

Monetary Policy Implementation Perspective of the Domestic Money Markets Desk

John McGowan - Staff Coordinator
Domestic Money Markets
Markets Group



Presentation Overview

- I. Objectives of Monetary Policy
- II. FRB Pre-crisis Balance Sheet and Managing Reserves in a Low Excess Environment “Old School”
- III. Snapshots of FRB Balance Sheets in response to Financial Crisis
- IV. “New School” – Monitoring Market Functioning, Planning for Reserve Draining Operations

Objectives of Monetary Policy

- per Federal Reserve Act
- per Joint Statement Fed and Treasury
- Excerpt from FOMC statement

Objectives of Monetary Policy

Federal Reserve Act:

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of...

- *maximum employment,*
- *stable prices, and*
- *moderate long-term interest rates.*

Objectives of Monetary Policy: Federal Reserve and Treasury

Excerpt from Joint Press Release: March 23, 2009:

While **the Federal Reserve** has traditionally collaborated with other agencies in efforts to preserve financial stability, it **alone is responsible for maintaining monetary stability**. The monetary policy-making arm of the Federal Reserve, the Federal Open Market Committee (FOMC), determines monetary conditions in the United States, subject to its **congressional mandate to foster maximum sustainable employment and stable prices**. The Federal Reserve's **independence** with regard to monetary policy **is critical** for ensuring that monetary policy decisions are made with regard only to the long-term economic welfare of the nation.

<http://www.federalreserve.gov/newsevents/press/monetary/20090323b.htm>

Objectives of Monetary Policy

FOMC Directive (from minutes of the August 10, 2010 FOMC meeting):

“The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.”

FRB Pre-Crisis Balance Sheet

Balance Sheet of the Federal Reserve System as of August 8, 2007 (\$ bn)

<i>Assets</i>		<i>Liabilities</i>	
Treasury Securities	791	Reserve Balances of Banks	14
of which bills	277	Req'd op balances of	12
Federal Agency Securities	0	Excess Balances	2
Repos	19	Federal Reserve Banknotes	777
Conventional	19	Treasury Balances at FRB	5
Loans	0	Foreign RP Pool	30
PCF	0	Other Liabilities	9
Other Assets	59	Capital	34
Total Assets	869	Total Liabilities and Capital	869

Implementing Monetary Policy “Old School”: Fed Funds? Reserve Balances?

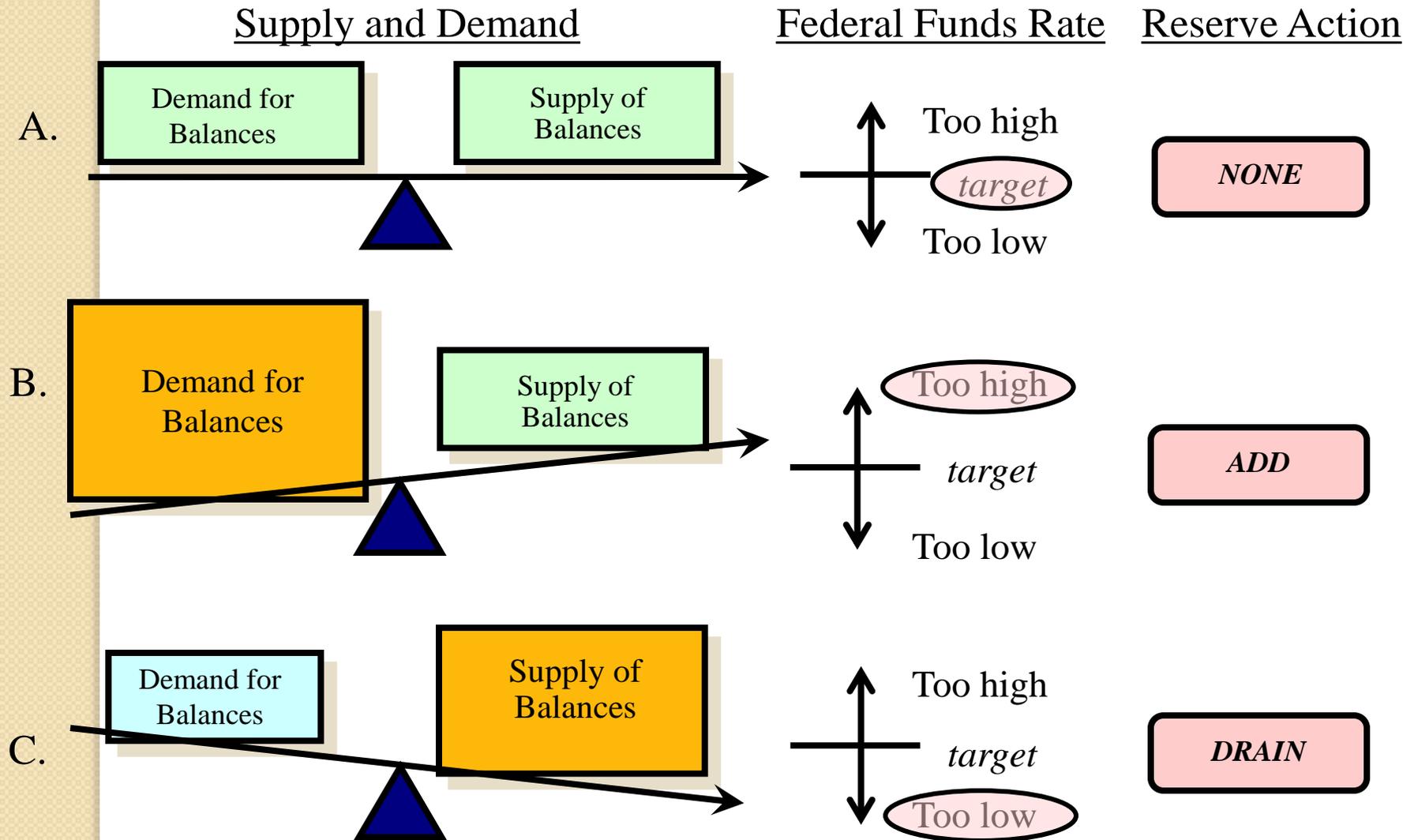
- Banks can buy and sell their Fed balances with each other. These transactions, known as “fed funds” trades, are exempt from reserve requirements
- Fed funds trades are uncollateralized, and can be arranged directly or through the fed funds brokers
- Typical duration is one business day (overnight)
- DMM collects daily fed funds trade information from several fed funds brokers in order to compile and subsequently publish the “daily effective rate”: a weighted average of brokered fed funds transactions.

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Balances and the Fed Funds Rate



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Implementing Monetary Policy “Old School”: Major Tasks

In order to establish conditions in the Fed funds market to encourage trading at the target rate. The Desk must:

- *Forecast the supply* of reserve balances
- *Forecast the demand* for reserve balances
- *Create a plan* for how to meet the demand
- *Execute* open market operations

FRB Balance Sheet Response

Balance Sheet of the Federal Reserve System as of September 24, 2008 (\$ bn)

<i>Assets</i>		<i>Liabilities</i>	
Securities		Reserve Balances of Banks	95
Treasuries	477	Required Op Balances	15
bills	18	Excess Balances	80
lent throug TSLF	225	Reverse RPs	25
Federal Agency	10	Federal Reserve Banknotes	799
Repos	86	Treasury Balances at FRB	5
Conventional	8	Treasury SFP	160
Single-tranch 28-day	78	Foreign RP Pool	66
Swap Agreements	182	Other Liabilities	22
Loans	413	Capital	42
TAF Loans	150		
Other Loans (Incl. AIG)	45		
PDCF Loans	106		
PCF Loans	39		
AMLF (Boston/MM/ABCP)	73		
Maiden Lane LLC	29		
Other Assets	17		
Total Assets	1,214	Total Liabilities and Capital	1,214

FRB Balance Sheet Response

Balance Sheet of the Federal Reserve System as of November 12, 2008

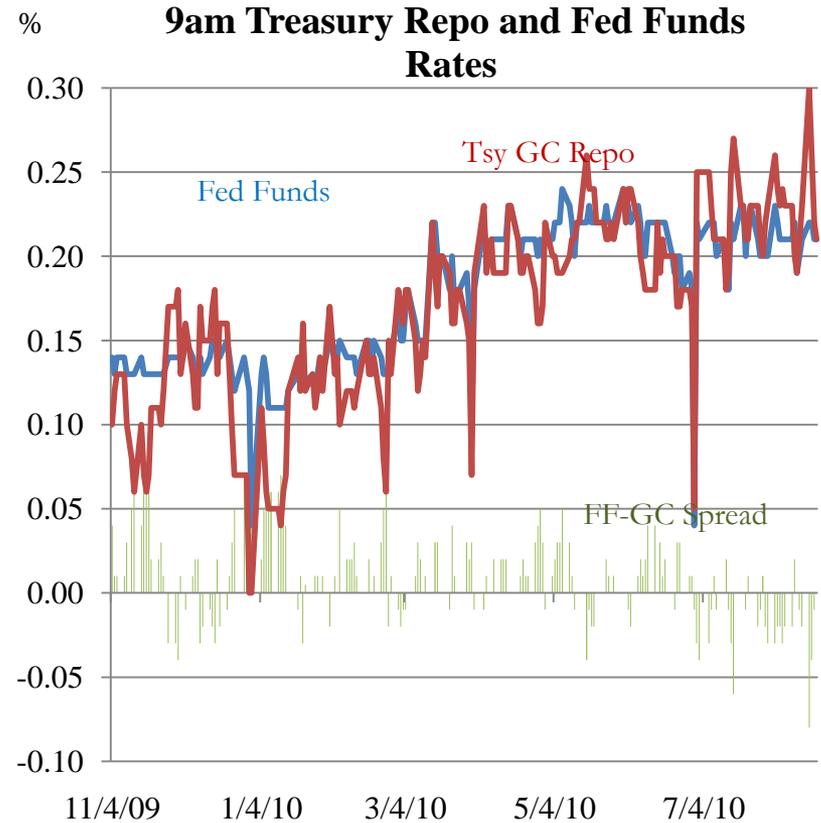
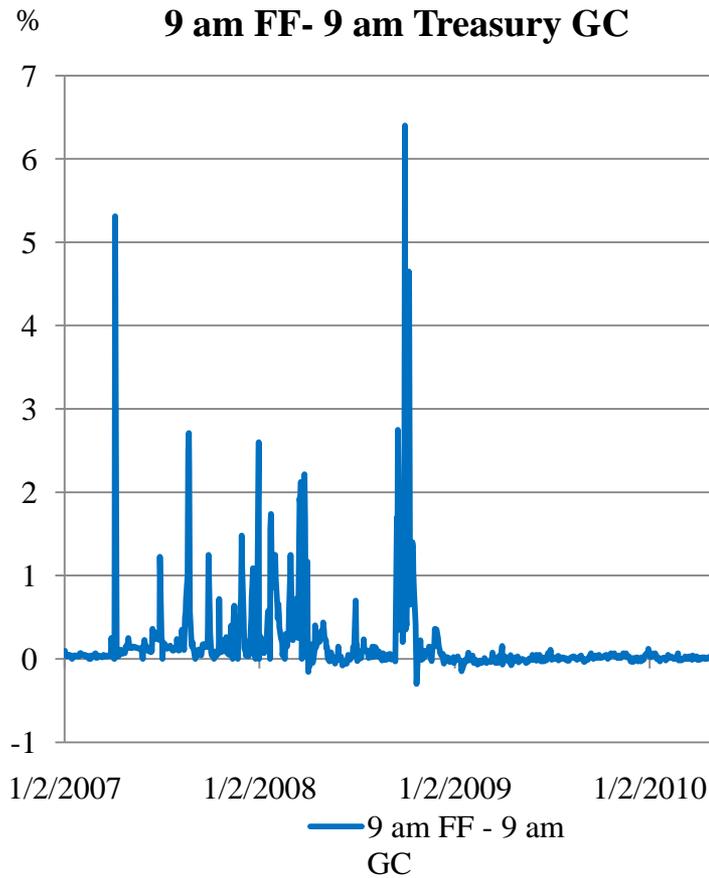
<i>Assets</i>	<i>(\$ billions)</i>	<i>Liabilities</i>	<i>(\$ billions)</i>
Securities	489	Reserve Balances of Banks	594
Treasuries	476	Excess Balances	579
bills	18	Required Op Balances	15
*securities via TSLF & TOP	200		
Federal Agency	13	Reverse RPs	25
Repos	80	Federal Reserve Banknotes	828
Conventional	0	Treasury Balances at FRB	53
Single-tranch 28-day	80	Treasury SFP	559
Swap Agreements	570	Foreign RP Pool	77
Loans	732		
TAF	415	Other Liabilities	39
Other Credit (Incl. AIG)	84		
PDCF	57	Capital	42
PCF/SCF	99		
AMLF (Boston/ABCP)	77		
Maiden Lane LLC	27		
CPFF	257		
Other Assets	60		
Total Assets	2,215	Total Liabilities and Capital	2,215

FRB Balance Sheet Response

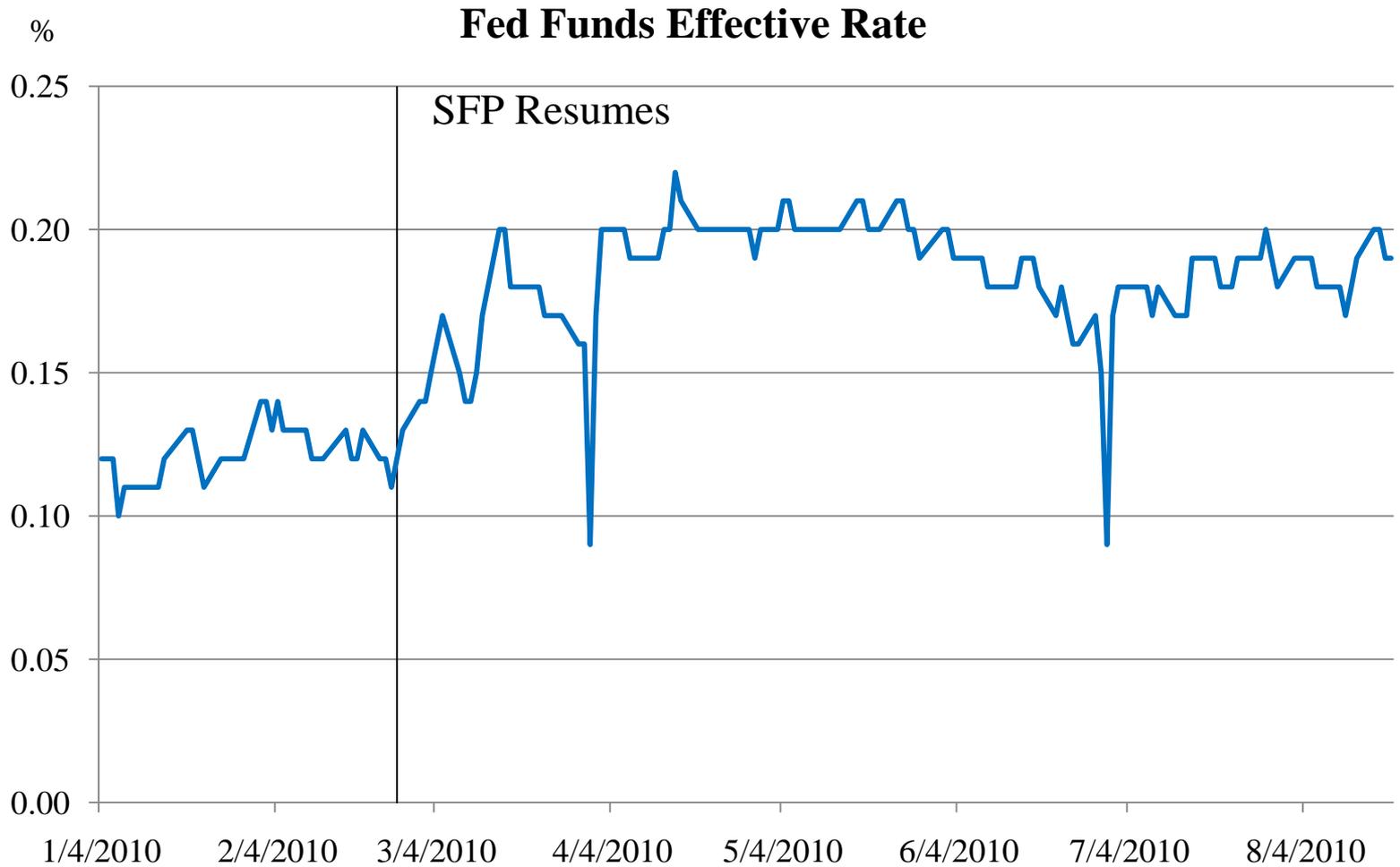
Balance Sheet of the Federal Reserve System as of August 19, 2010 (\$ bn)

Assets		Liabilities	
Securities	2,050	Reserve Balances of Banks	1,044
Treasuries	780	Required Op Balances	28
bills	18	Excess Balances	1,017
lent through TSLF	-	Reverse RPs	-
Federal Agency	157	Federal Reserve Banknotes	906
Agency MBS	1,113	Treasury Balances at FRB	28
Repos	-	Treasury SFP	200
Conventional	-	Foreign RP Pool	60
Single-tranche 28-day	-	Other Liabilities	21
Swap Agreements	-	Capital	57
Loans	62		
TAF Loans	-		
Other Credit (Incl. AIG)	24		
PDCF Loans	-		
PCF Loans	0		
AMLF (Boston/MMWABCP)	-		
CPFF	-		
TALF	38		
Maiden Lane LLC	68		
Other Assets	137		
Total Assets	2,317	Total Liabilities and Capital	2,317

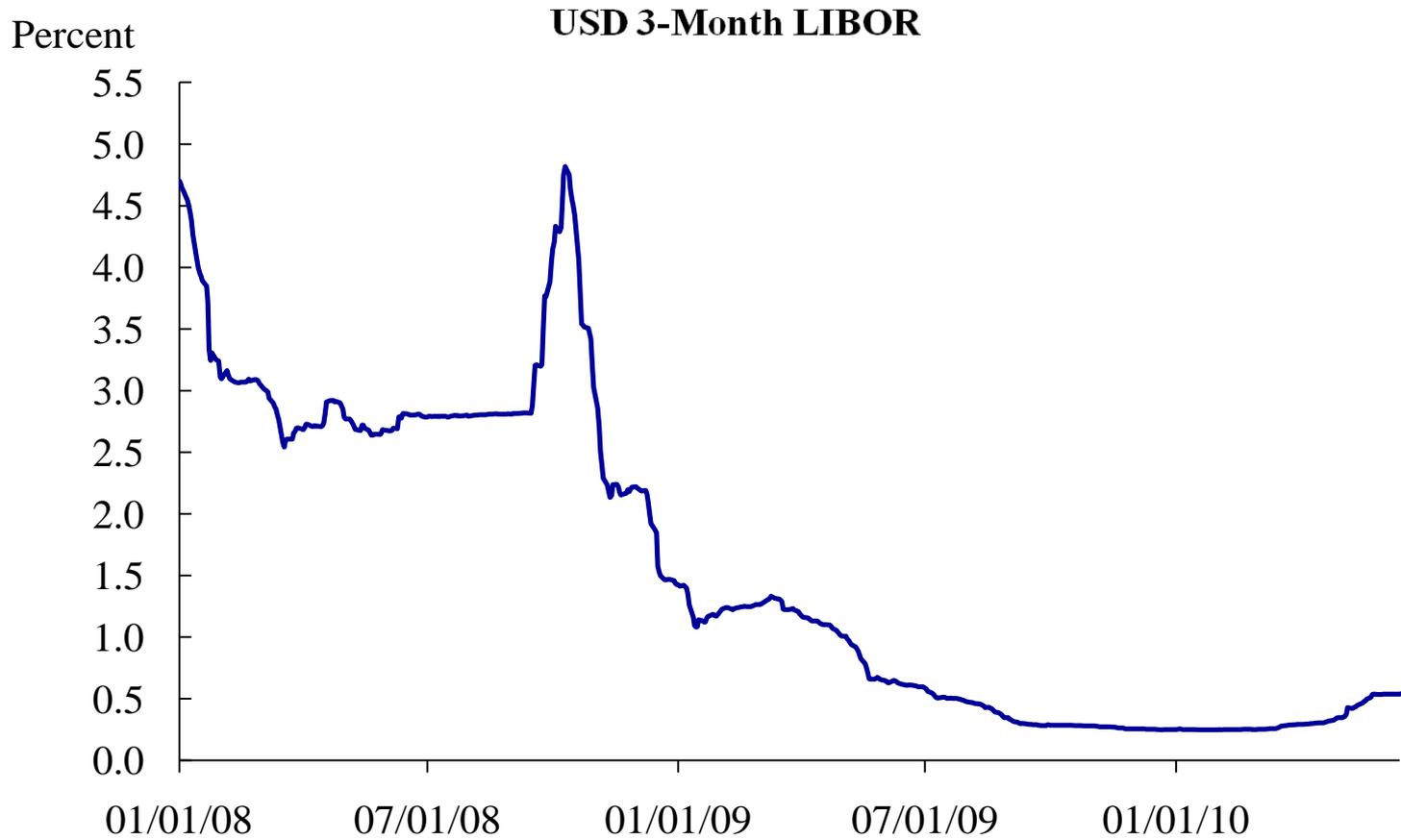
“New School” Market Monitoring



“New School” Market Monitoring

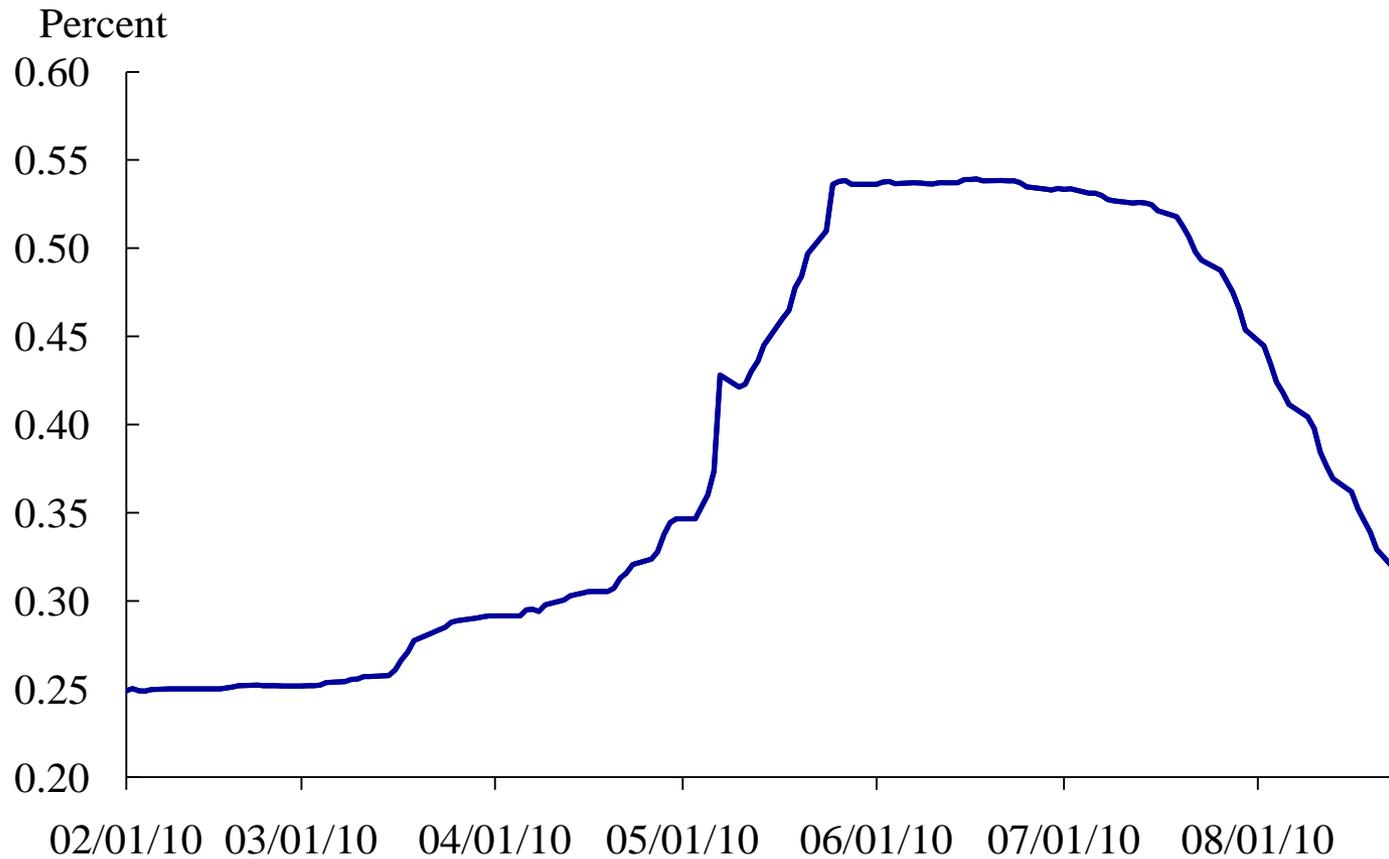


“New School” Market Monitoring



“New School” Market Monitoring

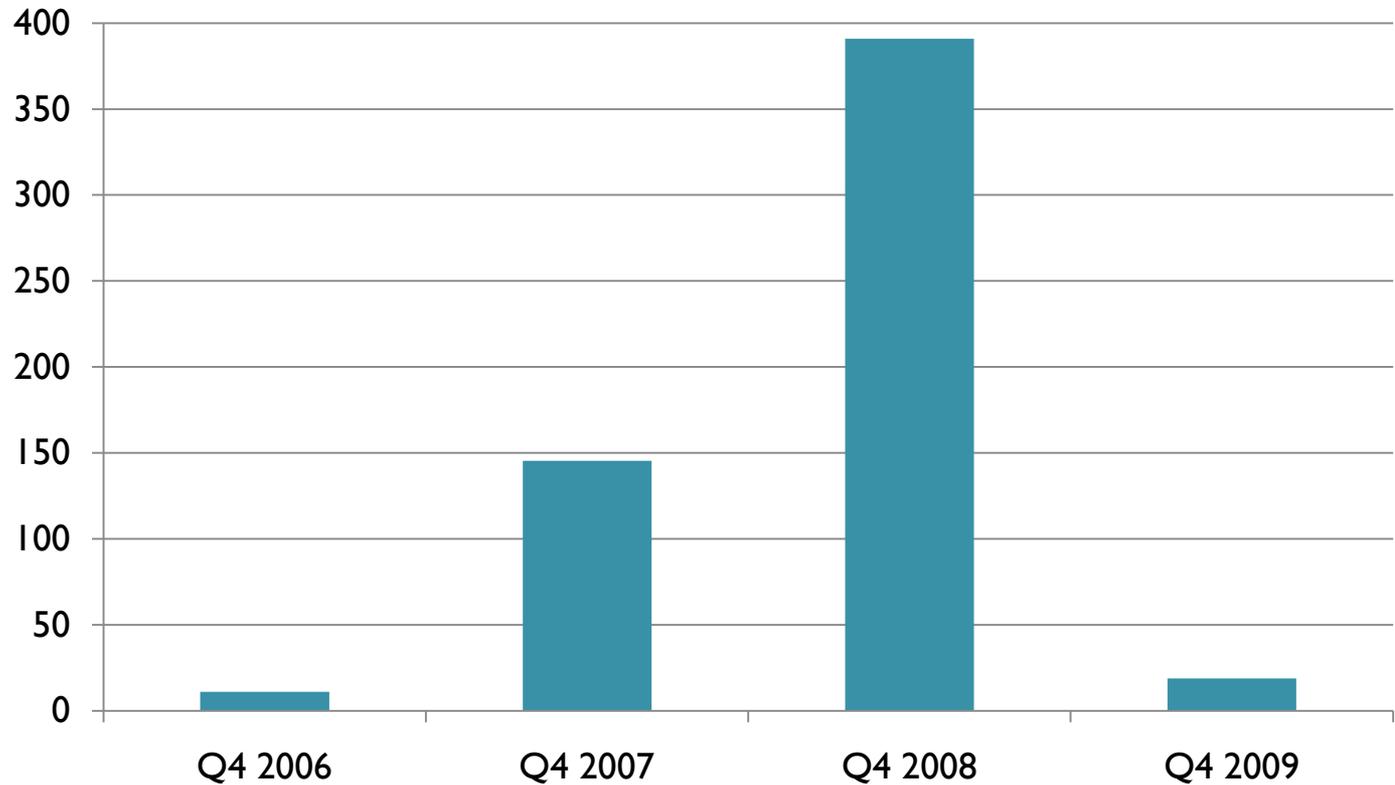
USD 3-Month LIBOR



“New School” Market Monitoring

Annualized Year-end Premium

Basis Points



“New School” New RRP Counterparties



The screenshot shows a website page with a dark blue header containing navigation links: 'RESEARCH', 'EDUCATION', 'REGIONAL OUTREACH', and 'ABOUT THE FED'. Below the header is a breadcrumb trail: 'Home > Markets > Reverse Repo Counterparties'. The main heading is 'Reverse Repo Counterparties' in a large, bold, orange font. The body text, also in orange, explains that the Federal Reserve Bank of New York is developing arrangements with an expanded set of counterparties for large-scale reverse repurchase agreement transactions. A section titled 'ANNOUNCEMENTS' in a light blue box contains a link to 'New York Fed Releases Reverse Repo Counterparties List' dated August 18, 2010. The page has a light blue sidebar on the left and a vertical navigation menu on the right.

Home > Markets > Reverse Repo Counterparties

Reverse Repo Counterparties

To prepare for the potential need to conduct large-scale reverse repurchase agreement transactions, the Federal Reserve Bank of New York is developing arrangements with an expanded set of counterparties with whom it can conduct these transactions. These counterparties would be in addition to the existing set of Primary Dealer counterparties, with whom the Federal Reserve can already conduct reverse repurchase agreements. The list of expanded counterparties will be posted on this site.

ANNOUNCEMENTS

[New York Fed Releases Reverse Repo Counterparties List](#)
August 18, 2010

http://www.newyorkfed.org/markets/expanded_counterparties.html

“New School” New Draining Products

[Home](#) > [Markets](#) > [Open Market Operations](#)

OPERATING POLICY

Statement Regarding Reverse Repurchase Agreements

August 3, 2010

As noted in the October 19, 2009 Statement Regarding Reverse Repurchase Agreements, the Federal Reserve Bank of New York (New York Fed) has been working internally and with market participants on operational aspects of triparty reverse repurchase agreements to ensure that this tool will be ready if the Federal Open Market Committee decides it should be used. In the November 30, 2009 statement, the New York Fed announced a series of small-scale, real-value transactions with primary dealers using U.S. Treasury and direct agency debt securities from the System Open Market Account (SOMA) portfolio as collateral.

Beginning tomorrow, the New York Fed intends to conduct a similar series of small-scale, real-value reverse repurchase transactions with primary dealers using all eligible collateral types, including, for the first time, agency mortgage-backed securities (MBS) from the SOMA portfolio. Of note, in contrast to the SOMA holdings of U.S. Treasury and direct agency debt securities which are maintained in an account at the New York Fed, the SOMA holdings of agency MBS securities are currently maintained at a custodian. As a result, certain operational and legal arrangements for transactions involving agency MBS collateral differ from those in place for transactions involving U.S. Treasury and direct agency debt securities as collateral.

http://www.newyorkfed.org/markets/opolicy/operating_policy_100803.html

“New School” New Draining Products

Monetary Policy	Banking Information & Regulation	Payment Systems	Economic Research & Data	Consumer Information	Community Development	Reporting Forms	Publications
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Home > [Monetary Policy](#)

Term Deposit Facility Print

Term deposits will facilitate the implementation of monetary policy by providing a new tool by which the Federal Reserve can manage the aggregate quantity of reserve balances held by depository institutions. Funds placed in term deposits are removed from the accounts of participating institutions for the life of the term deposit and thereby drain reserve balances from the banking system. Reserve Banks will offer term deposits through the Term Deposit Facility (TDF), and all institutions that are eligible to receive earnings on their balances at Reserve Banks may participate in the term deposit program.

More Information

- [TDF Resource Center](#)

Related Press Releases

- [Federal Reserve announces results of auction of \\$2 billion in 84-day term deposits held on July 12, 2010.](#) (July 13, 2010)
- [Federal Reserve offers \\$2 billion in 84-day term deposits through its Term Deposit Facility](#) (July 8, 2010)
- [Federal Reserve announces results of auction of \\$2 billion in 28-day term deposits held on June 28, 2010](#) (June 29, 2010)
- [Federal Reserve offers \\$2 billion in 28-day term deposits through its Term Deposit Facility](#) (June 24, 2010)
- [Federal Reserve announces results of auction of \\$1 billion in 14-day term deposits held on June 14, 2010](#) (June 15, 2010)
- [Federal Reserve offers \\$1 billion in 14-day term deposits through its Term Deposit Facility](#) (June 11, 2010)
- [Federal Reserve announces schedule for small-value auctions of term deposits through the Term Deposit Facility](#) (May 28, 2010)
- [Board authorizes small-value offerings of term deposits under the Term Deposit Facility](#) (May 10, 2010)
- [Federal Reserve Board approves amendments to Regulation D authorizing Reserve Banks to offer term deposits.](#) (April 30, 2010)

<http://www.federalreserve.gov/monetarypolicy/tdf.htm>