPG members highlighted the risk premium currently priced into the bills market and consequently driving day-to-day market uncertainty.

[1] Reference to SIFMA's previous briefing to the TMPG related to the playbook can be found in the June 2022 meeting minutes.

- Members generally agreed that markets ascribed a low single-digit probability of Treasury payment default, with a general consensus that a temporary limit extension would be the most likely outcome, thereby delaying negotiations until later this year. Some market optimism for the episode to be navigated successfully in the near-term was noted. There was broad agreement that failure to navigate this issue would have serious and unpredictable negative consequences for financial stability and the economy.

- Regarding banking sector developments, members discussed some continuing fragility in parts of the banking system since the banking stress that began in March 2023. In particular, they focused on some regional banks' concern about the perception of stigma associated with using lender of last resort facilities. It was noted, however, that while bank deposit outflows have continued, this was likely mostly due to an unwinding of excess buildup of cash deposits during the pandemic, rather than a continuation of flows related to recent banking stress events. Members generally agreed that the higher deposit outflows will likely result in higher funding costs for banks, which may in turn force deleveraging or some further consolidation.

- Members then discussed, but did not coalesce, around market expectations for the path of policy. The range of views included expectations that the Fed would:
  1) raise its policy rate at the upcoming June FOMC meeting, then hold constant for the remainder of the year;
  2) cut rates quickly in response to a potential negative economic episode; and,
  3) gradually normalize rates over time to a neutral level, since current rates may be considered too restrictive in light of continued inflation moderation.

The chair of the TMPG's Early Funding Market Trading Working Group—which was recently established to consider implications of opaque pre-market repo trading—provided an update on the group's planned scope of work. It was noted that the group will focus on identifying any technical limitations to having a record of transactions published on electronic trading screens at the time of trade execution, as well as reviewing the group's existing recommended best practices related to price transparency across trading platforms.

- Similarly, the chair of the TMPG's Non-Centrally Cleared Bilateral Repo (NCCBR) Risk Management Working Group—a group recently established to study risk management practices for non-centrally cleared bilateral repo—provided an update on their first meeting. It was noted that the working group will primarily focus on understanding both data availability and range of risk management practices prevalent in the NCCBR market.

- The TMPG meeting concluded with a presentation by a representative of the U.S. Treasury Department's Office of Debt Management on the Treasury's recent announcement on buybacks as a policy tool. The presentation highlighted the aim to roll out the program in 2024, the program's intended design parameters, its expected execution platform, and the Treasury's plan to study possible expansion of participants in the future.