Implementing Monetary Policy: What’s Working and Where We’re Headed

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With abundant reserves, rates are largely unresponsive to changes in supply; when reserves are ample, rates will drift somewhat higher.
The Federal Reserve has maintained strong rate control, even though the size and composition of its balance sheet has varied a lot.
The EFFR has been well within the target range since the start of the pandemic.
In March, banks turned to private markets, particularly FHLBs, for funding; MMFs reallocated from the ON RRP and toward FHLB short-term debt.

Deposit Runoff vs Other Borrowings for Domestically Chartered Commercial Banks in the US

ON RRP Usage

Note: Changes since January 4, 2023.
Source: Board of Governors of the Federal Reserve System

Source: Federal Reserve Bank of New York
After the suspension of the debt limit, Treasury rapidly rebuilt the TGA; reallocations from ON RRP accommodated the rapid increase in Treasury debt.
MMFs continued to be responsive to small price incentives, purchasing Treasury bills trading at only a modest premium to other market rates.

Note: Spreads to EFFR-referencing OIS. Series are 5-day moving averages. Source: Bloomberg
Since the start of runoff in June 2022, securities holdings have declined by over $1 trillion, partly offset by a rise in Federal Reserve lending.

Select Federal Reserve Balance Sheet Items

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ BILLIONS 6/1/2022</td>
<td>CURRENT</td>
</tr>
<tr>
<td>Treasuries</td>
<td>5,771</td>
</tr>
<tr>
<td>Agency MBS</td>
<td>2,707</td>
</tr>
<tr>
<td>Loans</td>
<td>21</td>
</tr>
<tr>
<td>Other assets</td>
<td>416</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8,915</td>
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Note: Current level as of 10/4/2023.
Source: Board of Governors of the Federal Reserve System
Passive redemptions, subject to caps, enable a smooth and predictable runoff process

**SOMA Treasury Runoff**

Source: Federal Reserve Bank of New York

**SOMA Agency MBS Runoff**

Source: Federal Reserve Bank of New York

Note: Monthly runoff reflects purchases that occurred before June 2022, but settled in the subsequent months.
The reserve demand curve may have changed over recent years; the point of transition between abundant and ample reserves is uncertain.

Note: Weekly observations.
The Desk will continue to carefully monitor reserve conditions

- Reserve Conditions Monitoring
  - Market pricing and volumes
  - Fed balance sheet data
  - Market intelligence through outreach
  - Senior Financial Officer Survey (SFOS)