U.S. Monetary Policy Normalization is Proceeding Smoothly
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Simon Potter
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The views presented here are those of the author and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System.
Figure 1: Effective Federal Funds Rate (EFFR) and Interest on Reserves (IOR)

Source: Federal Reserve Bank of New York; Board of Governors.
Figure 2: Average Distribution of Traded Overnight Money Market Rates

Note: Each period comprises the 10 non-month-end business days following a change to the target range. Distributions represent the volume-weighted 1st, 10th, 20th, 25th, 30th, 40th, 50th, 60th, 70th, 75th, 80th, 90th, and 99th percentile of rates. Dotted line represents the median rate. Dashed lines represent IOR during each period.

Source: FR 2420 Report of Selected Money Market Rates; BNYM; Board of Governors.
Figure 3: Select Overnight Money Market Rates

Source: Federal Reserve Bank of New York; Board of Governors.
Figure 4: Overnight Rate Dispersion

Basis points
+30
+25
+20
+15
+10
+5
+0
-5

Top of target range

Bottom of target range

1/2/2015-12/16/2015
12/15/2016-3/15/2017
6/15/2017-12/13/2017
3/22/2018-6/14/2018
9/27/2018-10/23/2018

Time periods between increases in the federal funds rate target range

Source: Federal Reserve Bank of New York; Board of Governors; Bloomberg.
Figure 5: Principal Payments on SOMA Security Holdings

Maturity Profile of SOMA Treasury Securities

$ billion

- Reinvestments
- Redemptions
- Estimated Reinvestments
- Estimated Redemptions
- Redemption cap

Source: Federal Reserve Bank of New York.

Projected Paydown Profile of SOMA Agency Debt and MBS Principal

$ billion

- Reinvestments
- Redemptions
- Estimated Reinvestments
- Estimated Redemptions
- Redemption cap

Source: Federal Reserve Bank of New York. Based on current market-implied interest rate assumptions.
Figure 6: Estimated Impact of Changes to Reinvestment Policy

Figure 7: Expectations for Liabilities and Capital (on average in 2025)

Survey Range: 25th/75th percentile
- Survey Median
- Current level*

*Current figures from H.4.1 as of October 18, 2018
Source: Board of Governors, Federal Reserve Bank of New York; Based on all responses to the June 2018 Surveys of Primary Dealers and Market Participants.
Figure 8: Expectations for Assets (on average in 2025)

*Current figures from H.4.1 as of October 18, 2018
Source: Board of Governors, Federal Reserve Bank of New York; Based on all responses to the June 2018 Surveys of Primary Dealers and Market Participants.
Figure 9a: Federal Funds and Eurodollar Trading Volumes at Rates Relative to IOR

Source: FR 2420 Report of Selected Money Market Rates; Board of Governors.
Figure 9b: Federal Funds and Eurodollar Trading Volumes at Rates Relative to IOR

Federal Funds Volume Rate Distribution

- < IOR-5
- IOR-5
- IOR-4
- IOR-3
- IOR-2
- IOR-1
- IOR
- > IOR

Volume at Median Rate

$ billions

10/2 10/5 10/11 10/16 10/19 10/24

Eurodollars Volume Rate Distribution

- < IOR-5
- IOR-5
- IOR-4
- IOR-3
- IOR-2
- IOR-1
- IOR
- > IOR

Volume at Median Rate

$ billions

10/2 10/5 10/11 10/16 10/19 10/24

Source: FR 2420 Report of Selected Money Market Rates; Board of Governors.
Figure 10: Daily Changes in Reserve Balances vs. Daily Changes in IOR-Average Fed Funds Rate Spread

Note: Weekly reserve balances are above the recent lows reached at the end of September. Average federal funds rate is calculated as the volume-weighted average federal funds rate. Excludes month-ends.
Source: Federal Reserve Bank of New York; Board of Governors.
Figure 11: Daily Reserve Balances vs. Daily IOR-Average Fed Funds Rate Spread

Note: Average federal funds rate is calculated as the volume-weighted average federal funds rate. Excludes month-ends.
Source: Federal Reserve Bank of New York; Board of Governors.