CEMLA
The Federal Reserve’s Policy Response to Support Market Functioning During COVID-19

September 2, 2020
Agenda

• Overview of policy responses to COVID-19

• Implementation of Treasury and agency MBS purchases and their impact on market functioning

• Role of U.S. dollar swap lines and FIMA repo facility to address international and domestic dollar funding conditions

• Shift in focus to sustaining market functioning and policy toolkit
<table>
<thead>
<tr>
<th>Date announced</th>
<th>Policy Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 3, 15</td>
<td>Lowered target range for federal funds rate to 0 to $\frac{1}{4}$ percent</td>
</tr>
<tr>
<td></td>
<td><em>March 3: FOMC lowers target range by 50 basis points to 1 to $1\frac{1}{4}$ percent.</em></td>
</tr>
<tr>
<td></td>
<td><em>March 15: FOMC lowers target range by 100 basis points to 0 to $\frac{1}{4}$ percent.</em></td>
</tr>
<tr>
<td>March 9, 11, 12, 15-17, 20</td>
<td>Increased size and tenor of repo agreements</td>
</tr>
<tr>
<td>March 15</td>
<td>Lowered discount window rate and extended tenor of loans</td>
</tr>
<tr>
<td>March 15, 23</td>
<td>Increased holdings of Treasury securities and agency MBS, and started purchases of CMBS</td>
</tr>
<tr>
<td></td>
<td><em>March 15: FOMC directs Desk to increase Treasury and agency MBS holdings by at least $500 billion and $200 billion, respectively.</em></td>
</tr>
<tr>
<td></td>
<td><em>March 23: FOMC directs Desk to increase Treasury and agency MBS purchases in “the amounts needed” to support smooth functioning of markets. The FOMC also included purchases of agency CMBS securities in its agency MBS purchases.</em></td>
</tr>
<tr>
<td>March 15, 19, 20</td>
<td>Lowered U.S. dollar liquidity swap rate, offered 84-day term maturities, increased the frequency of operations, and extended lines to additional central banks</td>
</tr>
<tr>
<td>March 31</td>
<td>Created temporary FIMA repo facility to allow exchange of U.S. Treasury securities held by official foreign account holders for U.S. dollars</td>
</tr>
</tbody>
</table>
13(3) Actions: Liquidity facilities

<table>
<thead>
<tr>
<th>Date announced</th>
<th>Date of first operation</th>
<th>13(3) Liquidity Facilities</th>
</tr>
</thead>
</table>
| March 17       | April 14                | Commercial Paper Funding Facility (CPFF)*  
Enhance the liquidity of the commercial paper market by providing a liquidity backstop to U.S. issuers of commercial paper |
| March 17       | March 20                | Primary Dealer Credit Facility (PDCF)  
Provide funding to primary dealers to support market liquidity and functioning and facilitate credit availability to businesses and households |
| March 18       | March 23                | Money Market Mutual Fund Liquidity Facility (MMLF)  
Assist money market funds in meeting demands for redemptions by households and other investors, enhancing credit provision to the broader economy |

*Backed by Treasury funds
### 13(3) Actions: Credit facilities

<table>
<thead>
<tr>
<th>Date announced</th>
<th>Date of first operation</th>
<th>13(3) Credit Facilities</th>
</tr>
</thead>
</table>
| March 23       | June 29                 | Primary Market Corporate Credit Facility (PMCCF)*  
|                |                         | *Support credit to large employers so that they are better able to maintain business operations and capacity* |
| March 23       | May 12                  | Secondary Market Corporate Credit Facility (SMCCF)*  
|                |                         | *Support credit to large employers by providing liquidity for outstanding corporate bonds* |
| March 23       | June 17                 | Term Asset-Backed Securities Loan Facility (TALF)*  
|                |                         | *Enable issuance of asset-backed securities backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration, and certain other assets to support the flow of credit to consumers and businesses* |
| April 9        | April 16                | Paycheck Protection Program Liquidity Facility (PPPLF)  
|                |                         | *Supply liquidity to participating financial institutions to bolster the effectiveness of the Small Business Administration’s Paycheck Protection Program* |
| April 9        | May 26                  | Municipal Liquidity Facility (MLF)*  
|                |                         | *Purchase short term notes from state and local governments to help them better manage cash flow pressures* |
| April 9        | July 6                  | Main Street Lending Program (MSNLF, MSPLF, MSELF)*  
|                |                         | *Enhance support for small and mid-sized business through loans to companies employing up to 10,000 workers or with less than $2.5 billion in revenues* |

*Backed by Treasury funds or uses funds allocated through the CARES Act
Treasury market strains in March

**Client Sales of Off-the-Run Nominal Treasuries**

- 0-2.25 Year
- 2.25-4.5 Year
- 4.5-7 Year
- 7-20 Year
- 20-30 Year

**Dealer Inventory of Nominal Treasury Coupons**

- 0-2 Years
- 2-3 Years
- 3-6 Years
- 6-7 Years
- 7-11 Years
- 11-30 Years

Note: Chart from SIFMA webinar speech on July 15, 2020; 5-day moving average shown. Source: TRACE

Source: FR 2004
Asset purchases and the balance sheet

Daily SOMA Treasury and MBS Purchases

- Treasury
- MBS

Source: FRBNY

Change in Federal Reserve Assets Since 02/26/20

- Treasuries: 1,884
- MBS: 688
- Repo: -143
- Liquidity Swaps: 92
- Primary Credit: 3
- PDCF: 0
- MMLF: 10
- Other: 411
- Total: 2,942*

Note: White bar indicates unsettled MBS. Levels as of Wednesday August 26th, 2020.
Source: Federal Reserve Board of Governors, H.4.1 release
Notable improvement in market functioning

Average Bid-Ask Spreads for Nominal Treasury Coupons by Purchase Sector

- Daily Treasury Purchases (RHS)
- 0-2.25 Year
- 2.25-4.5 Year
- 4.5-7 Year
- 7-20 Year
- 20-30 Year

Source: Bloomberg, FRBNY

Treasury Cash-Futures Basis

Note: Chart shows the 5-year futures implied repo rate as a spread to 3-month OIS; reference contract changes at the end of February and May due to contract rolls. Source: Bloomberg, Desk Calculations
Dollar funding conditions have normalized

Fed Repo Outstanding

![Fed Repo Outstanding Chart]

Source: FRBNY

OBFR Spread to IOER

![OBFR Spread to IOER Chart]

Source: FRBNY

3-Month FX Swap Basis Spreads for Euro-Dollar and Dollar-Yen

![3-Month FX Swap Basis Spreads Chart]

Note: Based on OIS.
Source: Bloomberg, Desk Calculations

3-Month FX Swap Basis Spreads for Select Temporary Swap Line Central Banks

![3-Month FX Swap Basis Spreads Chart]

Note: Based on OIS. A) First operations of standing swap line central banks following announcement of 84-day USD facilities; B) Announcement of temporary USD facilities.
Source: Bloomberg, Desk Calculations
U.S dollar swap line facility usage

Foreign Central Bank Liquidity Swaps

FX Swaps Outstanding by Central Bank Counterparty

FX Swaps Outstanding to Temporary Central Bank Counterparties

Source: FRBNY
FIMA account Treasury holdings

Note: Treasury securities held in custody by the Federal Reserve for foreign official and international accounts.
Source: Federal Reserve Board of Governors, H.4.1 release
Reference Materials

General:

The COVID-19 Pandemic and the Fed’s Response
Treasury Market Liquidity During the COVID-19 Crisis (April and May)
Have the Fed Swap Lines Reduced Dollar Funding Strains During the COVID-19 Outbreak?
From Policy Rates to Market Rates - Untangling U.S. Dollar Funding Markets
How Fed Swap Lines Supported the U.S. Corporate Credit Market amid COVID-19 Strains
A New Reserves Regime? COVID-19 and the Federal Reserve Balance Sheet

Speeches:

John C. Williams, Rising to the Challenge: Central Banking, Financial Markets, and the Pandemic
Lorie K. Logan, The Federal Reserve’s Market Functioning Purchases: From Supporting to Sustaining
Lorie K. Logan, The Federal Reserve’s Recent Actions to Support the Flow of Credit to Households and Businesses

Frequent Asked Questions:

Treasury Purchases (June 2020)
FIMA Repo Facility
U.S. Dollar Swap Lines