

# **Implementing Monetary Policy: What's Working and Where We're Headed**

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**NABE Annual Conference**

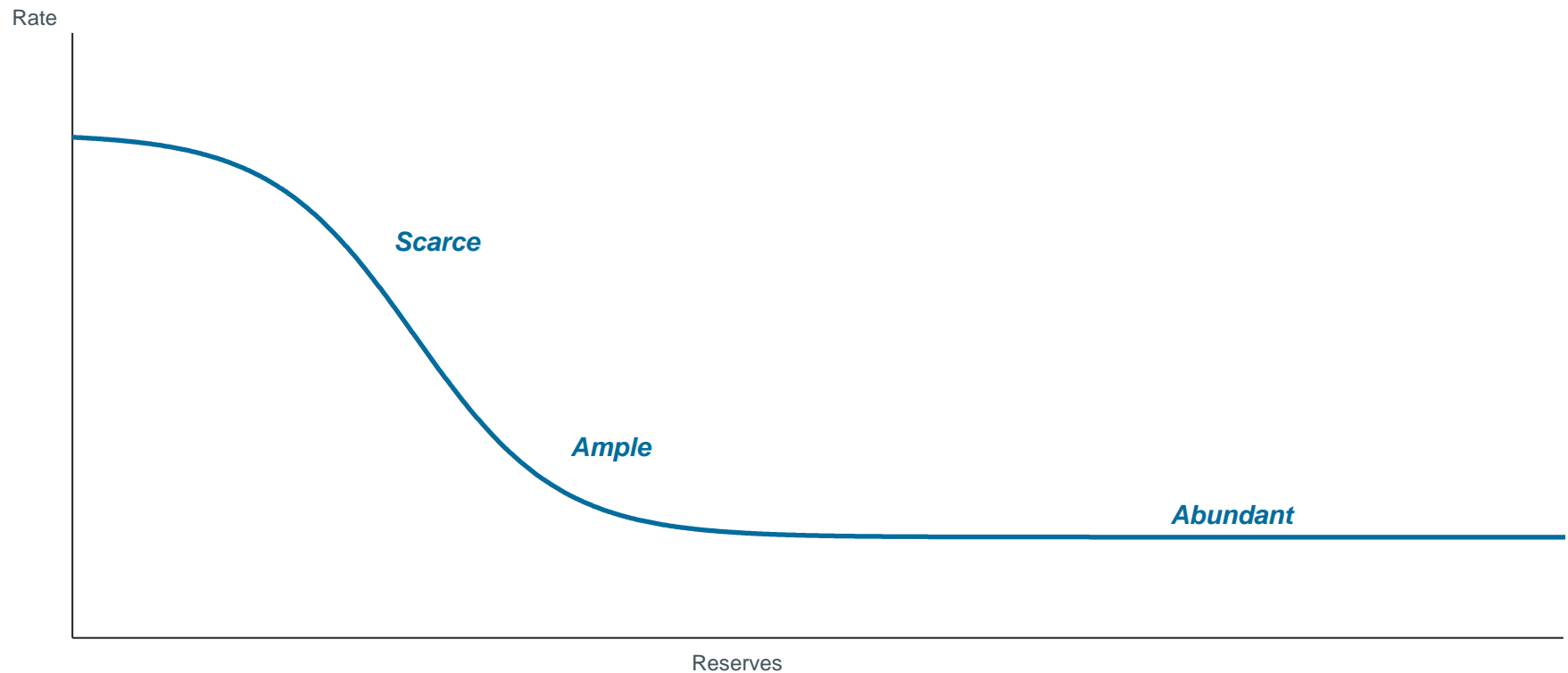
**10/10/2023**



**With abundant reserves, rates are largely unresponsive to changes in supply;  
when reserves are ample, rates will drift somewhat higher**

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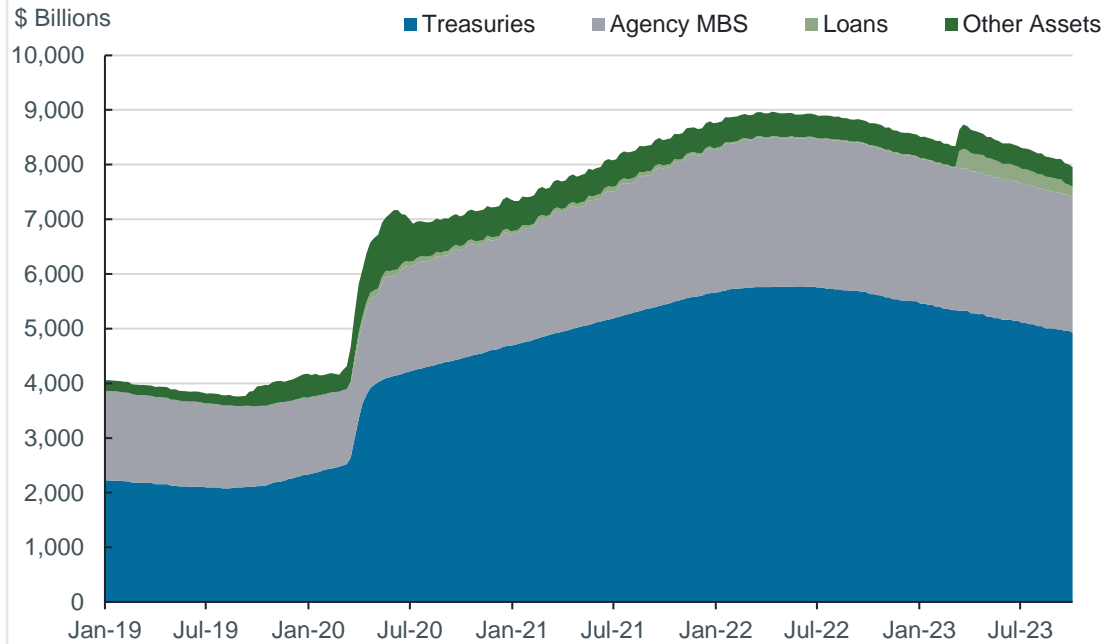
Stylized Reserve Demand Curve



# The Federal Reserve has maintained strong rate control, even though the size and composition of its balance sheet has varied a lot

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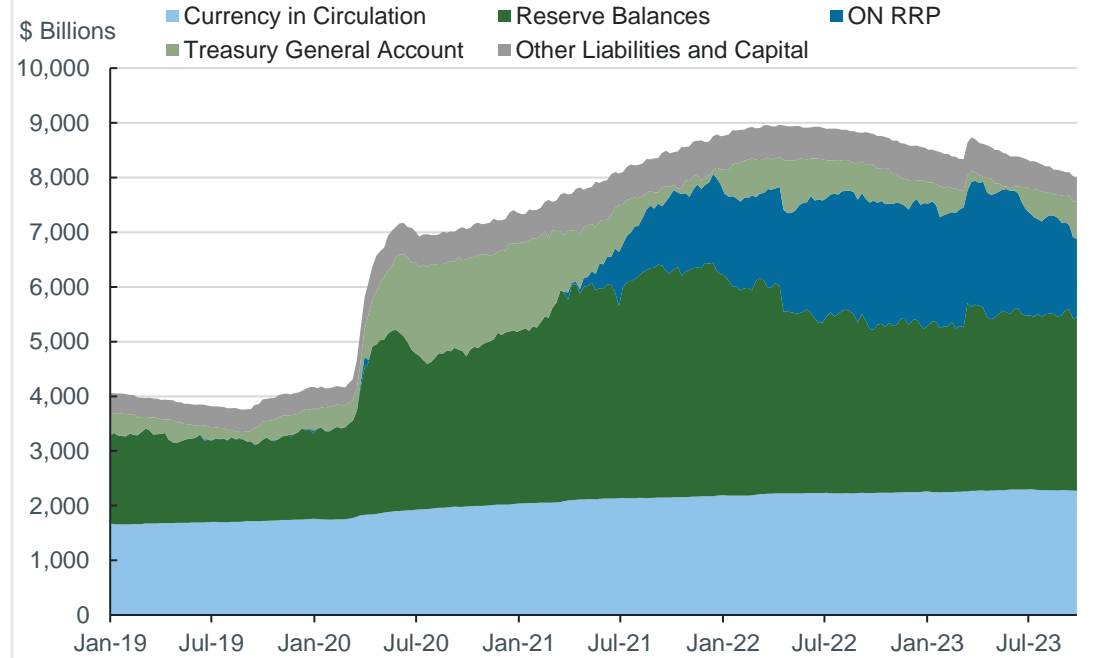
## Federal Reserve Assets



Source: Board of Governors of the Federal Reserve System

3

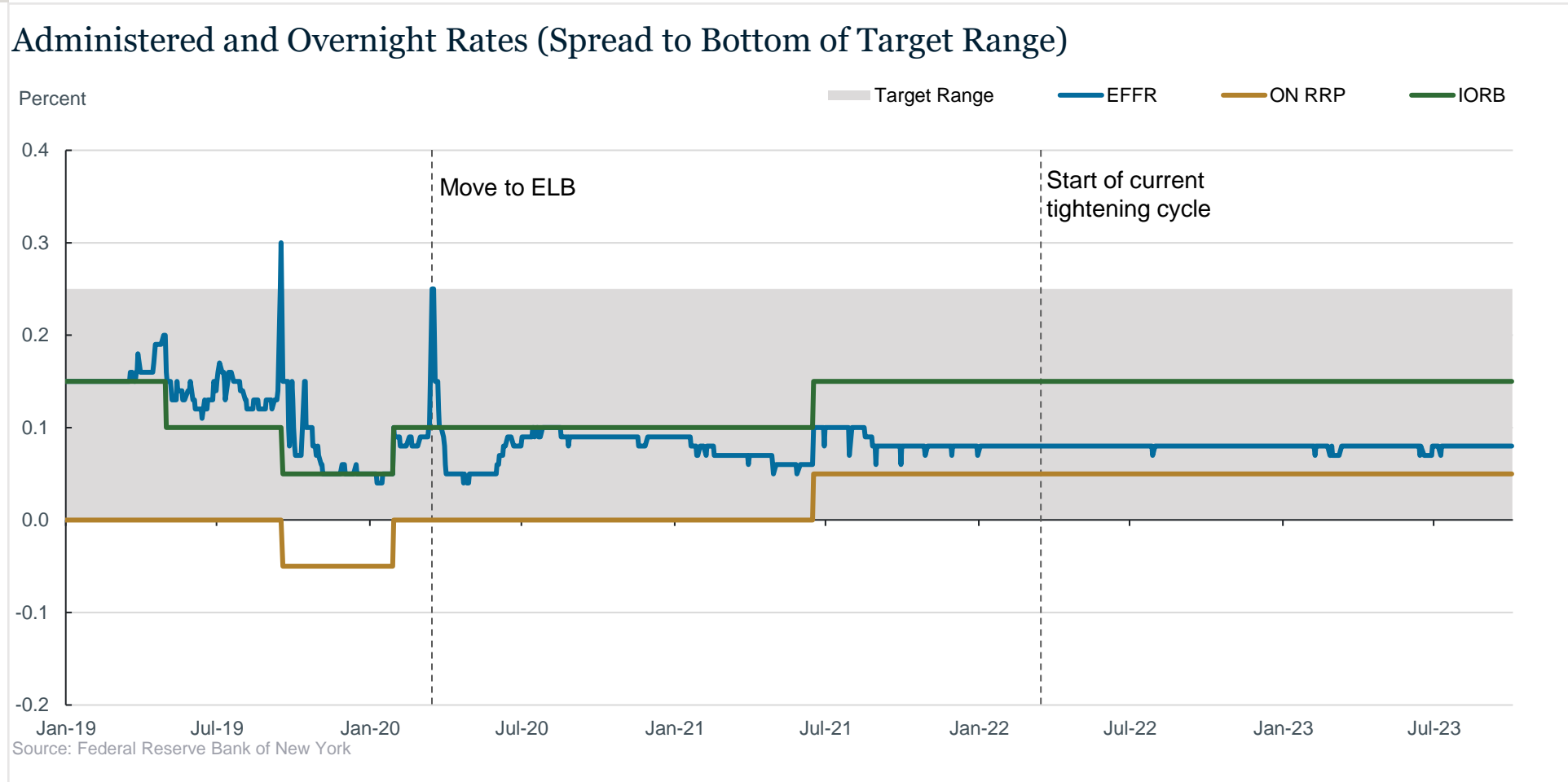
## Federal Reserve Liabilities and Capital



Source: Board of Governors of the Federal Reserve System

# The EFFR has been well within the target range since the start of the pandemic

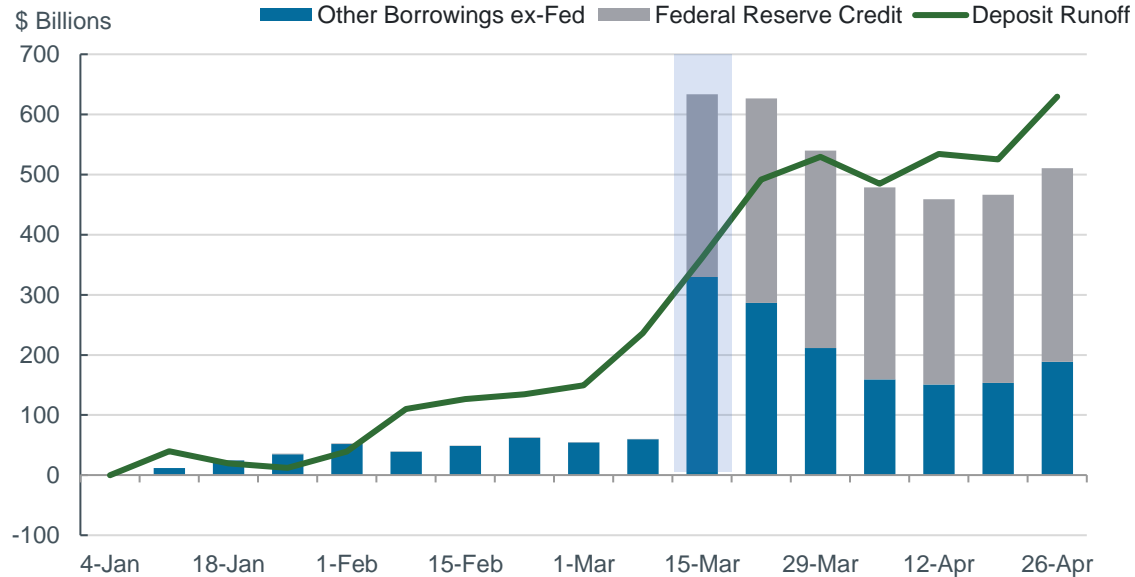
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# In March, banks turned to private markets, particularly FHLBs, for funding; MMFs reallocated from the ON RRP and toward FHLB short-term debt

5

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

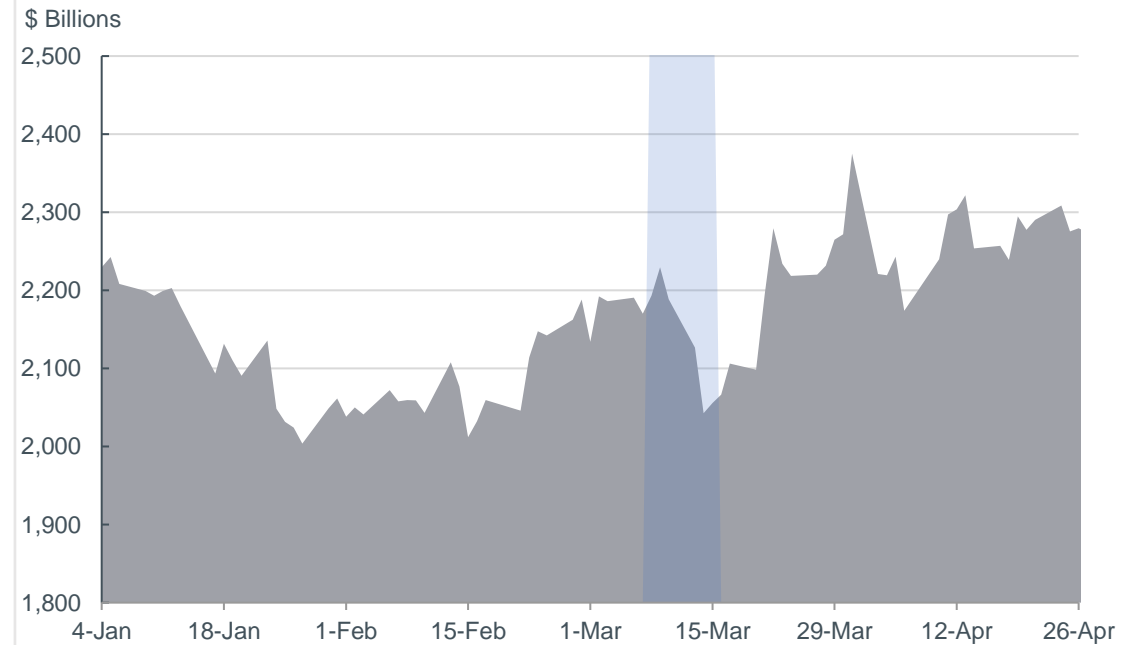


Note: Changes since January 4, 2023.

Source: Board of Governors of the Federal Reserve System

6

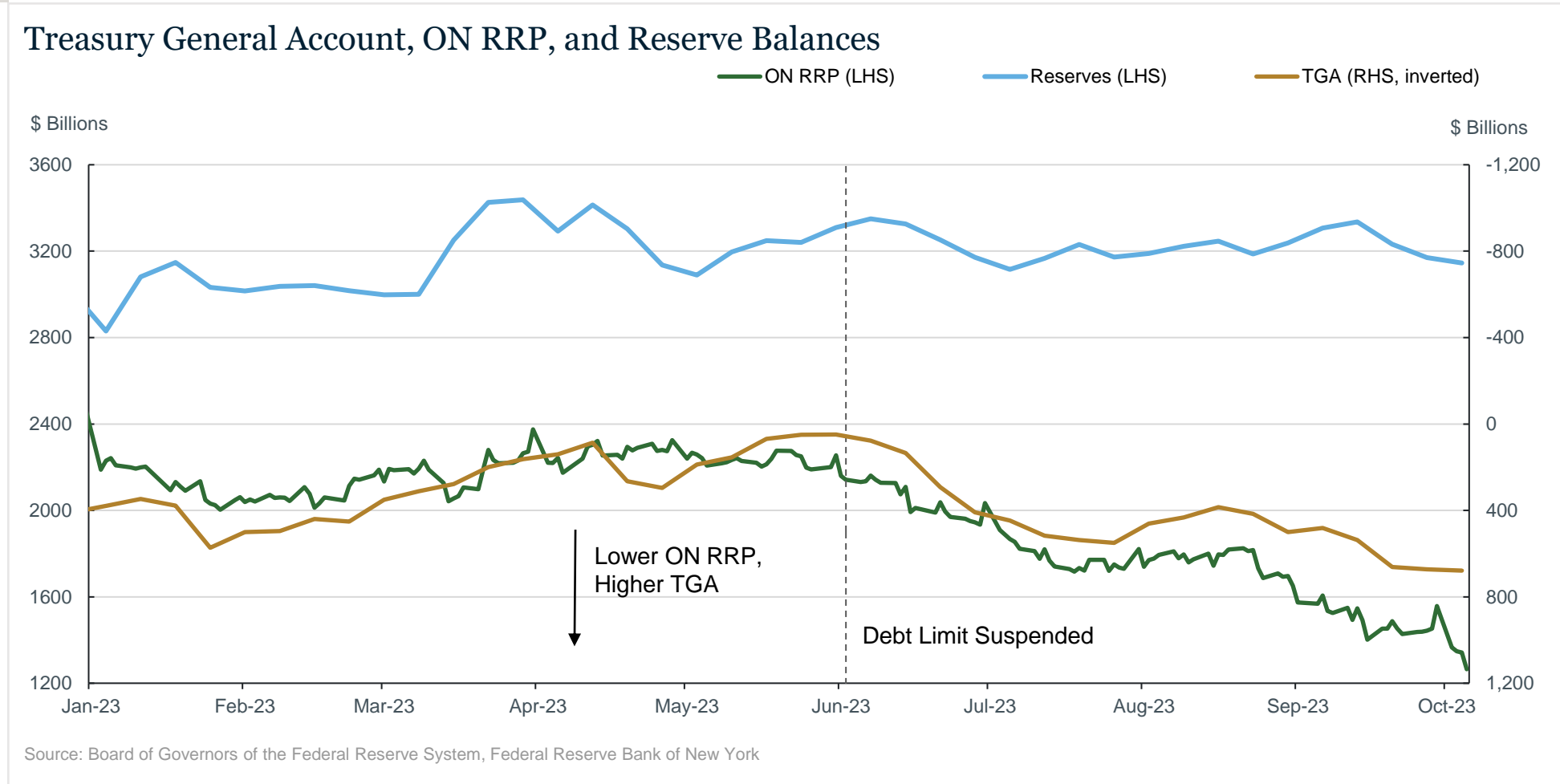
## ON RRP Usage



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

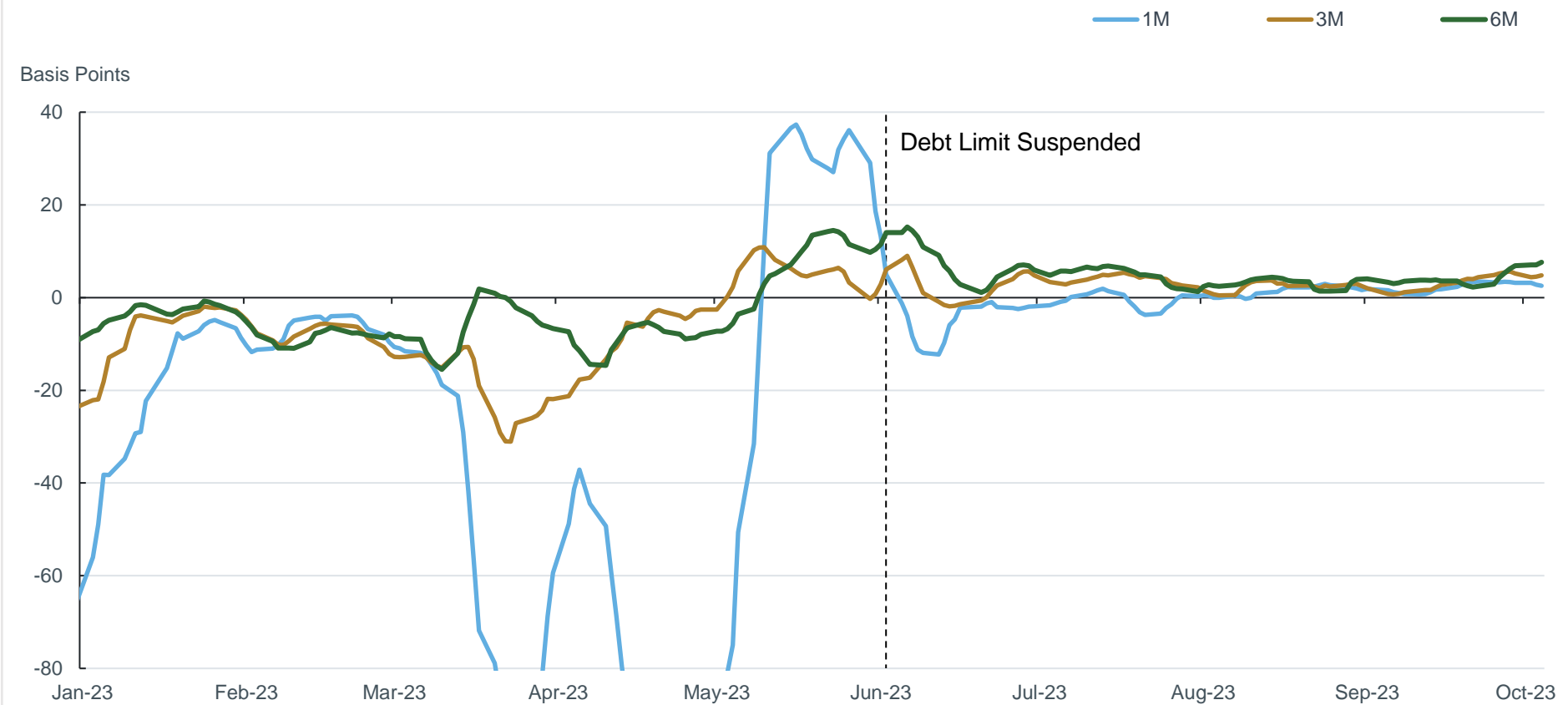
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# MMFs continued to be responsive to small price incentives, purchasing Treasury bills trading at only a modest premium to other market rates

8

## Treasury Bill Yield Spreads to OIS 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

9

## Select Federal Reserve Balance Sheet Items

Assets				Liabilities and Capital			
\$ BILLIONS	6/1/2022	CURRENT	CHANGE	\$ BILLIONS	6/1/2022	CURRENT	CHANGE
<b>Treasuries</b>	<b>5,771</b>	<b>4,930</b>	<b>-840</b>	<b>Currency in circulation</b>	<b>2,230</b>	<b>2,276</b>	<b>45</b>
<b>Agency MBS</b>	<b>2,707</b>	<b>2,480</b>	<b>-228</b>	<b>ON RRP</b>	<b>1,965</b>	<b>1,342</b>	<b>-623</b>
<b>Loans</b>	<b>21</b>	<b>179</b>	<b>158</b>	<b>Treasury General Account</b>	<b>781</b>	<b>679</b>	<b>-102</b>
<b>Other assets</b>	<b>416</b>	<b>367</b>	<b>-50</b>	<b>Reserve balances</b>	<b>3,357</b>	<b>3,241</b>	<b>-117</b>
				<b>Other liabilities and capital</b>	<b>582</b>	<b>418</b>	<b>-163</b>
<b>Total</b>	<b>8,915</b>	<b>7,956</b>	<b>-959</b>	<b>Total</b>	<b>8,915</b>	<b>7,956</b>	<b>-959</b>

Note: Current level as of 10/4/2023.

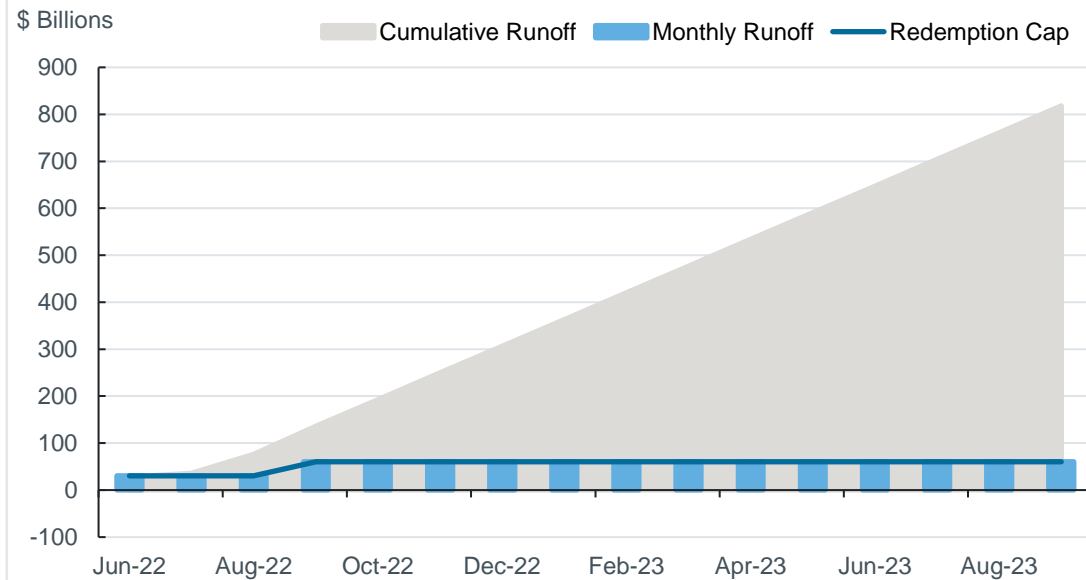
Source: Board of Governors of the Federal Reserve System



# Passive redemptions, subject to caps, enable a smooth and predictable runoff process

10

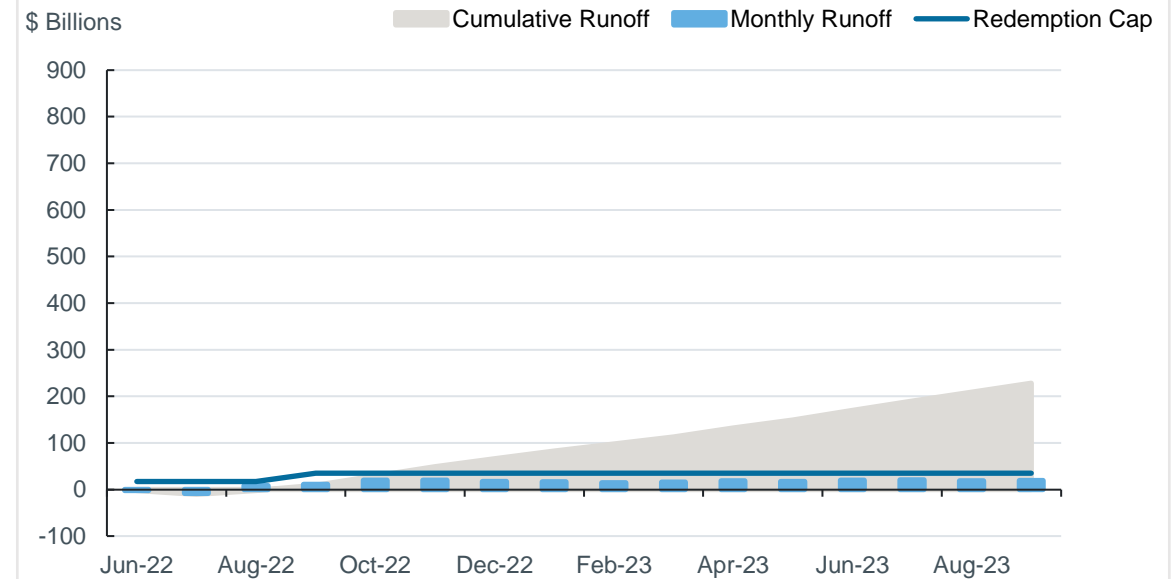
## SOMA Treasury Runoff



Source: Federal Reserve Bank of New York

11

## SOMA Agency MBS Runoff

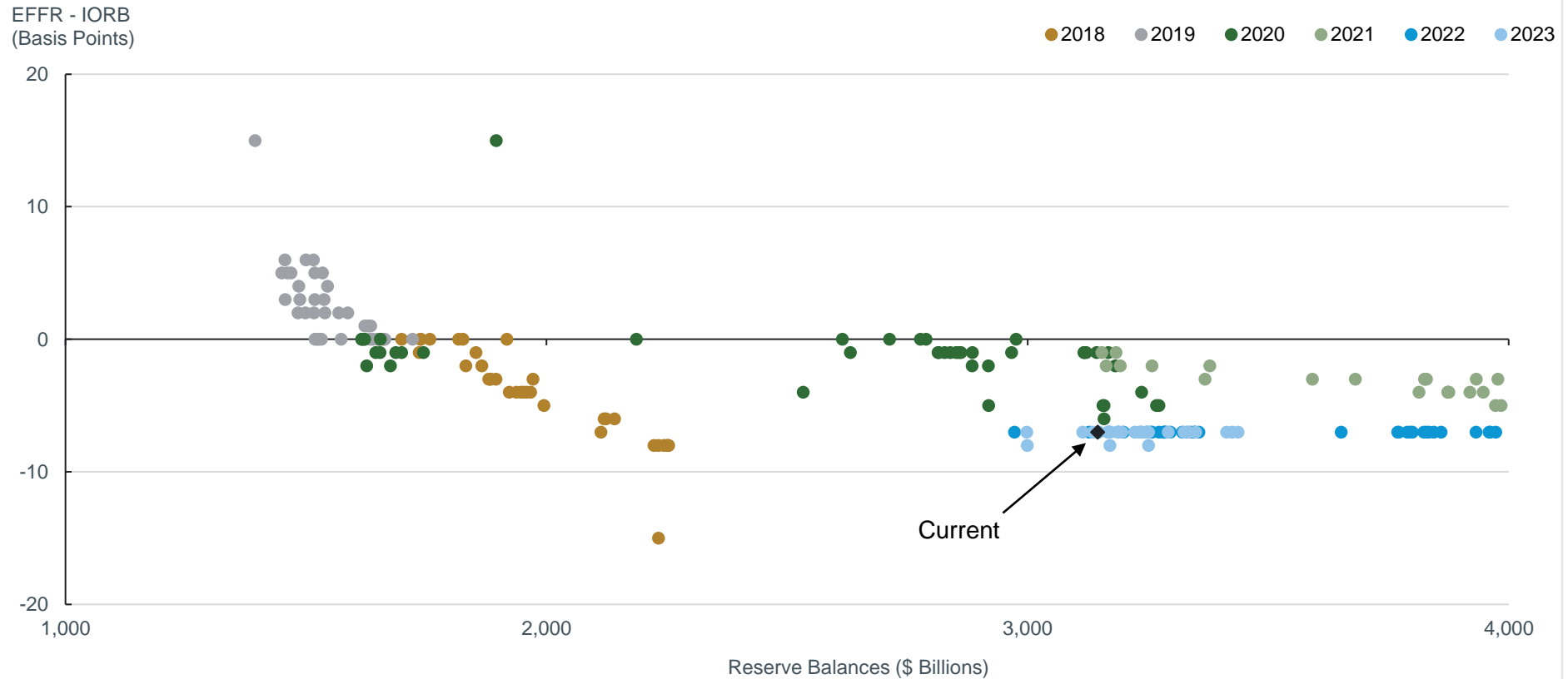


Note: Monthly runoff reflects purchases that occurred before June 2022, but settled in the subsequent months.  
Source: Federal Reserve Bank of New York

# The reserve demand curve may have changed over recent years; the point of transition between abundant and ample reserves is uncertain

12

## EFFR-IORB Spread vs Reserve Balances



Note: Weekly observations.

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York

# The Desk will continue to carefully monitor reserve conditions

13

