



FEDERAL RESERVE BANK *of* NEW YORK

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



Monetary policy responses to COVID-19

Date announced	Policy Response
March 3, 15	Lowered target range for federal funds rate to 0 to ¼ percent <i>March 3: FOMC lowers target range by 50 basis points to 1 to 1 ¼ percent. March 15: FOMC lowers target range by 100 basis points to 0 to ¼ percent.</i>
March 9, 11, 12, 15-17, 20	Increased size and tenor of repo agreements
March 15	Lowered discount window rate and extended tenor of loans
March 15, 23	Increased holdings of Treasury securities and agency MBS, and started purchases of CMBS <i>March 15: FOMC directs Desk to increase Treasury and agency MBS holdings by at least \$500 billion and \$200 billion, respectively. 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.</i>
March 15, 19, 20	Lowered U.S. dollar liquidity swap rate, offered 84-day term maturities, increased the frequency of operations, and extended lines to additional central banks
March 31	Created temporary FIMA repo facility to allow exchange of U.S. Treasury securities held by official foreign account holders for U.S. dollars



13(3) Actions: Liquidity facilities

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

*Backed by Treasury funds



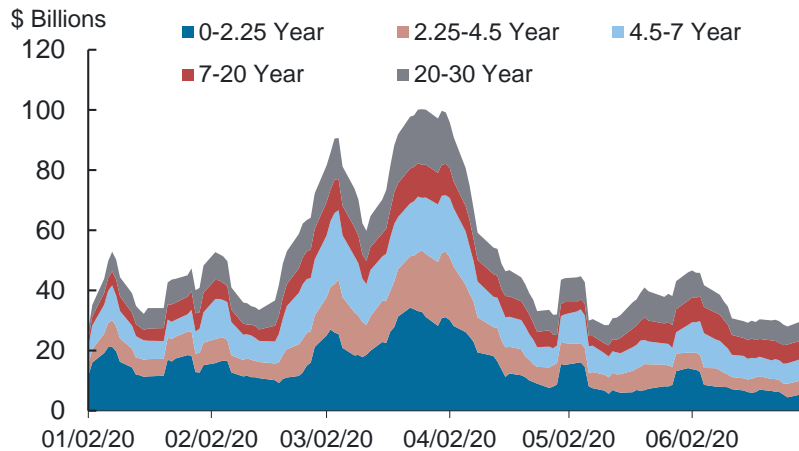
13(3) Actions: Credit facilities

Date announced	Date of first operation	13(3) Credit Facilities
March 23	June 29	Primary Market Corporate Credit Facility (PMCCF)* <i>Support credit to large employers so that they are better able to maintain business operations and capacity</i>
March 23	May 12	Secondary Market Corporate Credit Facility (SMCCF)* <i>Support credit to large employers by providing liquidity for outstanding corporate bonds</i>
March 23	June 17	Term Asset-Backed Securities Loan Facility (TALF)* <i>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</i>
April 9	April 16	Paycheck Protection Program Liquidity Facility (PPPLF) <i>Supply liquidity to participating financial institutions to bolster the effectiveness of the Small Business Administration's Paycheck Protection Program</i>
April 9	May 26	Municipal Liquidity Facility (MLF)* <i>Purchase short term notes from state and local governments to help them better manage cash flow pressures</i>
April 9	July 6	Main Street Lending Program (MSNLF, MSPLF, MSELF)* <i>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</i>

*Backed by Treasury funds or uses funds allocated through the CARES Act

Treasury market strains in March

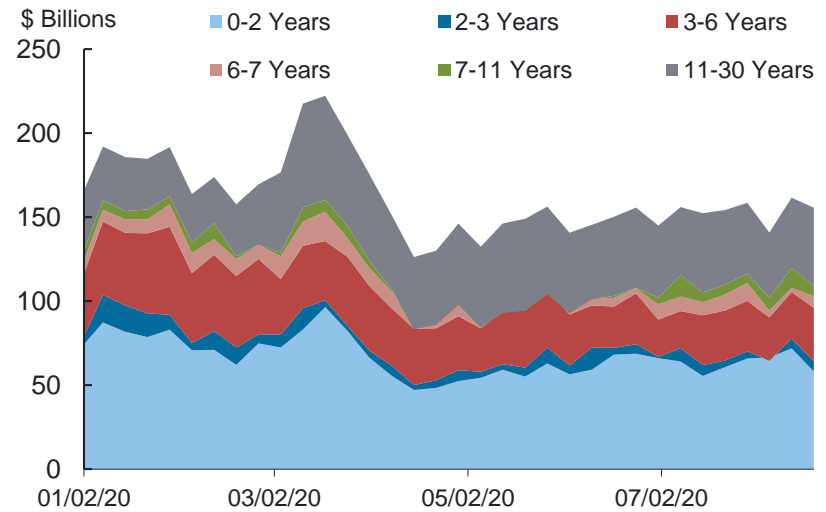
Client Sales of Off-the-Run Nominal Treasuries



Note: Chart from [SIFMA webinar speech](#) on July 15, 2020; 5-day moving average shown.

Source: TRACE

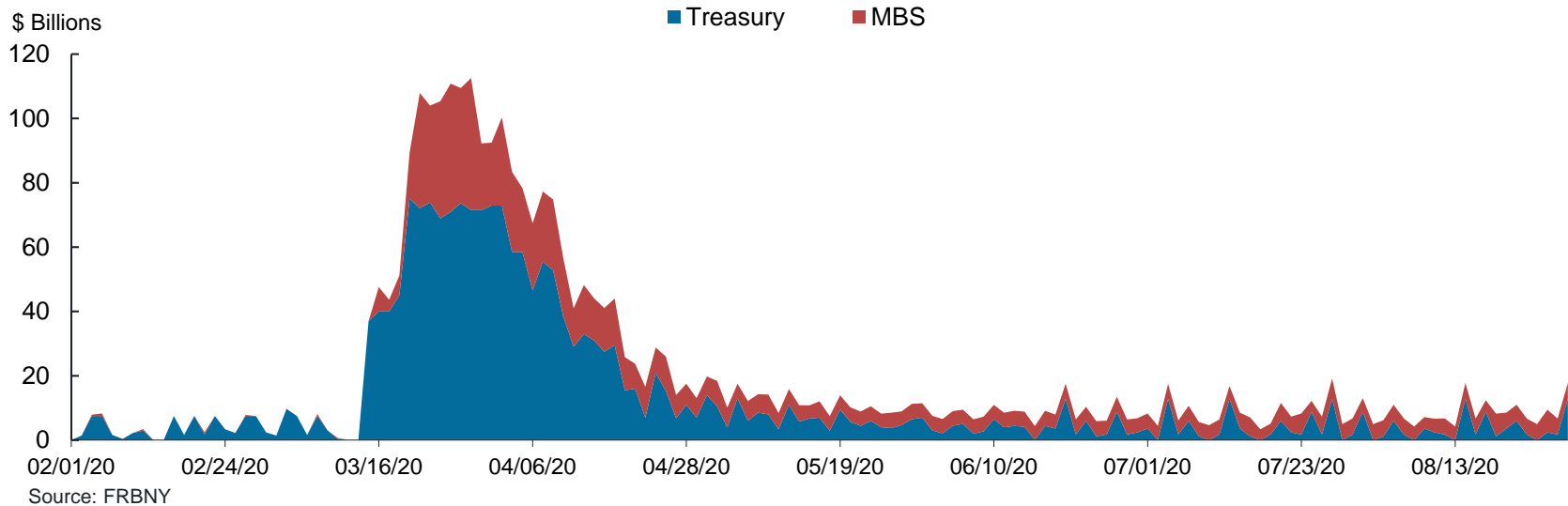
Dealer Inventory of Nominal Treasury Coupons



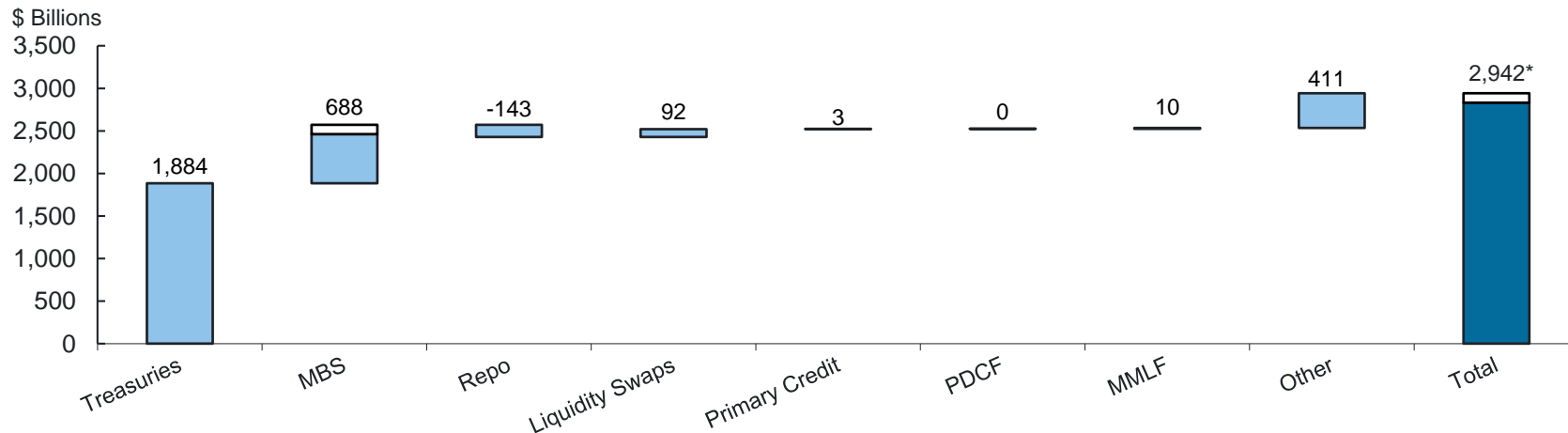
Source: FR 2004

Asset purchases and the balance sheet

Daily SOMA Treasury and MBS Purchases



Change in Federal Reserve Assets Since 02/26/20

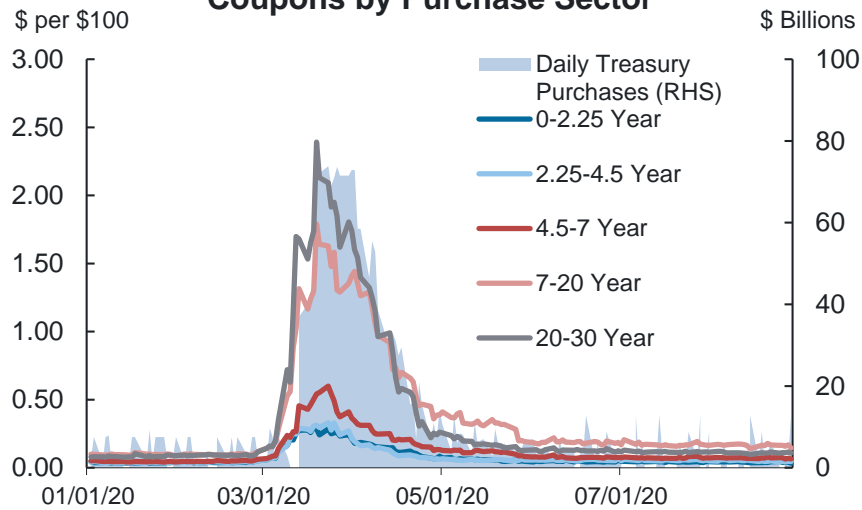


Note: White bar indicates unsettled MBS. Levels as of Wednesday August 26th, 2020.
 Source: Federal Reserve Board of Governors, H.4.1 release



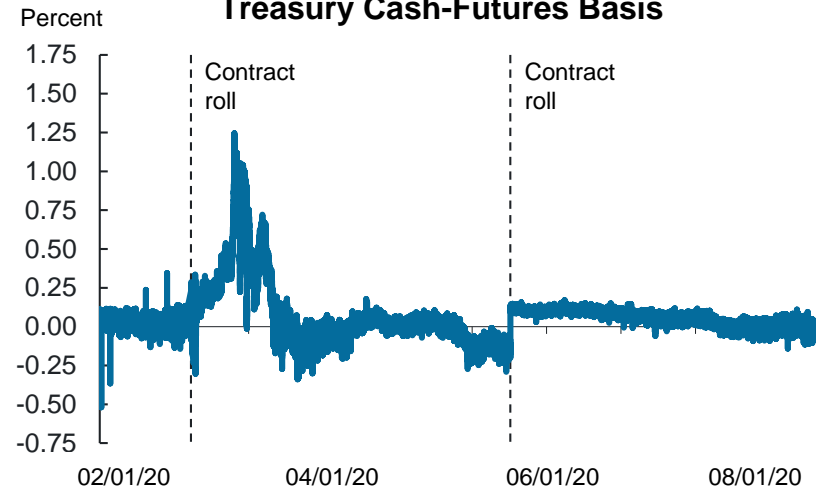
Notable improvement in market functioning

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



Source: Bloomberg, FRBNY

Treasury Cash-Futures Basis

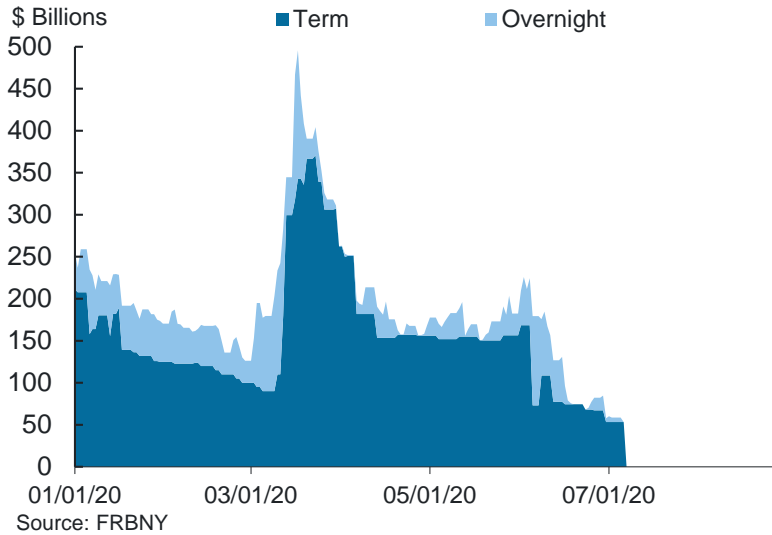


Note: Chart shows the 5-year futures implied repo rate as a spread to 3-month OIS; reference contract changes at the end of February and May due to contract rolls.

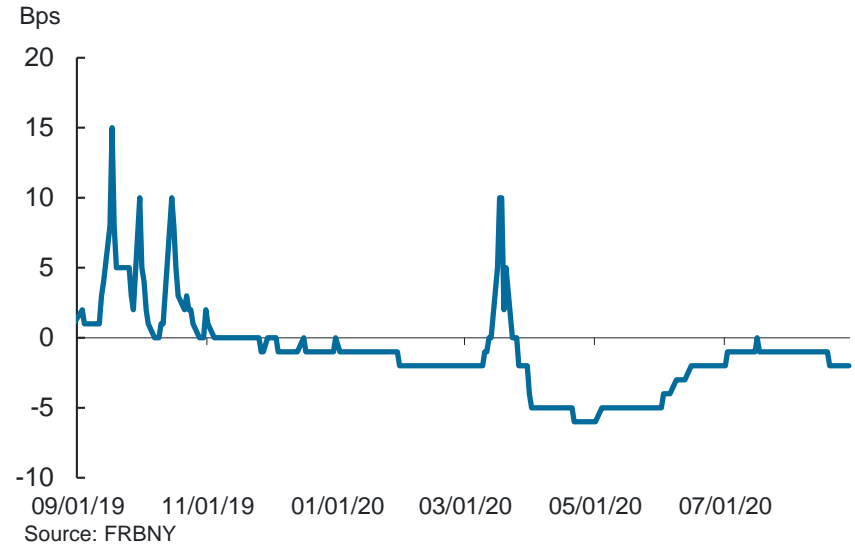
Source: Bloomberg, Desk Calculations

Dollar funding conditions have normalized

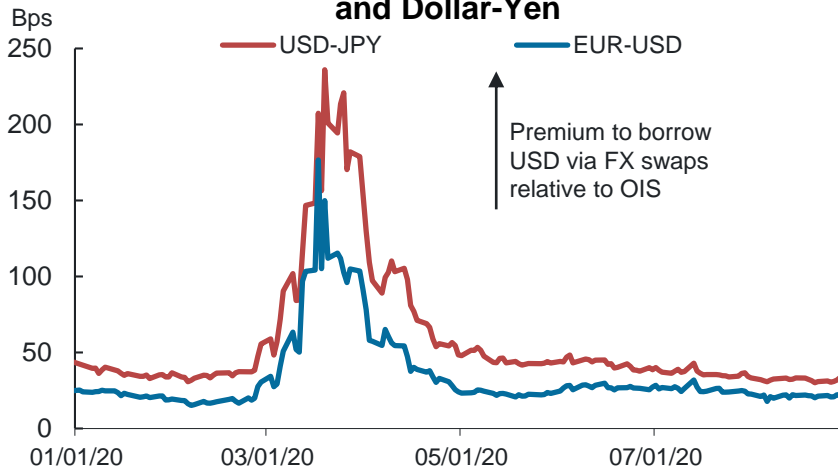
Fed Repo Outstanding



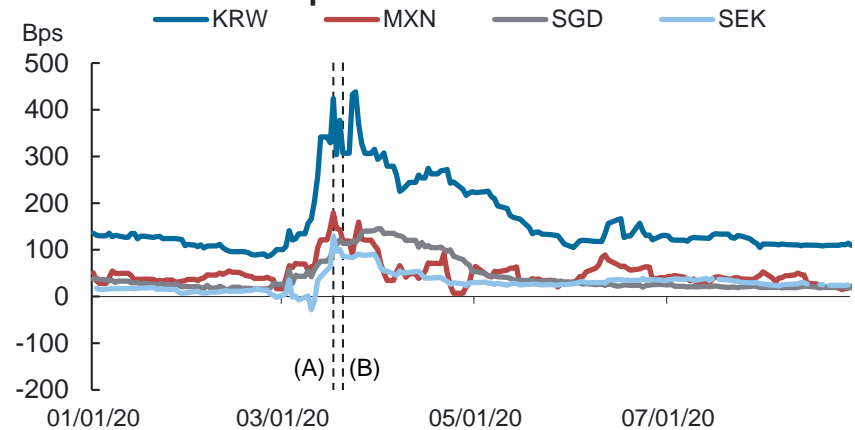
OBFR Spread to IOER



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



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



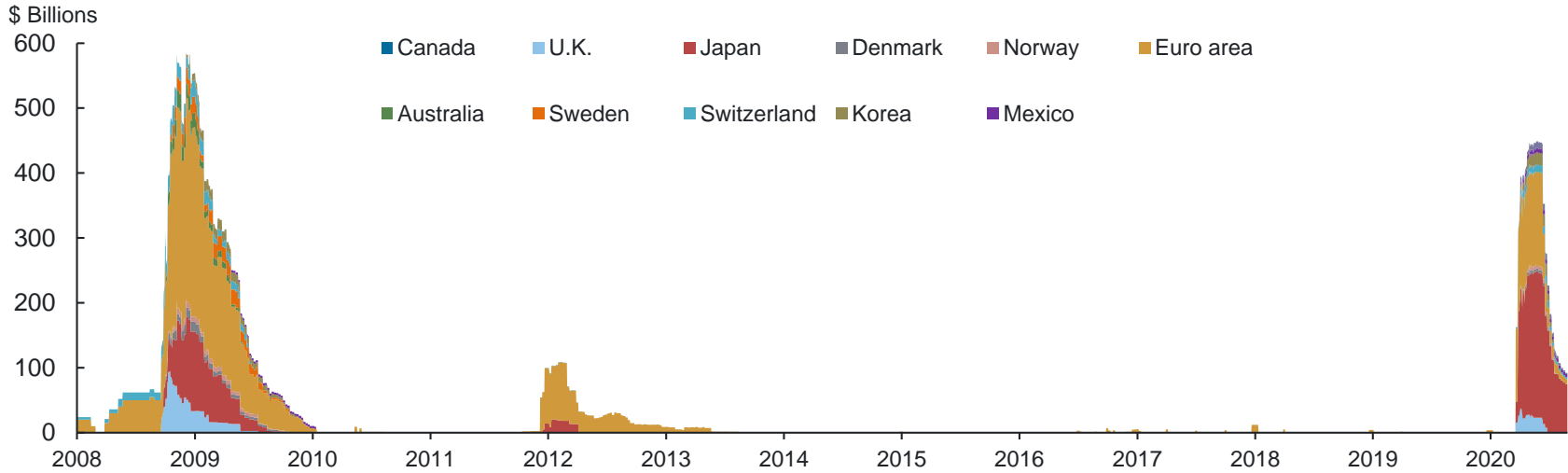
Note: Based on OIS.
Source: Bloomberg, Desk Calculations

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



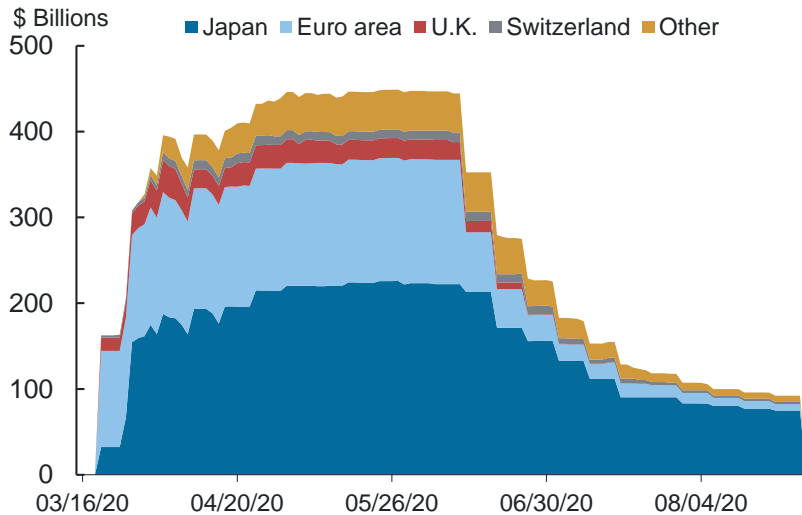
U.S dollar swap line facility usage

Foreign Central Bank Liquidity Swaps



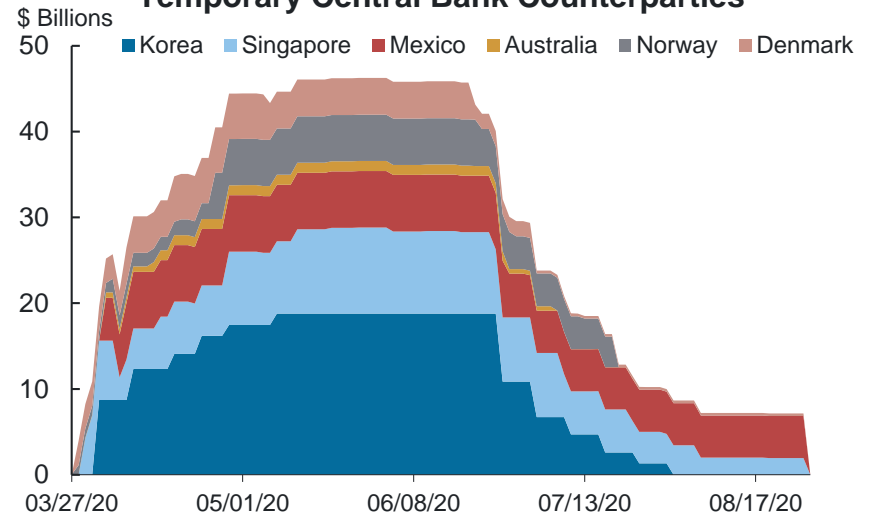
Source: FRBNY

FX Swaps Outstanding by Central Bank Counterparty



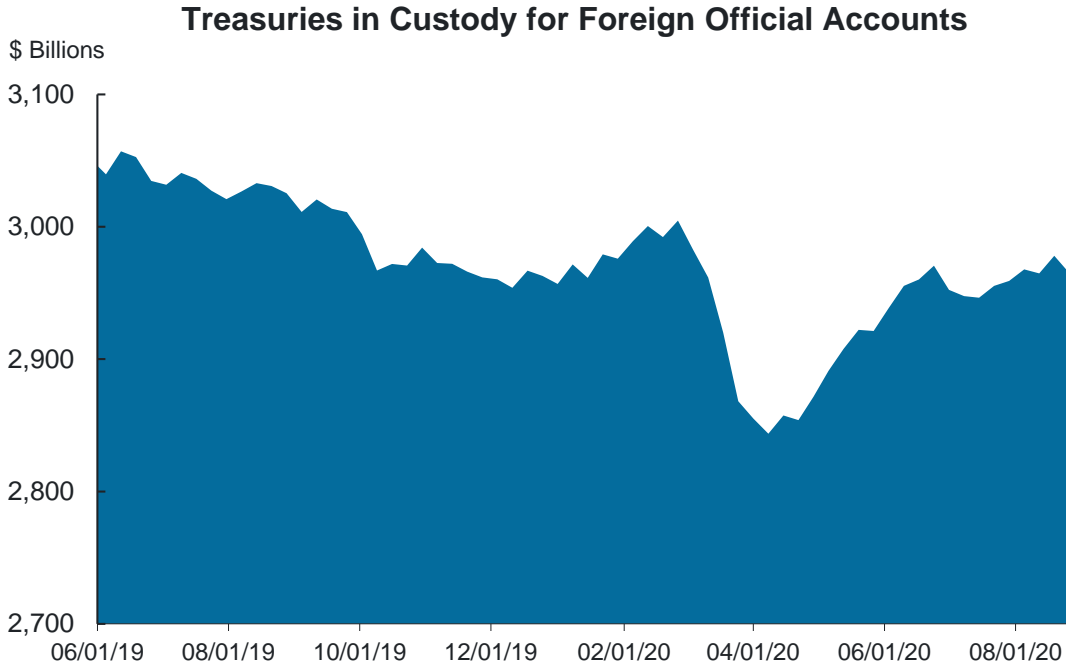
Source: FRBNY

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](#)

Daleep Singh, [The Fed's Emergency Facilities: Usage, Impact, and Early Lessons](#)

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](#)

