The Federal Reserve’s market functioning purchases: from supporting to sustaining

Lorie K. Logan – Executive Vice President, SOMA Manager
Figure 1: SOMA Treasury and MBS Purchases

$ Billions

Source: Federal Reserve Bank of New York
Figure 2: Federal Reserve Assets Since 2007

Source: Federal Reserve Board, H.4.1 release
Figure 3: Federal Reserve Assets in 2020

Source: Federal Reserve Board, H.4.1 release
Figure 4: Selected Market Functioning Indicators

**Direct metrics**
1. Direct measures of liquidity – *ease with which assets can be bought and sold*
   - Bid-ask spreads
   - Price impact coefficients
   - Market depth
2. Direct measures of relative value – *spreads between related instruments*
   - Treasury cash-futures basis
   - On-the-run spreads
   - Spline errors
   - MBS-Treasury yield spreads

**Indirect metrics**
3. Measures of trading pressure – *balance of investor flows*
   - Dealer inventories
   - Client-initiated transaction data
   - Foreign reserve manager holdings
4. Results of open market operations – *strength of market participants’ desire to sell*
   - Offer-to-cover ratios
   - Favorable offer-to-cover ratios
Figure 5: Client Sales of Off-the-Run Nominal Treasuries

Note: 5-day moving average shown
Source: Trade Reporting and Compliance Engine (TRACE)
Figure 6: Treasuries in Custody for Foreign Official Accounts

Note: Treasury securities held in custody by the Federal Reserve for foreign official and international accounts.
Source: Federal Reserve Board, H.4.1 release
Figure 7: Treasury and MBS Bid-Ask Spreads

(a) Treasury Bid-Ask Spreads

- Daily Treasury Purchases (RHS)
- 0-2.25 Year (LHS)
- 2.25-4.5 Year (LHS)
- 4.5-7 Year (LHS)
- 7-20 Year (LHS)
- 20-30 Year (LHS)

(b) Agency MBS Effective Bid-Ask Spread

- Daily MBS Purchases (RHS)
- Effective Bid-Ask Spread (LHS)

Note: A tick is 1/32 of $1. Effective bid-ask spread is calculated as 2-day moving average of volume-weighted realized bid-ask spread across 15- and 30-year 2.0%-7.0% to-be-announced MBS. Effective bid-ask spread equals daily average sell price minus buy price of dealer-to-customer transactions.

Source: Desk calculations, Financial Industry Regulatory Authority (FINRA), Federal Reserve Bank of New York, Trade Reporting and Compliance Engine (TRACE)
Figure 8: Treasury Cash-Futures Basis

Note: 5-year futures contract implied repo rate spread to 3-month OIS; reference contract changes at the end of February and May due to contract rolls.
Source: Bloomberg, Desk Calculations