

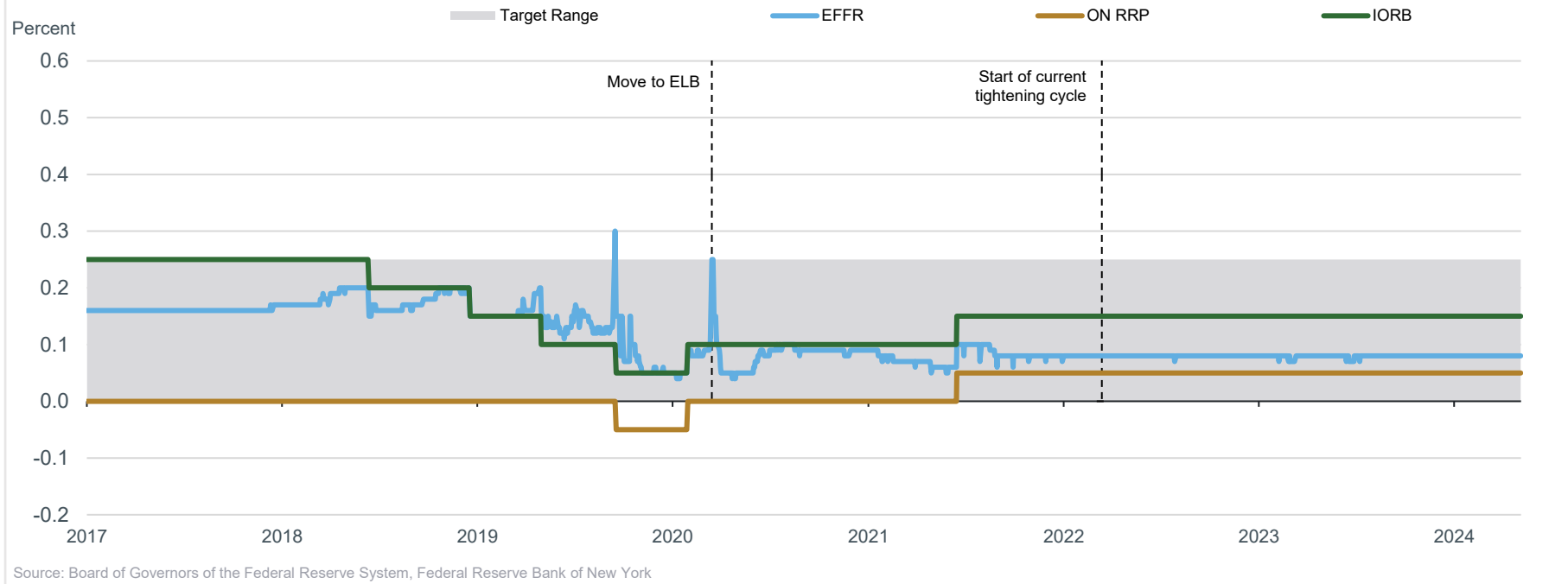
Balance Sheet Reduction: Progress to Date and a Look Ahead

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2024 Annual Primary Dealer Meeting
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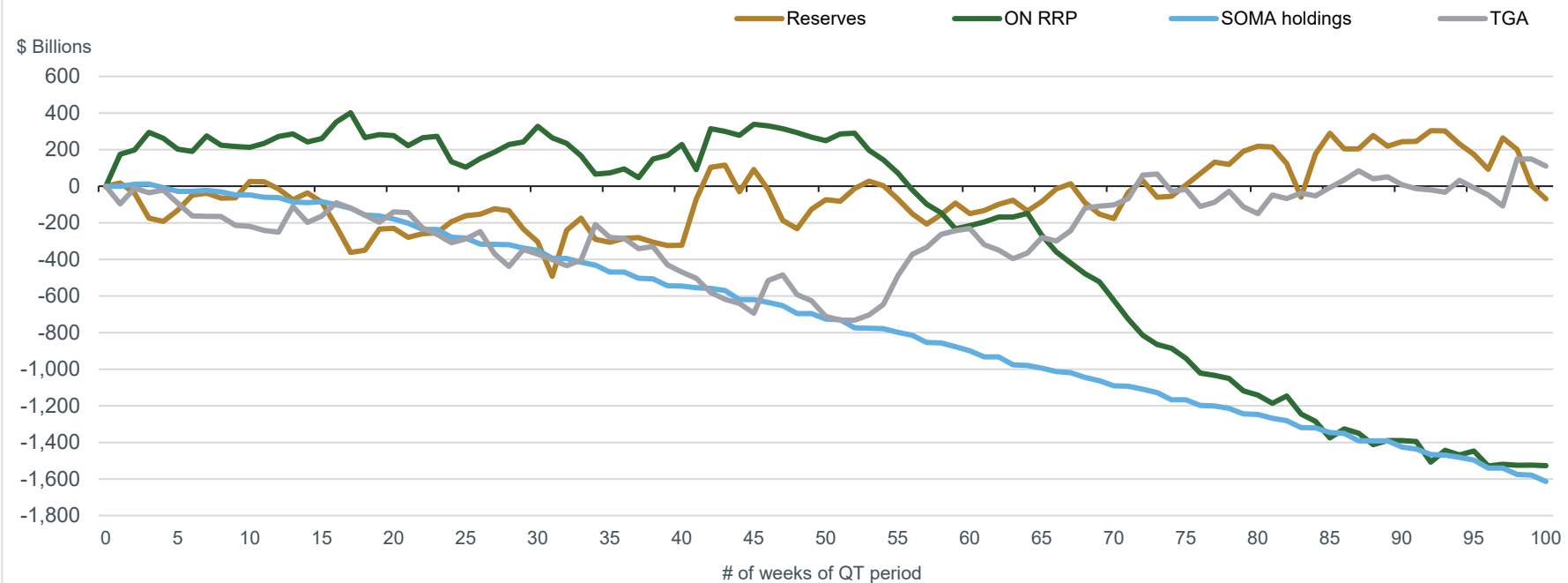
The Fed's policy implementation framework has continued to work well, with strong control of the federal funds rate

1 Administered and Overnight Rates (Spread to Bottom of Target Range)



The ON RRP has absorbed virtually the entirety of balance sheet runoff, on net, which is primarily why reserves have not declined since runoff started

2 Cumulative Change in Balance Sheet Factors: June 2022 - Present



Source: Bloomberg

The FOMC's May 2022 plans laid out a sequence of steps for significantly reducing the Federal Reserve's securities holdings

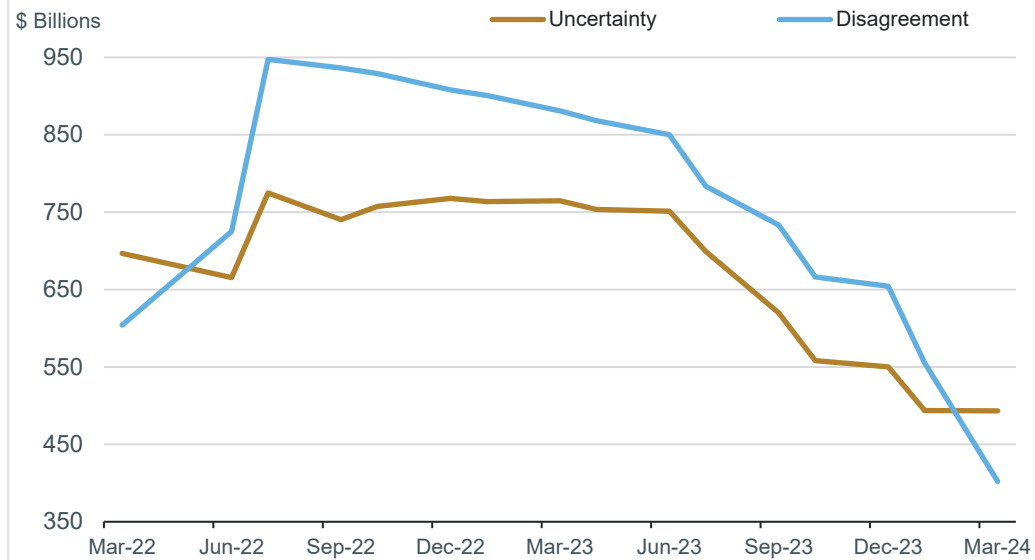
"Consistent with the Principles for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in January 2022, all Committee participants agreed to the following plans for significantly reducing the Federal Reserve's securities holdings.

- The Committee intends to reduce the Federal Reserve's securities holdings over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the System Open Market Account (SOMA). Beginning on June 1, principal payments from securities held in the SOMA will be reinvested to the extent that they exceed monthly caps.
 - For Treasury securities, the cap will initially be set at \$30 billion per month and after three months will increase to \$60 billion per month. The decline in holdings of Treasury securities under this monthly cap will include Treasury coupon securities and, to the extent that coupon maturities are less than the monthly cap, Treasury bills.
 - For agency debt and agency mortgage-backed securities, the cap will initially be set at \$17.5 billion per month and after three months will increase to \$35 billion per month.
- Over time, the Committee intends to maintain securities holdings in amounts needed to implement monetary policy efficiently and effectively in its ample reserves regime.
 - To ensure a smooth transition, the Committee intends to slow and then stop the decline in the size of the balance sheet when reserve balances are somewhat above the level it judges to be consistent with ample reserves.
 - Once balance sheet runoff has ceased, reserve balances will likely continue to decline for a time, reflecting growth in other Federal Reserve liabilities, until the Committee judges that reserve balances are at an ample level.
 - Thereafter, the Committee will manage securities holdings as needed to maintain ample reserves over time.
- The Committee is prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial developments."

Source: Board of Governors of the Federal Reserve System

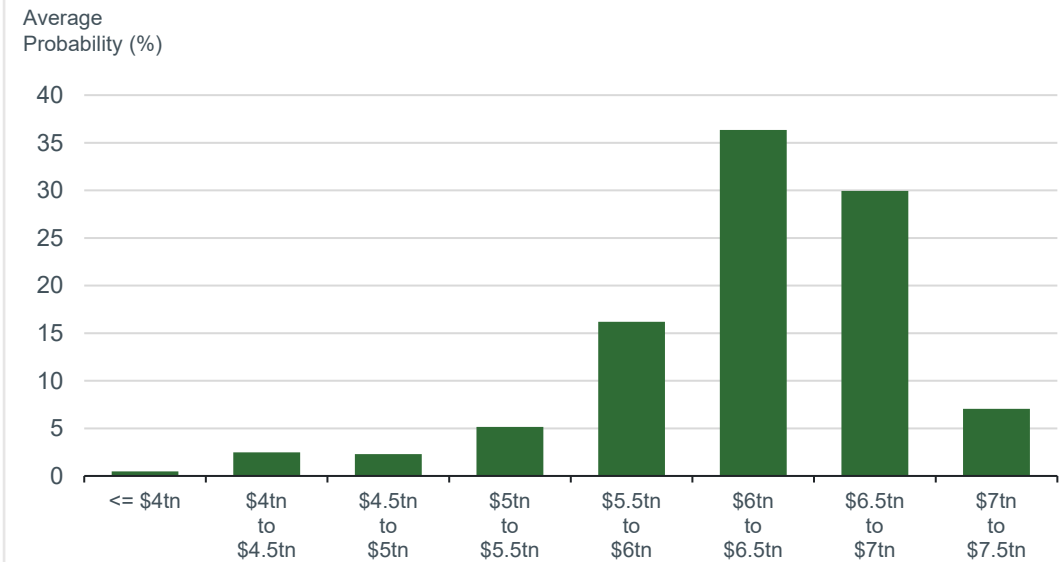
Survey expectations around the end size of the SOMA portfolio have consolidated somewhat, but significant uncertainties remain

3 Uncertainty and Disagreement on Size of SOMA Portfolio When it Ceases to Decline



Note: Uncertainty is calculated as the average of the probability-weighted standard deviations for each respondent. Disagreement is calculated as the standard deviation across all respondent PDF-implied averages. Surveys of Primary Dealers and Market Participants.
Source: Federal Reserve Bank of New York

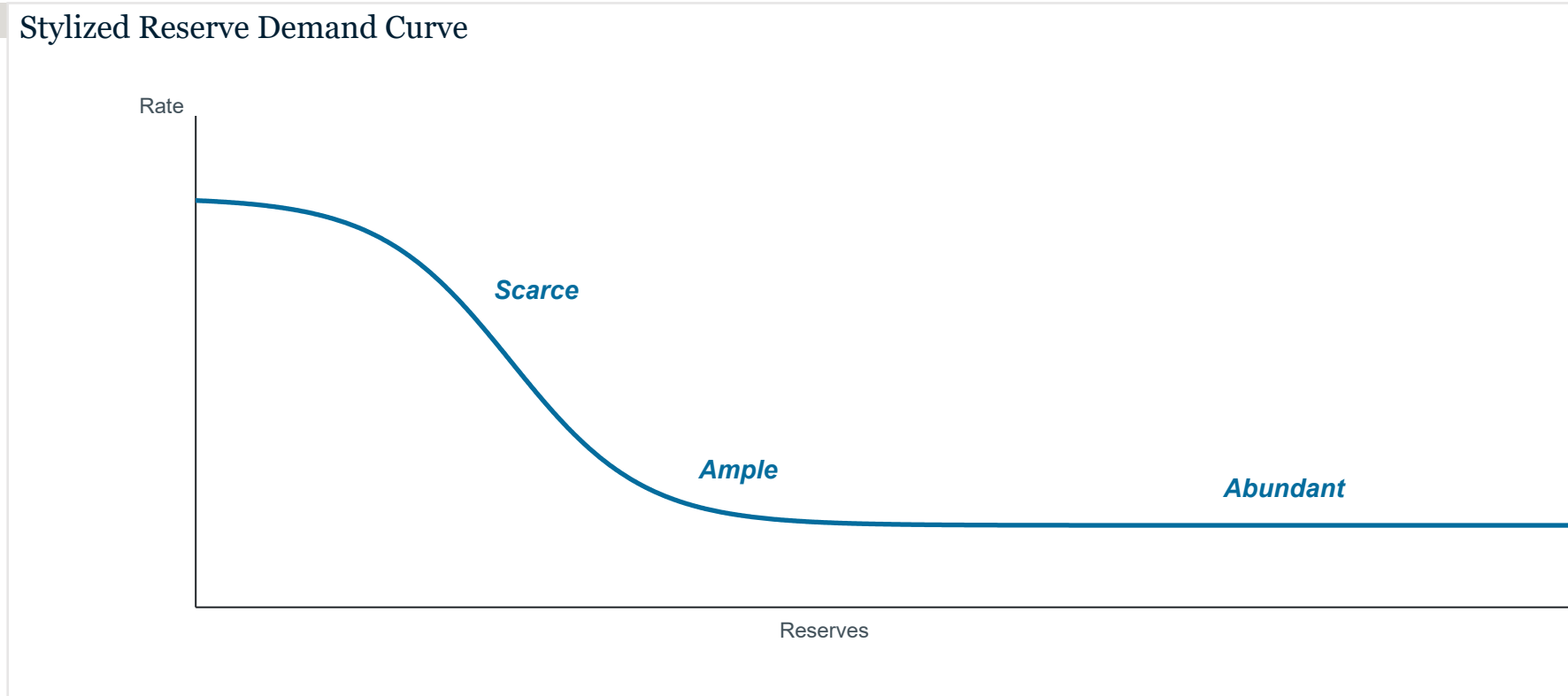
4 Probability Distribution of the Size of SOMA Portfolio When it Ceases to Decline



Note: March 2024 Surveys of Primary Dealers and Market Participants.
Source: Federal Reserve Bank of New York

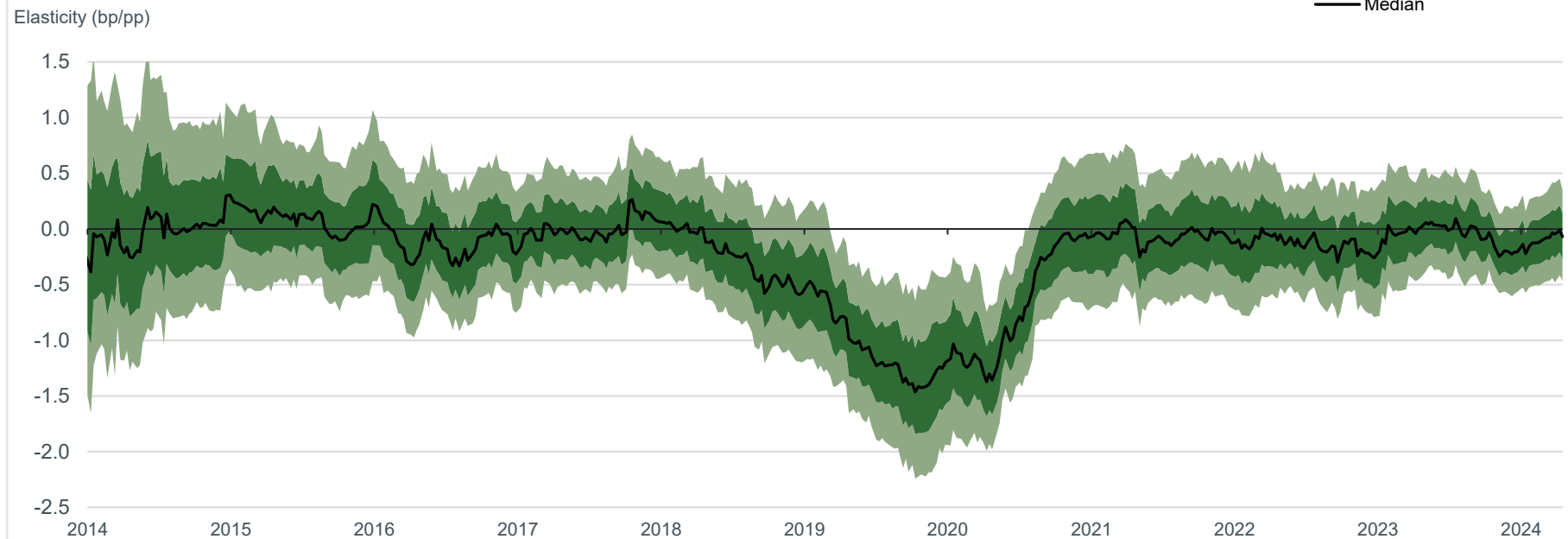
Ample reserves supply can be described as where the fed funds market is not particularly sensitive to short-term variations in reserves supply and demand

5 Stylized Reserve Demand Curve



Currently, the elasticity of the fed funds rate to reserve changes is close to, and statistically indistinguishable from, zero

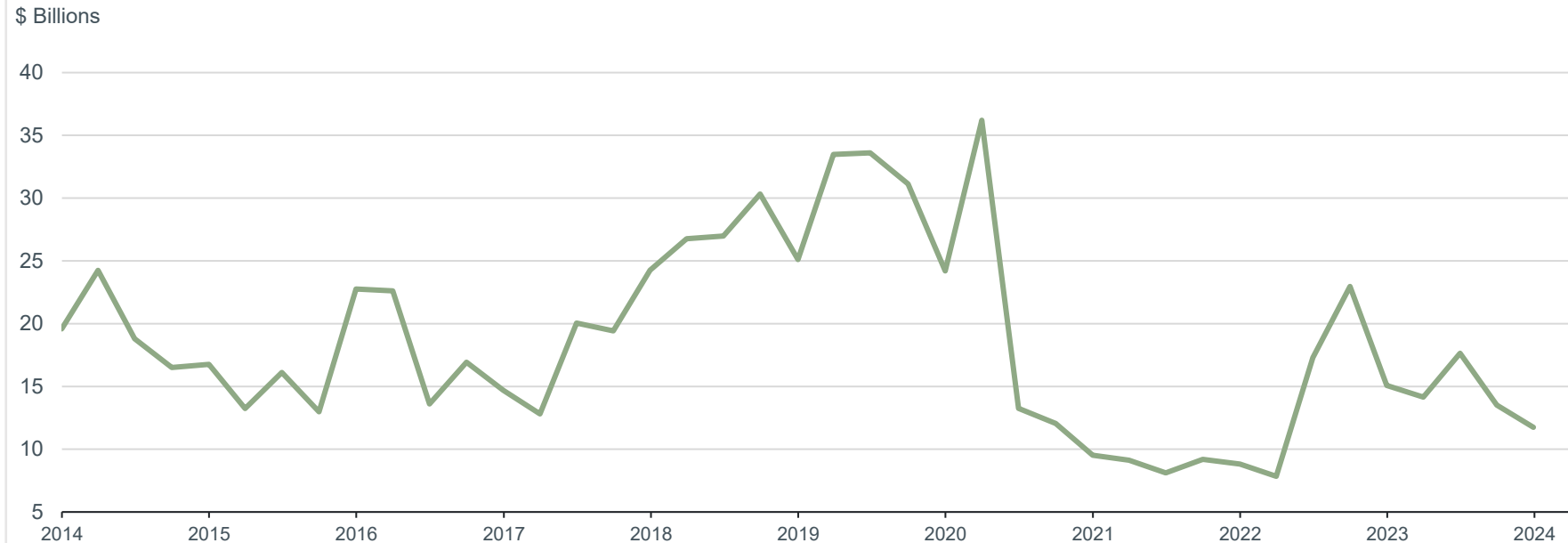
6 Elasticity of the Fed Funds Rate to the Quantity of Reserves



Note: The light green area represents the 2.5 to 97.5 percentile; dark green area represents 16 to 84 percentile.
Source: Federal Reserve Bank of New York

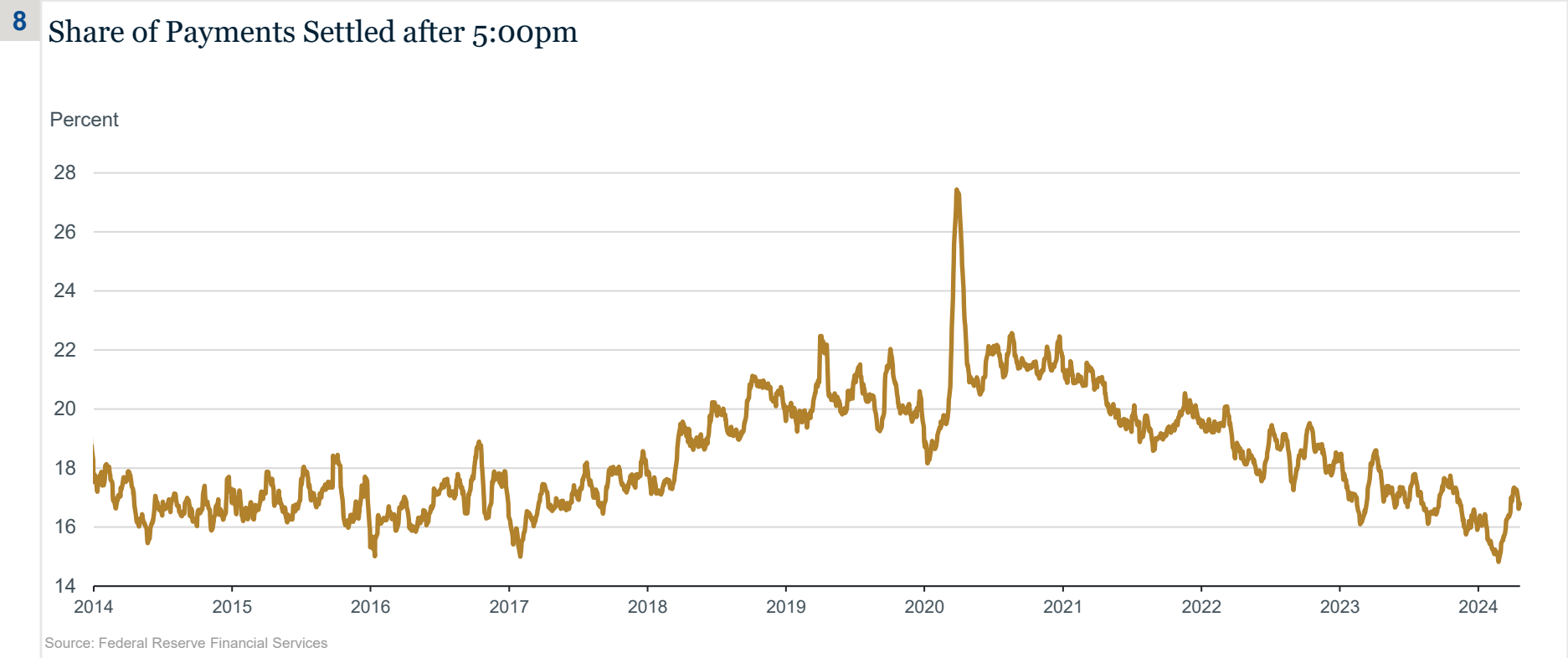
When reserves are transitioning to ample, domestic banks are likely to do more federal funds borrowing to meet funding needs

7 Federal Funds Borrowed by Domestic Depository Institutions (DIs)



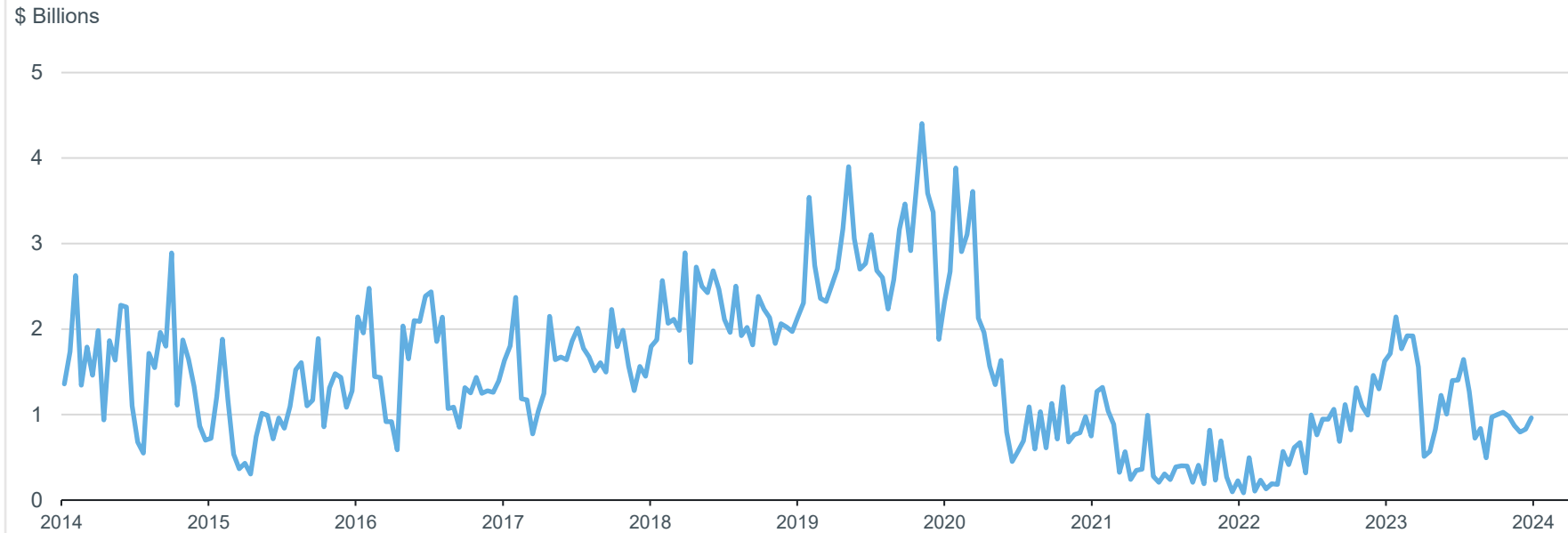
Note: Data through Q4 2023.
Source: Call reports (FFIEC 031/041) and FR Y-9C

When reserves are transitioning to ample, banks may be more tactical about the timing of their payment activity



When reserves are transitioning to ample, more banks may find themselves dealing with payment mismatches resulting in temporary overdrafts

9 Average Intraday Overdrafts

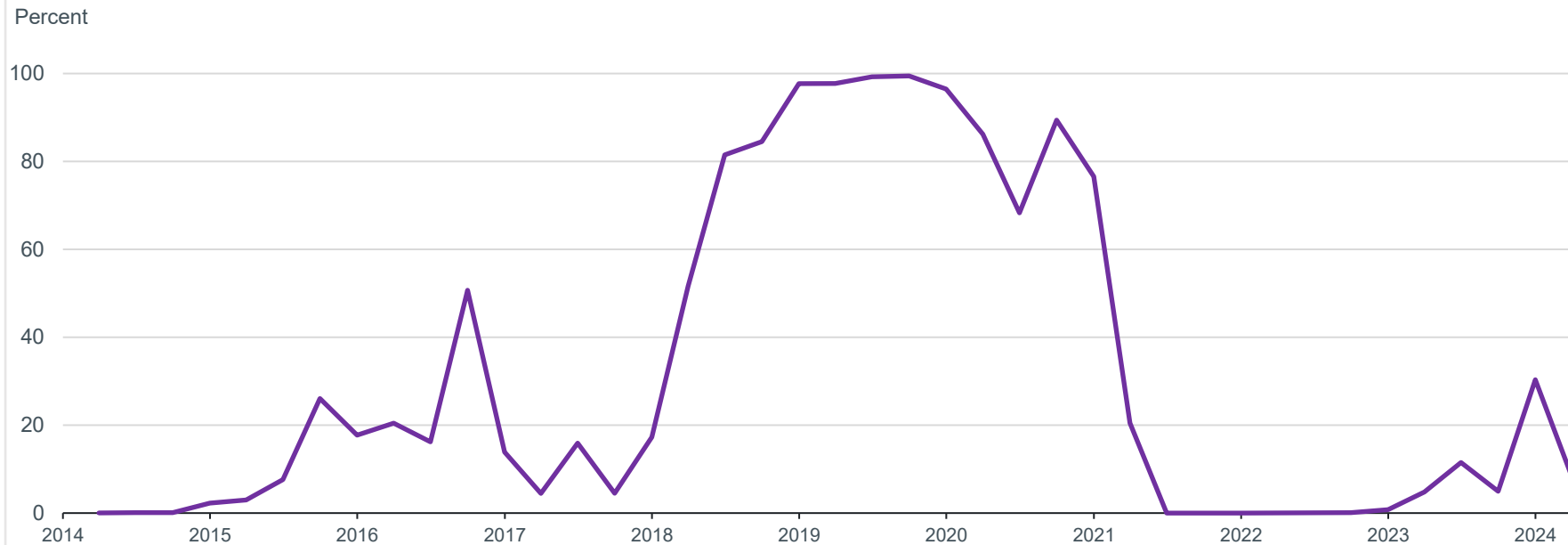


Note: Data through Q4 2023.
Source: Board of Governors of the Federal Reserve System

When reserves are transitioning to ample, more repo trades may occur at rates at or above IORB

10

Share of Repo Volume at or above IORB



Source: Federal Reserve Bank of New York, OFR Cleared Repo Collection

These indicators tend to move together; all appear consistent with reserves currently being abundant

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Fed Funds Elasticity and Complementary Indicators of Reserves Ampleness

