**TMPG Meeting Minutes**

*Date: October 17, 2023*

*Location: CME Group, 300 Vesey Street*

<u>TMPG attendees</u>

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| Alberto Antonini (Tudor Investment Corp) | Matthew Franklin-Lyons (JPMorgan) | Andrea Pfenning (BNY Mellon) |
| Richard Chambers (Goldman Sachs) | Doug Friedman (Tradeweb) | Gerald Pucci (BlackRock) |
| Qing Chen (Morgan Stanley) | Laura Klimpel (DTCC) | Rasmus Rueffer (ECB) |
| Deborah Cunningham (Federated Hermes) | John Madziyire (Vanguard) | Marc Seidner (PIMCO) |
| Sunil Cutinho (CME Group) | Edward McLaren (Bank of America) | Ryan Sheftel (Global Trading Systems) |
| David Finkelstein (Annaly Capital Mgt) | Adam Nunes (Hudson River Trading) | Casey Spezzano (NatWest) |

<u>New York Fed attendees</u>

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| Anirudh Arikarevula | Anna Nordstrom | Brett Rose |
| Ellen Correia Golay | Roberto Perli | Janine Tramontana |
| Frank Keane | Jenny Phan | Agata Zhang |
| Michelle Neal | | |

<u>Board of Governors attendees</u>

David Bowman

<u>U.S. Department of Treasury attendees</u>

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| Kyle Lee | Frederick Pietrangeli |

- The meeting commenced on an administrative note, with a New York Fed representative thanking Jerry Pucci of BlackRock for his service as TMPG Chair for the past four years. It was acknowledged that over his tenure as Chair, Pucci led the group through a number of significant market events, particularly Covid 19-pandemic and March 2020. The New York Fed representative informed the group that Casey Spezzano of NatWest, who has served as Vice Chair of the group since September 2020, has been selected to serve as Chair for a term of two years, which may be extended. It was also noted that David Finklestein of Annaly Capital Management has agreed to serve as Vice Chair for a term of two years, which may be extended.

- The Chair welcomed new TMPG member Qing Chen of Morgan Stanley. The Chair also thanked departing members Ari Kavour of Wells Fargo, Ryan Sheftel of Global Trading Systems, and Rasmus Rueffer of ECB for their contributions to the TMPG. Also, a New York Fed representative thanked departing TMPG Secretary Jenny Phan for her contributions to the group and welcomed Agata Zhang as the new Secretary.

- Following the administrative announcements, the TMPG Secretariat provided the semiannual margining summary of forward settling agency MBS trades. Over the six-month period ending September 15, 2023, TMPG member firms had, on average, executed margining agreements with about 84 percent of their counterparties for the second quarter of 2023, and about 85 percent for the third quarter of 2023. These agreements covered approximately 94 and 91 percent of notional trading volume of forward settling MBS transactions (excluding those centrally cleared) for the respective periods. Margin exchange was operationalized for roughly 92 and 90 percent of these executed agreements for both quarters. The statistics for each period were in line with recent averages.

- A representative of the U.S. Treasury Department's Office of Debt Management gave an update on the Treasury's current views on the operational design of a regular buyback program Treasury plans to implement in 2024. Specifically, the U.S. Treasury representative discussed operational design parameters, including maturity buckets, purchase amounts, security exclusions, purchase limits per CUSIP, announcements, and results.  Questions from members centered around which security types would be included in buyback operations, the possible variability of the executed size of buyback operations, and considerations around the time of day the purchases are executed. The U.S. Treasury representative noted these issues are being considered and the program will be regularly evaluated after implementation to achieve its liquidity support and cash management objectives. Members were asked to bilaterally share any additional feedback with Treasury.

- Following the discussion, the New York Fed representative shared details on the upcoming 2023 U.S. Treasury Market Conference, scheduled for November 16, and co-hosted by the U.S. Department of Treasury, Federal Reserve Board, New York Fed, Securities and Exchange Committee, and Commodity Futures Trading Commission. It was noted that this year's event would cover a range of topics related to Treasury market resilience, including non-centrally cleared bilateral repo, Treasury market liquidity, and the future of the cash Treasury market.

- The DTCC and CME members of the TMPG discussed the recently announced enhancements to the CME-FICC Cross-Margining Arrangement, which included cross-margining on more CME interest rate future products, updates to the existing methodology to recognize offsets at the CUSIP level, and updated joint liquidation arrangements in the event of common member default. The enhanced cross-margining arrangement will go live in January 2024 and is only available for house (proprietary) accounts of CME Clearing Members and FICC GSD Netting Members. It was noted that since the enhancements were announced, there has been increased interest from certain market participants in direct clearing house membership.

- The Chair of the **Early Funding Market Trading Working Group** provided an update on the TMPG Secretariat's outreach efforts with certain market participants to better understand current practices related to transparency around early funding market trading in the FICC repo market. The working group will convene to discuss next steps, including whether adjustments to existing best practices are warranted.

- The Co-Chairs of the **Non-Centrally Cleared Bilateral Repo Risk Management Working Group** provided an update on the group's progress. The TMPG Secretariat is gathering information from a number of market participants on market dynamic, structure, and transactions. The Secretariat is in the process of aggregating initial feedback.

- Members transitioned to a discussion of recent market developments since the June TMPG meeting, focusing on the economic growth outlook, expectations for the path of policy, volatility in the long end of the yield curve, mortgage market conditions, money market dynamics, and the strength of dollar.

- Economic growth outlook: Members noted that economic data released since the September FOMC reflects continued underlying strength in the economy, with labor markets remaining strong. There was also general agreement that the overall economic outlook depends on multiple factors, with members highlighting the impact of higher long-dated interest rates on the cost of borrowing, limited new loan growth, strong consumer consumption, and the pace of government spending.

- Expectations for the path of policy: It was noted that based on recent public comments by Federal Reserve officials, market participants generally believe the Fed will not increase the policy rate at the November FOMC meeting. However, predictions about a December policy rate increase were not ruled out.

- Yield curve: Members generally viewed elevated volatility in the long end of the curve as consistent with the general belief among market participants that we are currently at or near the terminal policy rate. Members then cited the absorption of information from quarterly refunding communications, absorption of $1.7 trillion in net Treasury supply since the debt ceiling resolution, and quantitative tightening as possible factors supportive of yield increases.

- Mortgage markets: Members suggested that rising mortgage spreads to Treasury benchmarks were likely due to limited demand from banks and foreign investors leaving only money managers to absorb net supply. It was noted that convexity hedging was not seen as an important factor with a majority of the mortgage universe now flat to positively convex. One member noted that convexity hedging from other sources, such as option related gamma hedging, might be present in recent market trading.

- Money market dynamics: Members shared that the decreased demand for ON RRP can be attributed to the overall increase in Treasury supply in the market, which in turn allows money funds to shift investments into Treasury bills or repos. It was also noted that money market funds are currently more comfortable with longer duration and more willing to shift investments towards Treasury bills.

- Dollar strength: Members then discussed the dollar's strength as a reserve currency. One member spoke to the increased discussion around the long-term role of the dollar and an apparent diminished appetite for U.S. Treasuries among some large foreign investors. The member pointed out that structurally, the dollar continues to dominate transactions and reserves, although its dominance is very gradually eroding, driven by the increased influence of Chinese yuan as a potential growing reserve currency.

– The next TMPG meeting is scheduled to take place on November 28, 2023, from 3:00-5:00 PM.