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FEDERAL RESERVE BANK *of* NEW YORK

Balance Sheet Runoff and Desk Money Market Operations

Crane's Money Fund Symposium

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The views here are of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or Federal Reserve System.

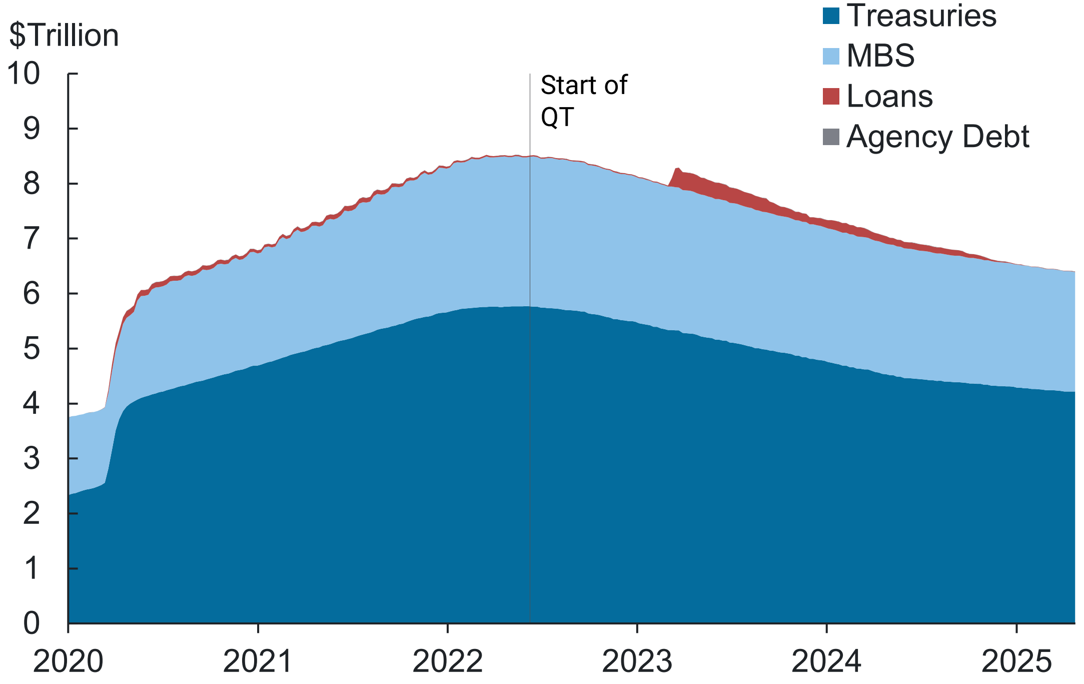
A Year in Numbers

	June 5 2024	June 4 2025	Change
Fed Funds Target Range	5.25-5.50%	4.25-4.50%	-100bps
SOMA Securities Holdings	$6.8 trillion	$6.4 trillion	-$440 billion
Reserves	~$3.4 trillion	~$3.3 trillion	-$115 billion
ON RRP	~$400 billion	~$180 billion	-$220 billion
MMF AUM	~$6.4 trillion	~$7.4 trillion	+$1.0 trillion

Federal Reserve Balance Sheet Reduction (Quantitative Tightening)

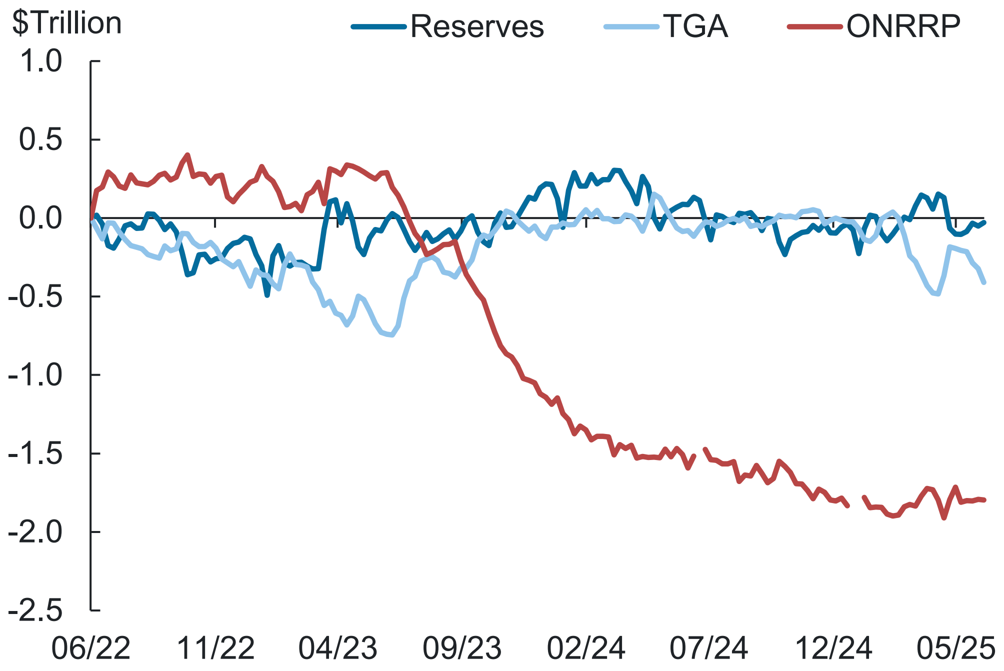
- Since June 2022, the SOMA portfolio has declined by ~$2.2 trillion (Fig. 1) as the FOMC directed the Desk to allow securities to mature without reinvestment, subject to a monthly cap
- Corresponding reductions in Fed liabilities have occurred almost entirely in ON RRP (Fig. 2)

Figure 1: Selected Federal Reserve Assets



Source: Board of Governors of the Federal Reserve System

Figure 2: Change in Selected Federal Reserve Liabilities since Start of Runoff

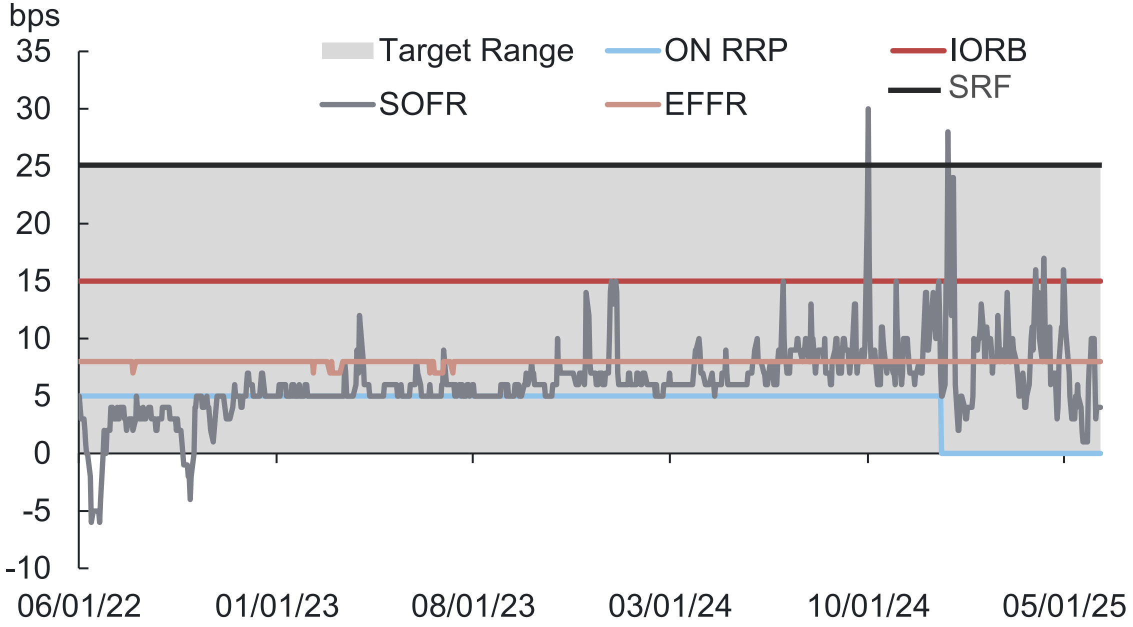


Source: Board of Governors of the Federal Reserve System

Impact of Balance Sheet Reduction in Money Markets

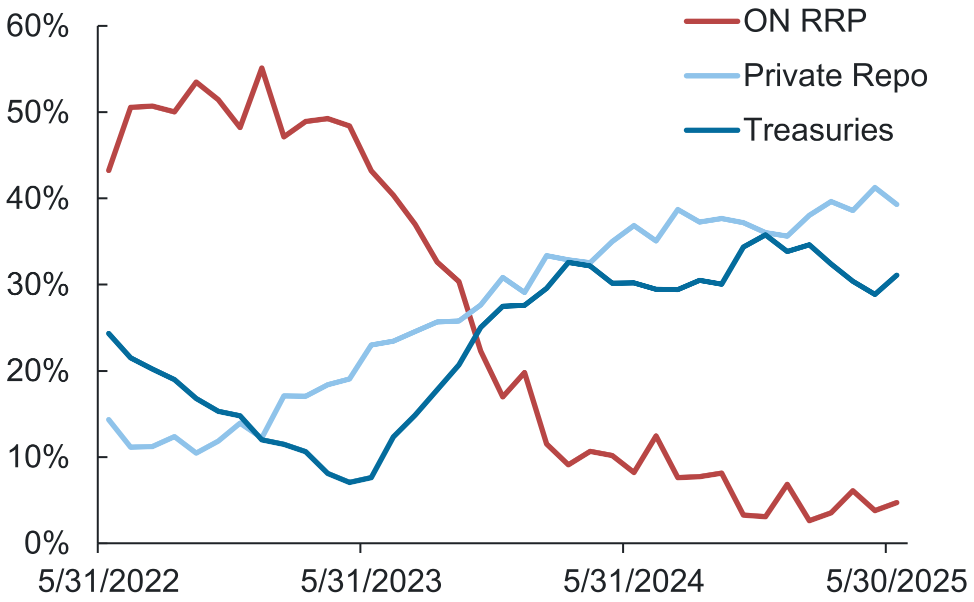
- Repo rates have gradually moved higher as liquidity has declined, and shown greater sensitivity on settlement and reporting dates, still the EFFR has been steady (Fig. 3)
- As private-market spreads to the ON RRP have risen, MMFs have reduced their usage of the facility, shifting to private repo and Treasury bills (Fig. 4)

Figure 3: Reference Rates, Administered Rates, and Target Range (Spread to Bottom of Target Range)



Source: FRBNY

Figure 4: Select Gov't and Prime MMF Allocations (Share of AUM)

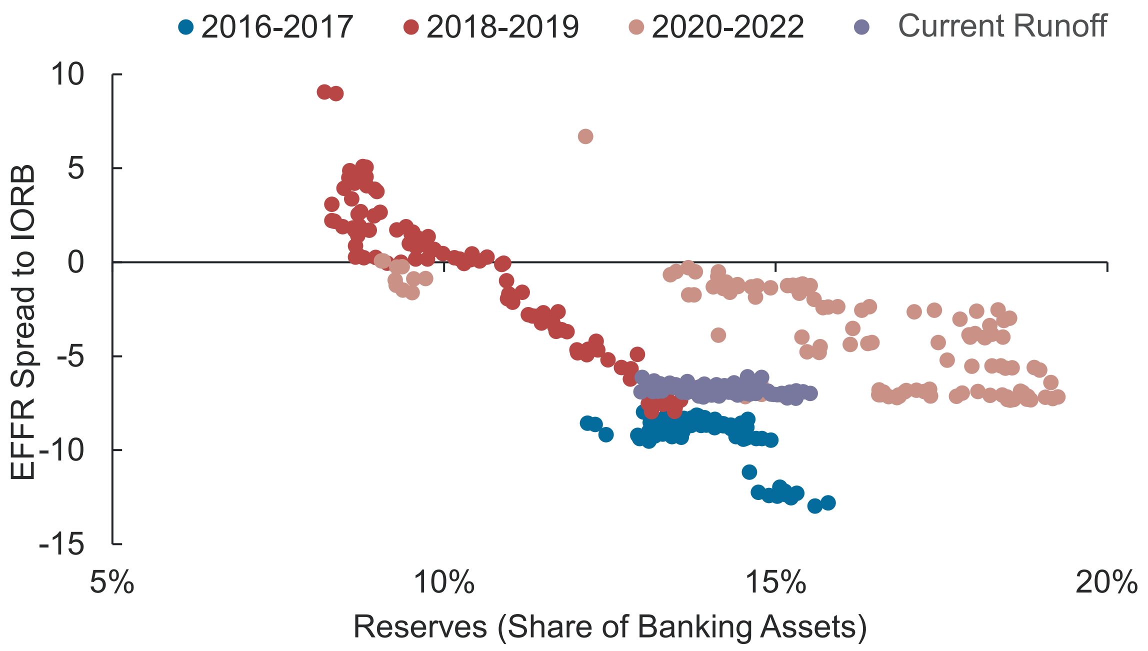


Source: Crane, FRBNY

Return to Ample Reserves and the Long-Run Framework

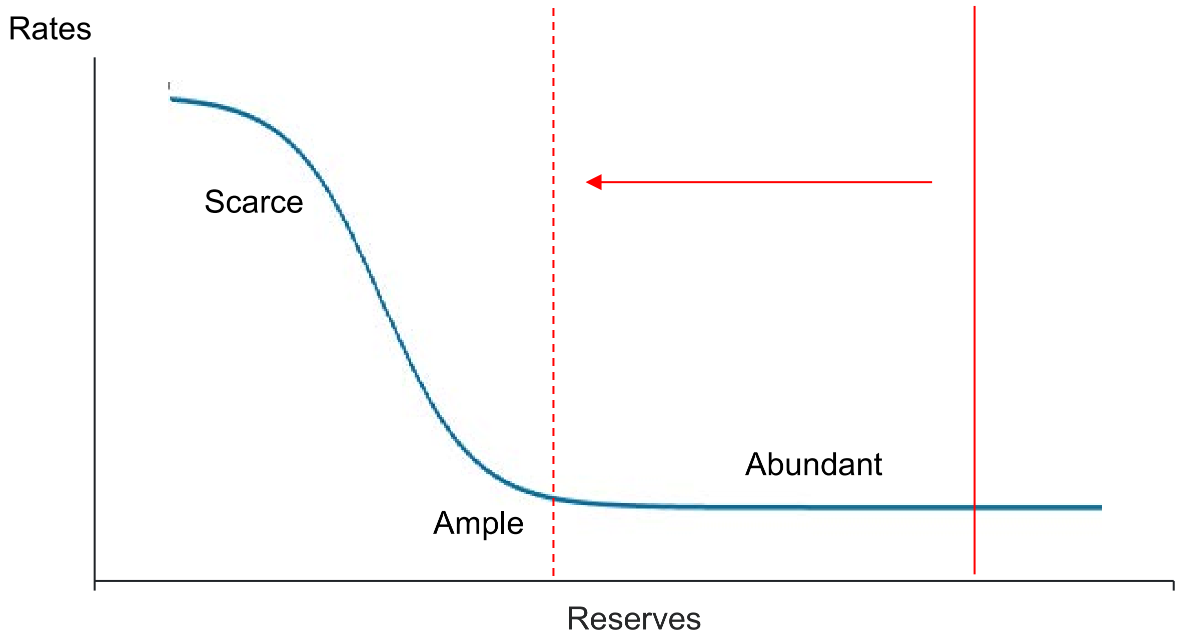
- The FOMC plans to stop reducing SOMA when reserve balances are somewhat above ample
- The goal is to operate within 'gently sloped' region of the demand curve, where administered rates continue to exert control over overnight rates (Figs. 5 & 6)

Figure 5: EFFR-IORB Spread VS. Reserves



Source: FRBNY

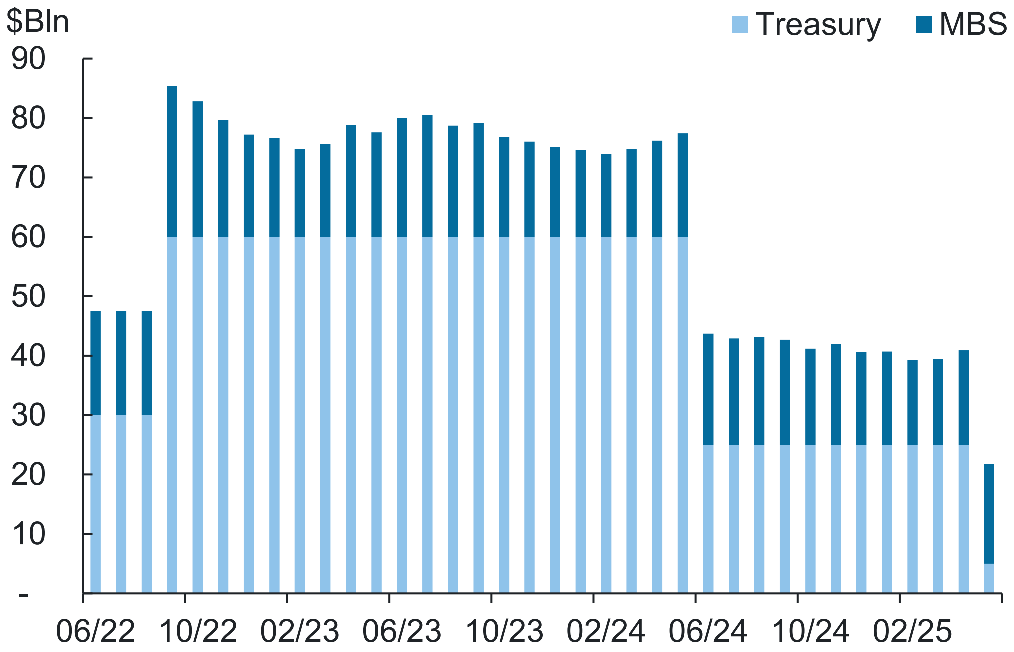
Figure 6: Stylized Reserve Demand and Supply Curves



Balance Sheet Outlook

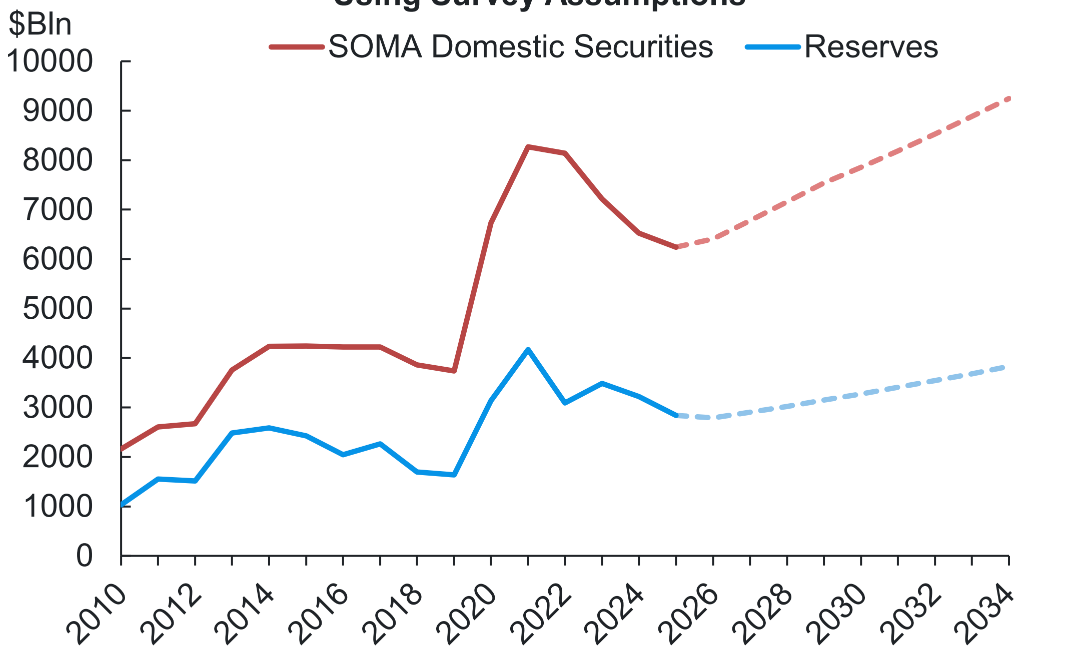
- In March 2025, FOMC decided to further slow asset runoff by lowering the monthly Treasury redemption cap (Fig. 7); market expectations suggesting runoff to continue into early 2026
- Not long after halting runoff, the market expects balance sheet growth to resume apace with economic growth, keeping reserves ample (Fig. 8)

Figure 7: SOMA Treasury and MBS Redemptions



Source: FRBNY

Figure 8: Actual and Projected SOMA Securities and Reserves Levels Using Survey Assumptions

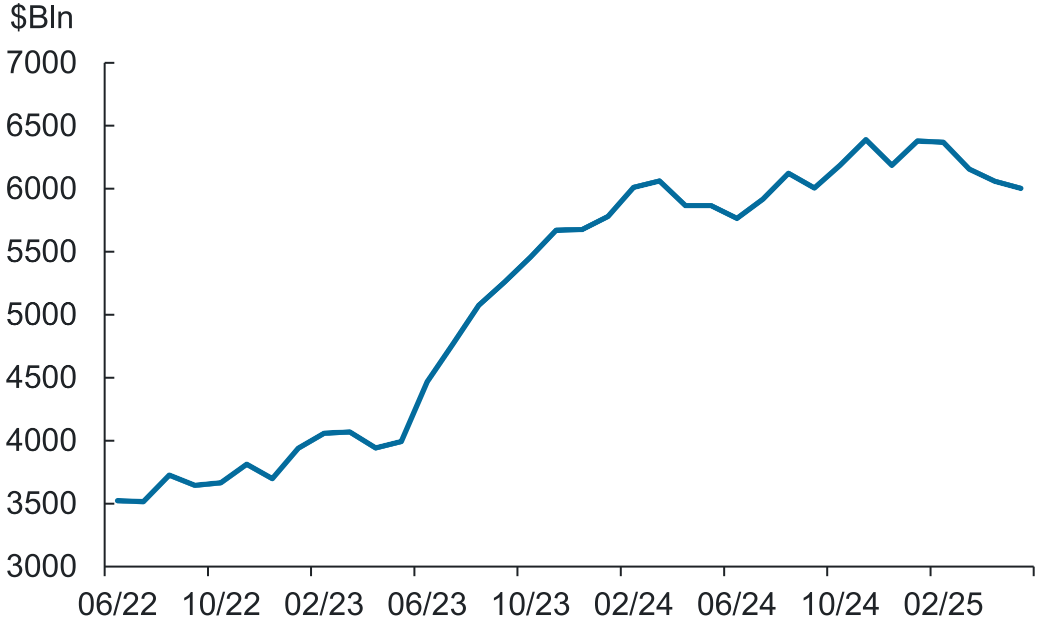


Source: FRBNY SOMA Annual Report

Outlook for Money Markets

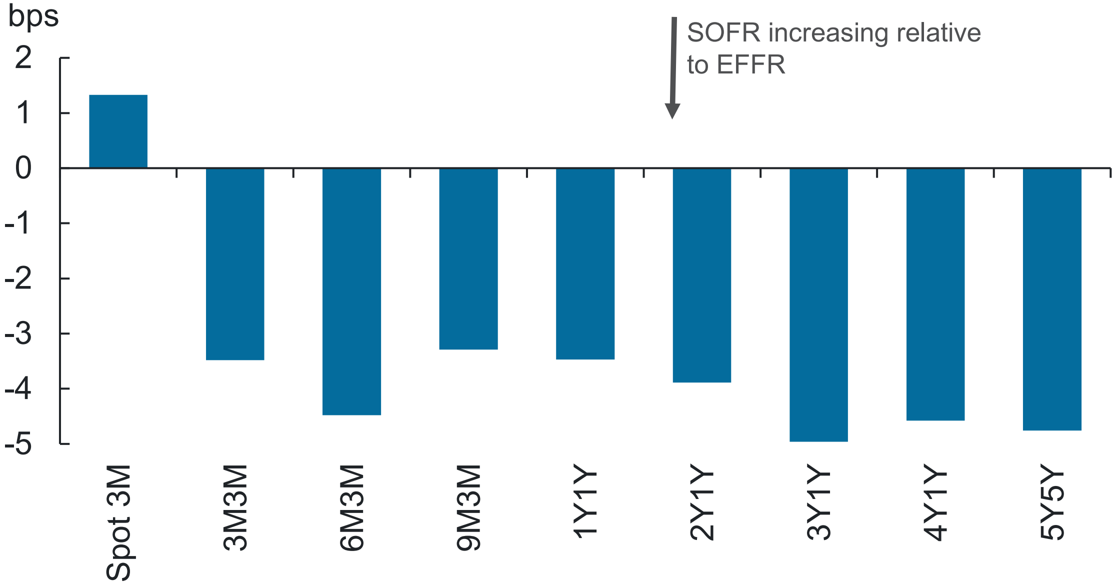
- Near-term expectations are for rates to remain subdued amid declines in net bill supply (Fig. 9)
- Upon resolution of the statutory debt limit, bill supply is expected to increase, which should lift money market rates (Fig. 10)
- Money market rates are expected to move higher within the target range as SOMA and reserves decline, demand for securities financing grows and banks defend liquidity levels

Figure 9: Treasury Bills Outstanding



Source: Treasury Department, Bloomberg

Figure 10: Market-Implied Forward SOFR-FF Spread

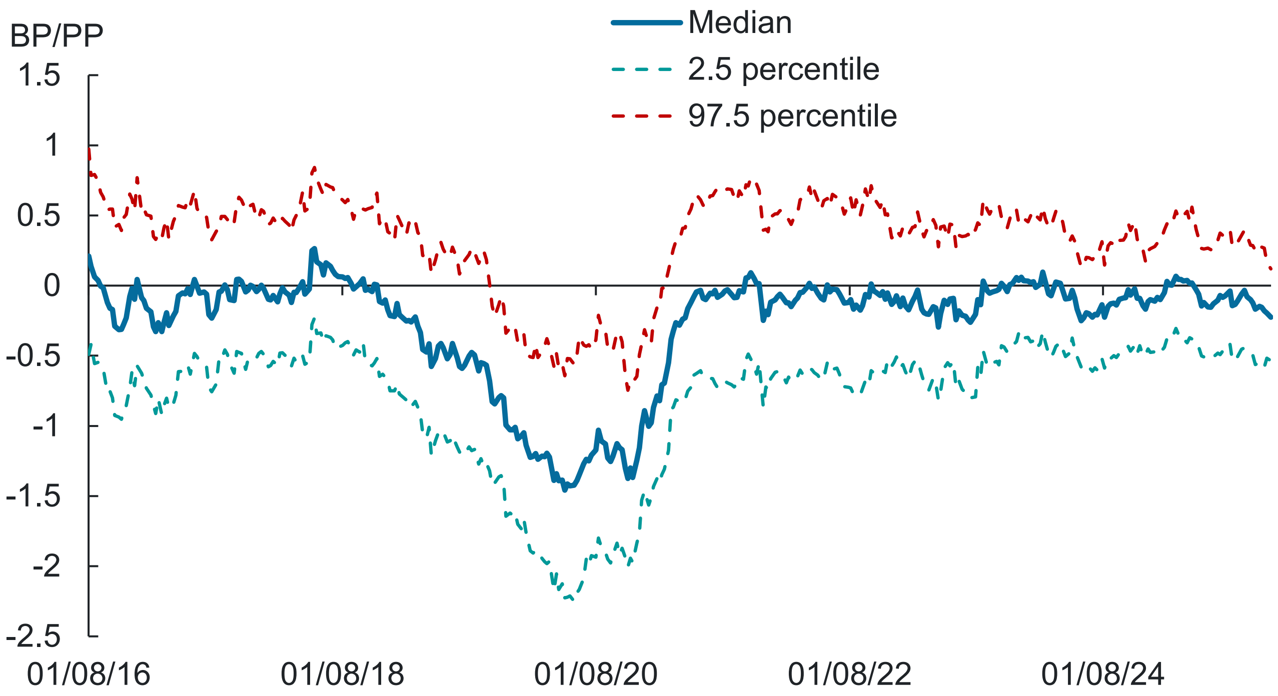


Source: Bloomberg, FRBNY Analysis

Monitoring QT and Reserve Demand

- The Fed continues to monitor reserves ampleness using a variety of metrics, including money market spreads, bank funding statistics and econometric models
- Market outreach and survey collections, including the Senior Financial Officer Survey (SFOS) complement the quantitative data
- All indicators and market commentary suggest that reserves remain abundant (Fig. 11)

Figure 11: Reserve Demand Elasticity

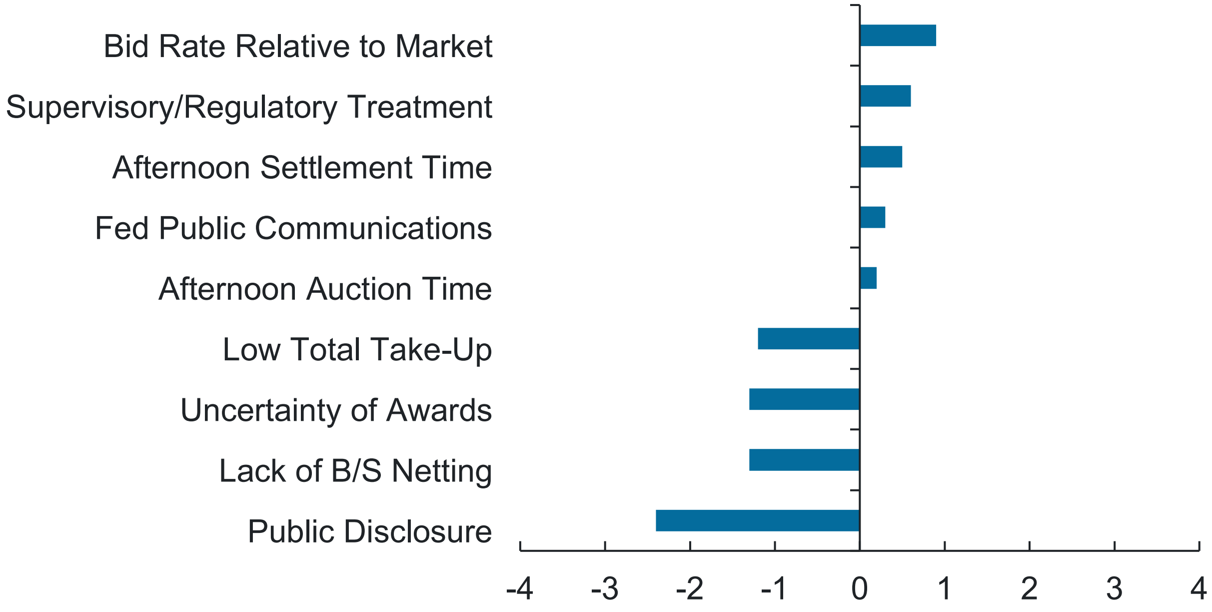


Source: FRBNY

Standing Repo Facility

- Standing facilities, like SRF, keep occasional upward pressures from spilling over to fed funds
- The SRF rate influences market negotiations and back-stops money market rates
- At times, the Desk has adjusted the SRF to enhance its effectiveness, recently adding a daily early-settling operation, which will begin Thursday, June 26

Figure 12: Factors Effecting Bank Usage of SRF from -4 (Strongly Discourage) to +4 (Strongly Encourage)



Source: FRBNY, Board of Governors of the Federal Reserve System