TMPG Meeting Minutes

May 12, 2020

TMPG attendees

Alberto Antonini (Tudor)	Chris Leonard (Barclays)	Jerry Pucci (BlackRock)
Debbie Cunningham (Federated)	Edward McLaren (Bank of America)	Rasmus Rueffer (ECB)
David Finkelstein (Annaly)	Andrea Pfenning (BNY Mellon)	Marc Seidner (PIMCO)
Rob Huntington (Credit Suisse)	Thomas Pluta (JP Morgan)	Ryan Sheftel (GTS)
Ari Kavour (Wells Fargo)	Murray Pozmanter (DTCC)	Gemma Wright-Casparius (Vanguard)

New York Fed attendees

Frank Keane	Rania Perry	Angela Sun
Lorie Logan	Matthew Raskin	Kyle Watson
Matt Milroy	Brett Rose	Nate Wuerffel

U.S. Department of Treasury attendees

Fred Pietrangeli	Nicholas Steele	Brian Smith

- Due to the coronavirus pandemic, the TMPG meeting was held via videoconference.

- The TMPG meeting began with a discussion of recent market developments, largely focused on market functioning and the economic outlook.

  - Market Functioning: Market functioning in TMPG-covered markets was described by members as normalizing to a large degree, though they noted functioning has not fully returned to pre-COVID-19 levels. Members attributed the broad-based improvements across markets to swift and appropriately-sized intervention by the Federal Reserve, which allowed for better two-way flow and a recovery in dealer intermediation. Members also reported that market infrastructure held up quite well despite some elevation in the level of settlement fails.

    Members noted several ongoing frictions in TMPG covered markets. Heavy issuance from Treasury was cited as a potential risk to market functioning, and concerns remain that the Federal Reserve might not provide sufficient clarity on forward plans or might pull back accommodation too soon. Members emphasized the importance of decreased dependence on the availability of the Fed's balance sheet and the return of unaided dealer intermediation as a measure of success for future Fed interventions.

- Economic Outlook: Several members cited the potential for a significant recurrence of COVID-19 cases after the country reopens as a risk to their outlook. Members noted that this would likely result in a "W" shaped recovery, and that a prolonged economic slowdown could result in an increase in business or bank failures. Several members noted a base case whereby a "full recovery" would not be achieved until late 2021. Other risks to the economic outlook mentioned by members included *geopolitics and inflation*. The geopolitical risk mentioned was the potential for U.S. and China relations to deteriorate further in response to COVID-19. Members noted that risks to their outlook included potential inflationary pressures that may result from the recent expansion of U.S. debt. Finally, *policymaker intervention risk* was cited, with several members noting the risk of the Federal Reserve ending intervention too soon, or of Congress failing to act to provide sufficient fiscal support.

- Next, TMPG members discussed Treasury and Agency MBS market structure and the lessons learned from developments in these markets over the past year. This discussion highlighted some initial lessons learned on both market structure and market practices from volatility experienced in September 2019 and in March-April 2020. On market structure, members expressed views around intermediation, electronification, and the increased use of exchange-traded funds (ETFs). On market practices, members discussed experiences related to margining and contingency. Members agreed to continue discussing and refining their takeaways as the market continues to evolve. The conclusions may then be incorporated into best practice recommendations or summarized in external TMPG communication where appropriate.

- As of March 16, 2020, TMPG member firms had, on average, executed margining agreements with about 73 percent of their counterparties. These agreements covered approximately 90 percent of notional trading volume of forward settling MBS transactions (excluding those centrally cleared), and margin exchange was operationalized for roughly 94 percent of these executed agreements. These statistics were generally in line with recent averages.

- The next regularly scheduled TMPG meeting will take place on June 16, 2020, from 3:00-5:00 PM.

Appendix: Summary of April 17th TMPG Call on Market Functioning and Business Resiliency

TMPG attendees

Alberto Antonini (Tudor)	Chris Leonard (Barclays)	Jerry Pucci (BlackRock)
Debbie Cunningham (Federated)	Edward McLaren (Bank of America)	Rasmus Rueffer (ECB)
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Matt Milroy	Matthew Raskin	Nate Wuerffel

U.S. Department of Treasury attendees

Fred Pietrangeli	Nicholas Steele

- In light of the extraordinary market volatility amid the coronavirus pandemic, the TMPG held an intermeeting conference call to discuss market functioning.

- Overall, although members noted broad improvements in liquidity and market functioning over the weeks since the prior TMPG meeting, they expressed the view that liquidity – as measured through market depth and bid/ask spreads – remained below historical norms. Members described New York Fed operations as a primary driver of improved market liquidity and functioning in U.S. Treasury and Agency MBS markets.

- Members specifically focused on conditions in funding markets, Treasury markets, and mortgage markets, and also discussed the impact of Fed facilities:

    - Funding Markets: Members noted that liquidity had continued to return to short-term funding markets as dealer balance sheets became less constrained, though the breadth of funding availability remained a concern. These improvements were most concentrated in the overnight space, with liquidity remaining less available further out on the maturity curve.

    - Treasury Markets: Members described continued improvements across Treasury market sectors and tenors. Estimates of recovery ranged from 50 to 90% of pre-crisis functioning, with members noting that market depth was not expected to fully recover to its pre-crisis level as long as work-from-home (WFH) orders remain in place. The decline of volatility in the market and the return of competitive market-making were pointed to as positive developments in this regard. Members noted that they continued to follow developments associated with Treasury net issuance closely.

  - Mortgage Markets: Members noted further improvement in Agency MBS liquidity since the March 31 TMPG meeting as volatility and the mortgage basis had declined, with Desk purchases remaining the primary driver of increased liquidity. Specifically, they noted better, but more strained than typical, market functioning in the TBA market. The improvement in the TBA market was described as spilling over into the specified pool market, which saw particularly poor liquidity conditions in the prior month. Forbearance issues were also discussed.

  - Fed's Credit and Liquidity Facilities: Overall, participants noted that the announced Fed facilities had successfully reduced volatility and improved market functioning. Several members highlighted the risk of removing the accommodation provided by these facilities or the Agency MBS/Treasury purchase programs too soon. Risks highlighted included a return to an environment of quidity and poor market functioning.

- Members concluded with a discussion of contingency and resiliency efforts. Members generally noted that high percentages of their workforces were utilizing WFH arrangements. To this point, several members pointed to WFH arrangements as potentially capping improvements in market depth and function at a level somewhat below normal. Members also noted some challenges associated with compliance monitoring in the current environment. Finally, members also discussed plans for returning from a WFH environment and noted that any potential return would be done slowly, likely employing a rotation of employees in office and contingency sites, or utilizing a "wave" approach to bringing staff back to work.