

COVID-19 and Financial Stability

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Federal Reserve Board

The views expressed do not necessarily reflect those of the Federal Reserve Board or its staff

COVID-19

In **United States of America**, from **Jan 20** to **2:48pm CEST, 1 September 2020**, there have been **5,936,572 confirmed cases** of COVID-19 with **182,162 deaths**.

United States of America Situation

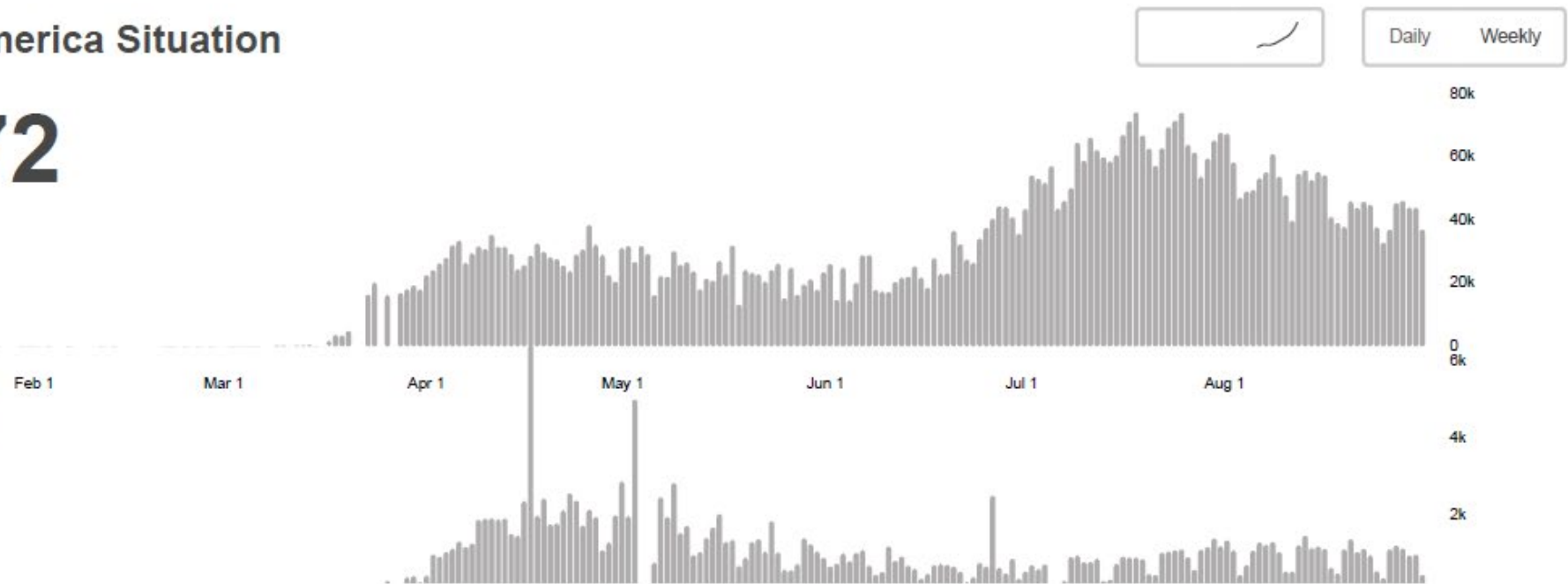
5,936,572

confirmed cases

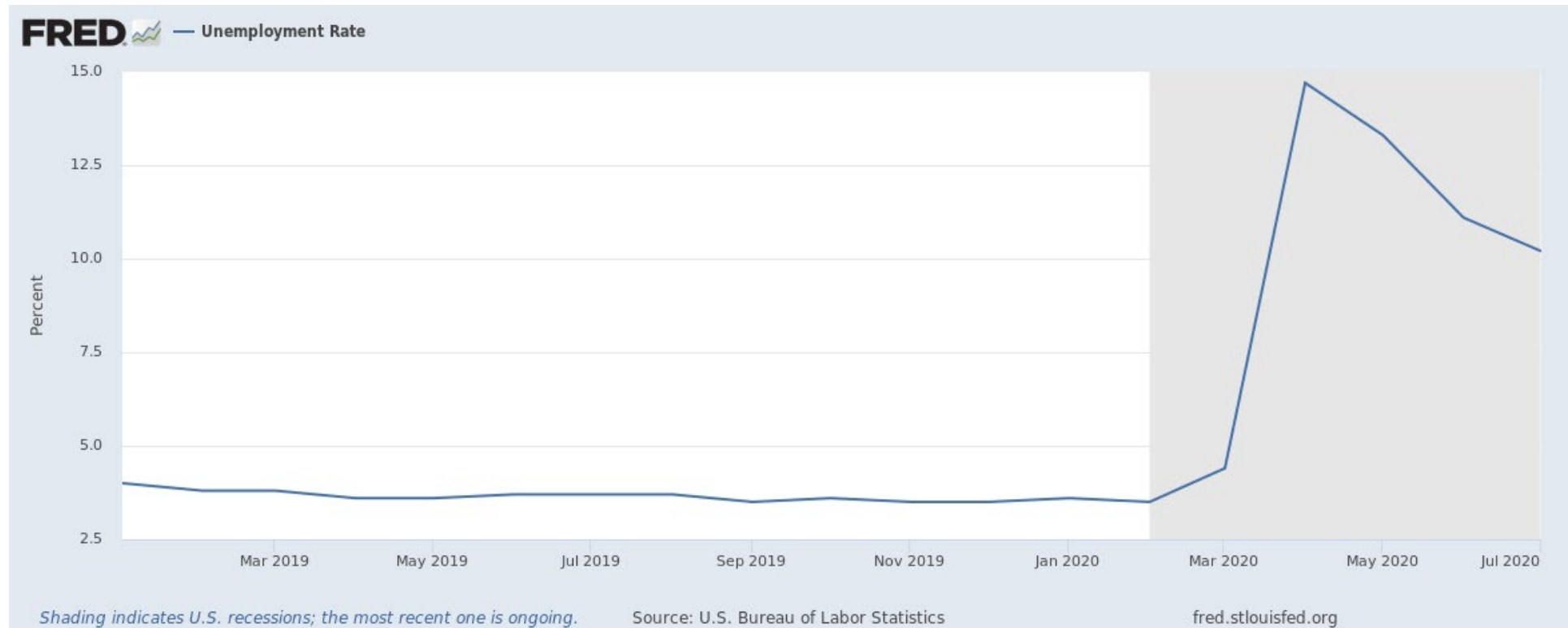
182,162

deaths

Source: World Health Organization



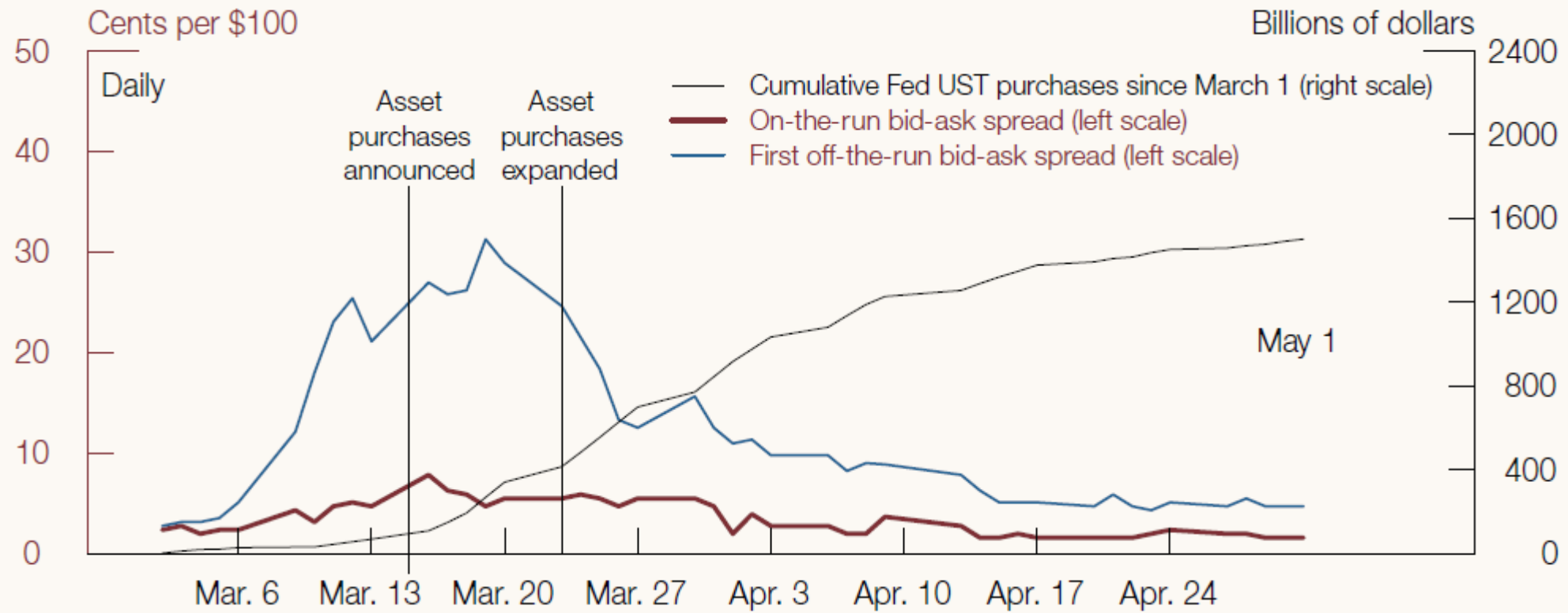
Background on economic impact



Financial strains in the wake of
COVID-19

Strains in Treasury markets

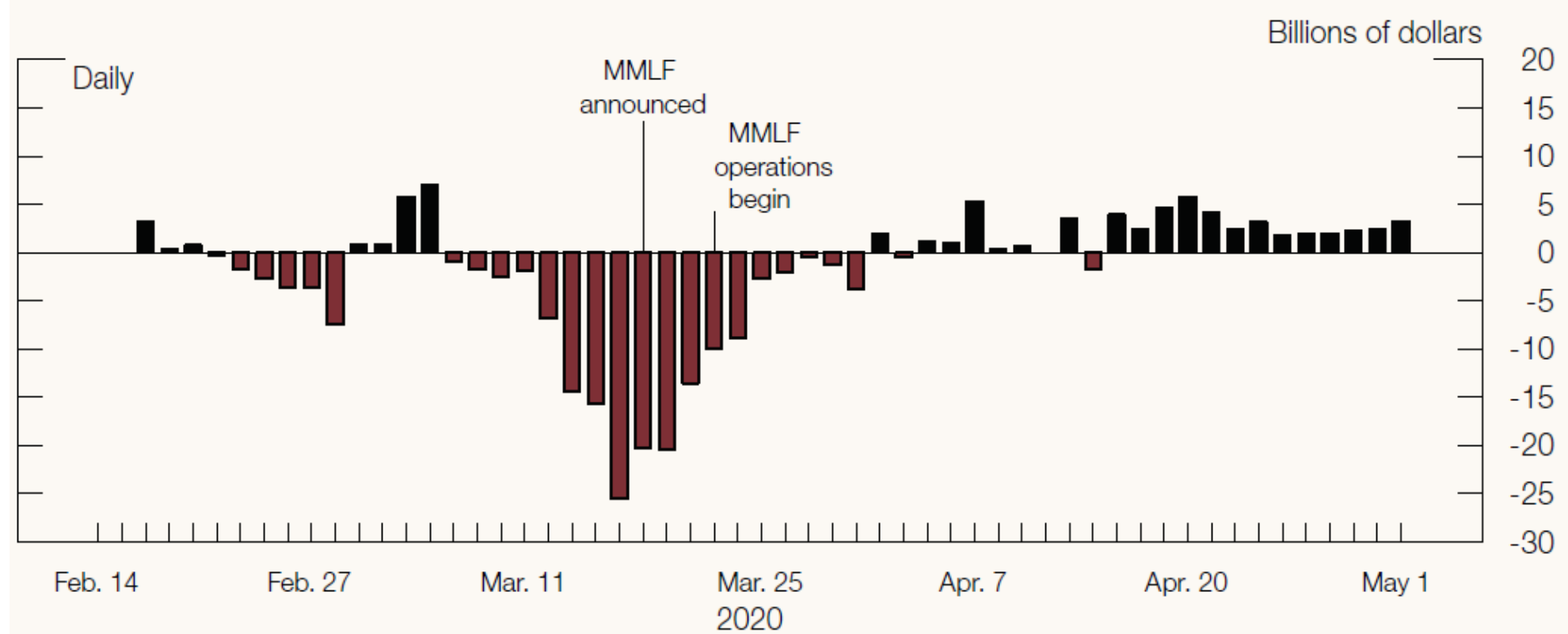
Figure A. Indicative U.S. Treasury Bid-Ask Spreads



Source: Federal Reserve Bank of New York.

Strains at institutional prime money-market funds (MMMFs)

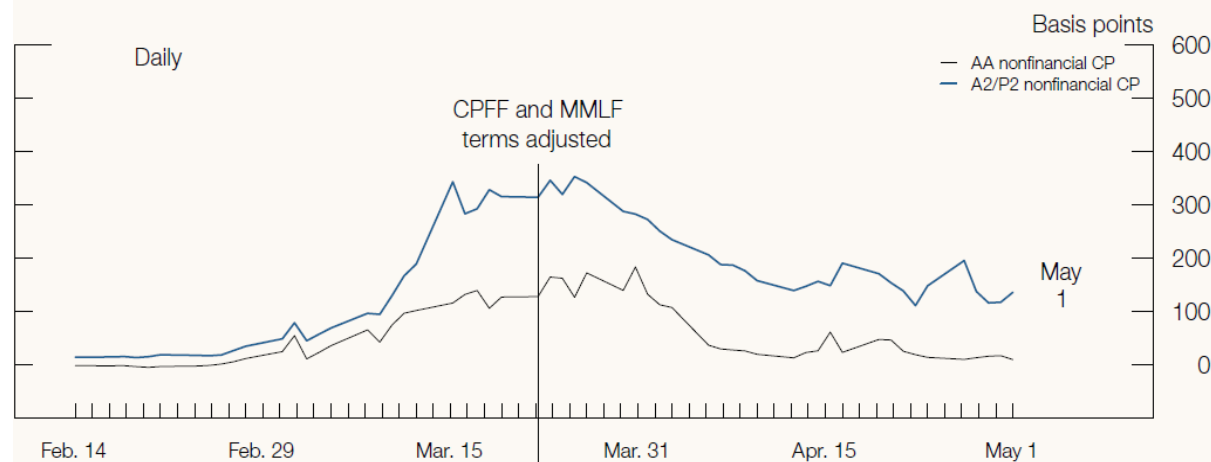
Figure B. Prime Money Market Mutual Fund Net Flows



Source: iMoneyNet, Money Fund Analyzer-Gold.

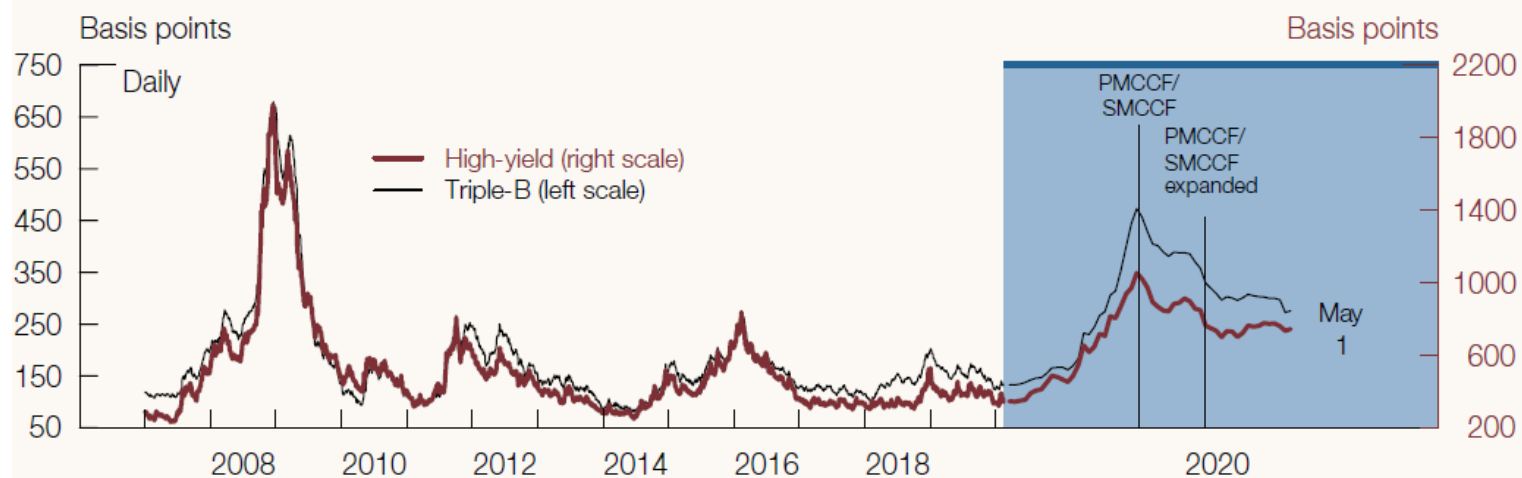
Strains in corporate funding/debt markets

Figure D. 1-Month Funding Market Spreads for Investment-Grade Nonfinancial Firms



Source: Bloomberg Finance L.P.; DTCC Solutions LLC, an affiliate of the Depository Trust & Clearing Corporation.

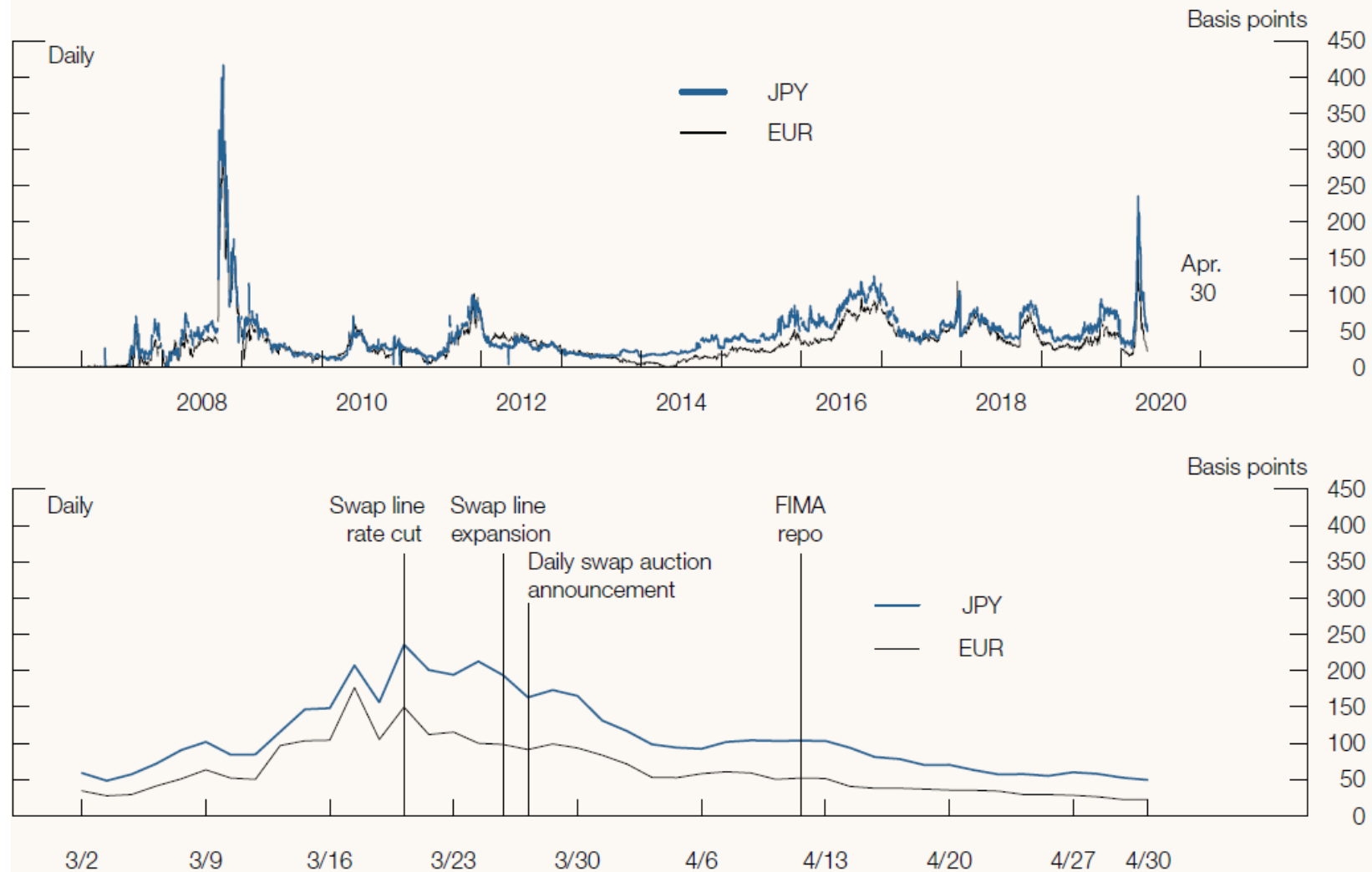
Figure F. Corporate Bond Spreads to 10-Year Treasury



Source: ICE Data Indices, LLC, used with permission.

Strains in FX markets

Figure A. Three-Month FX Swap Basis Spreads



Source: Federal Reserve Bank of New York calculations based on data from Bloomberg Finance L.P.

Federal Reserve policy response

Federal Reserve policy response

Three categories

- (1) monetary policy measures, to bolster economic activity over the medium term and to support more immediate market functioning concerns, thereby fostering effective monetary policy transmission;
- (2) steps to stabilize short-term funding markets; and
- (3) actions to support more directly credit flows to households, businesses, and communities.

Monetary policy

- On March 3, 2020, the Federal Open Market Committee (FOMC) reduced the target range of the federal funds rate and on March 15 reduced it further to near zero.
- To support market functioning, the FOMC undertook purchases of Treasury securities and agency MBS in the amounts needed to support smooth market functioning, and with these purchases market conditions improved substantially

Short-term funding markets

- Commercial Paper Funding Facility (CPFF)
- Money Market Mutual Fund Liquidity Facility (MMLF)
- Primary Dealer Credit Facility (PDCF)

More direct support for credit across the economy

- Term Asset-Backed Securities Loan Facility (TALF) to facilitate the issuance of auto loans, equipment leases, credit card loans, and other lending that is bundled into securities that are sold to investors
- Paycheck Protection Program Liquidity Facility (PPPLF) was established on April 9 (and revised on April 30) to extend credit to lenders that participate in the Small Business Administration's Paycheck Protection Program (PPP)
- Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF) to support the flow of credit to large investment-grade U.S. corporations so that they can maintain business operations and capacity
- Municipal Liquidity Facility (MLF) to help state and local governments better manage cash flow pressures
- Main Street Lending Program to support the flow of credit to small and medium-sized businesses

Federal Reserve Tools to Lessen Strains in Global Dollar Funding Markets

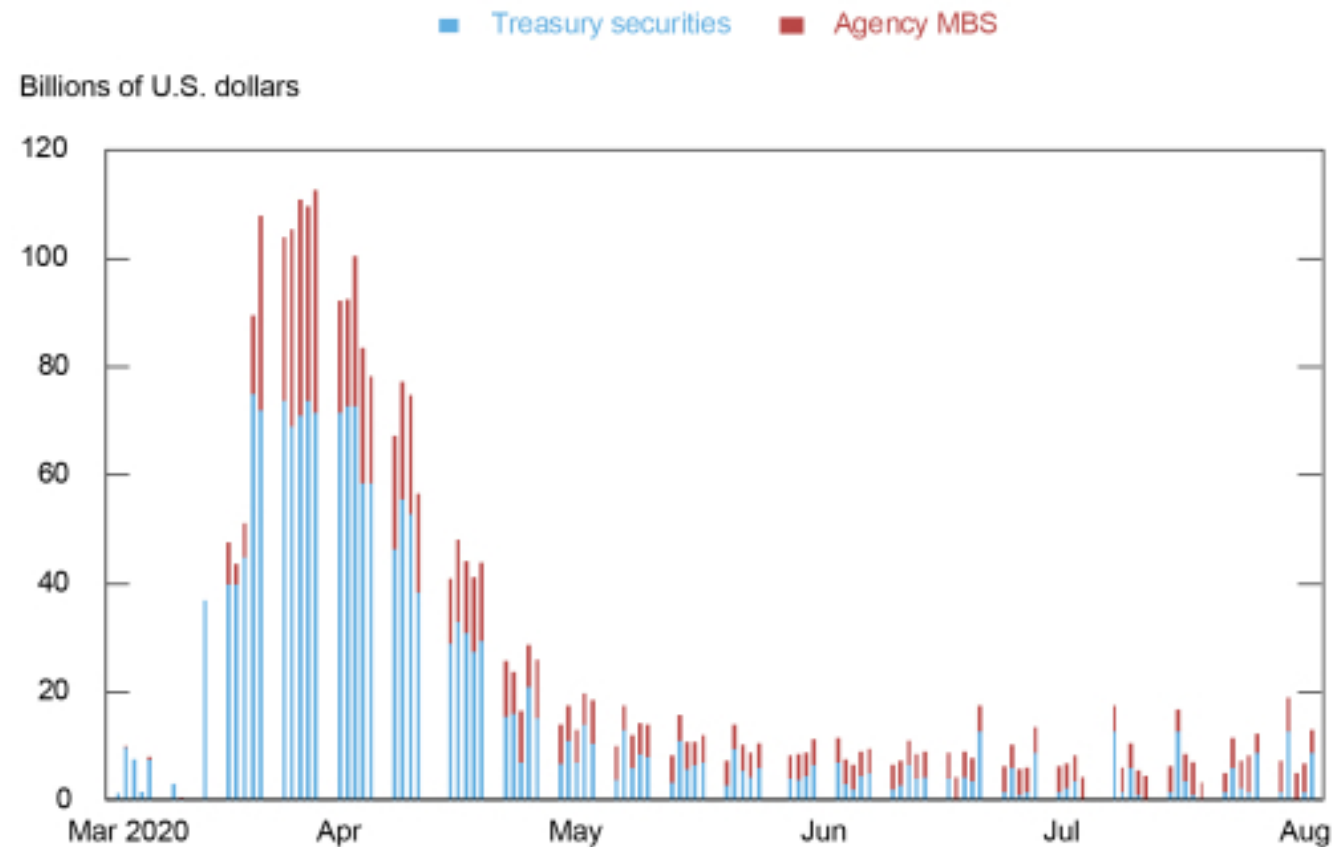
- The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank have taken coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements.
 - Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Korea, the Banco de Mexico, the Monetary Authority of Singapore, and the Sveriges Riksbank.
- In addition, the Federal Reserve has established temporary dollar liquidity swap lines with nine additional foreign central banks.

Recent developments

Recent developments: Market functioning purchases

System Open Market Account Daily Purchases

(March 1 – August 1, 2020)



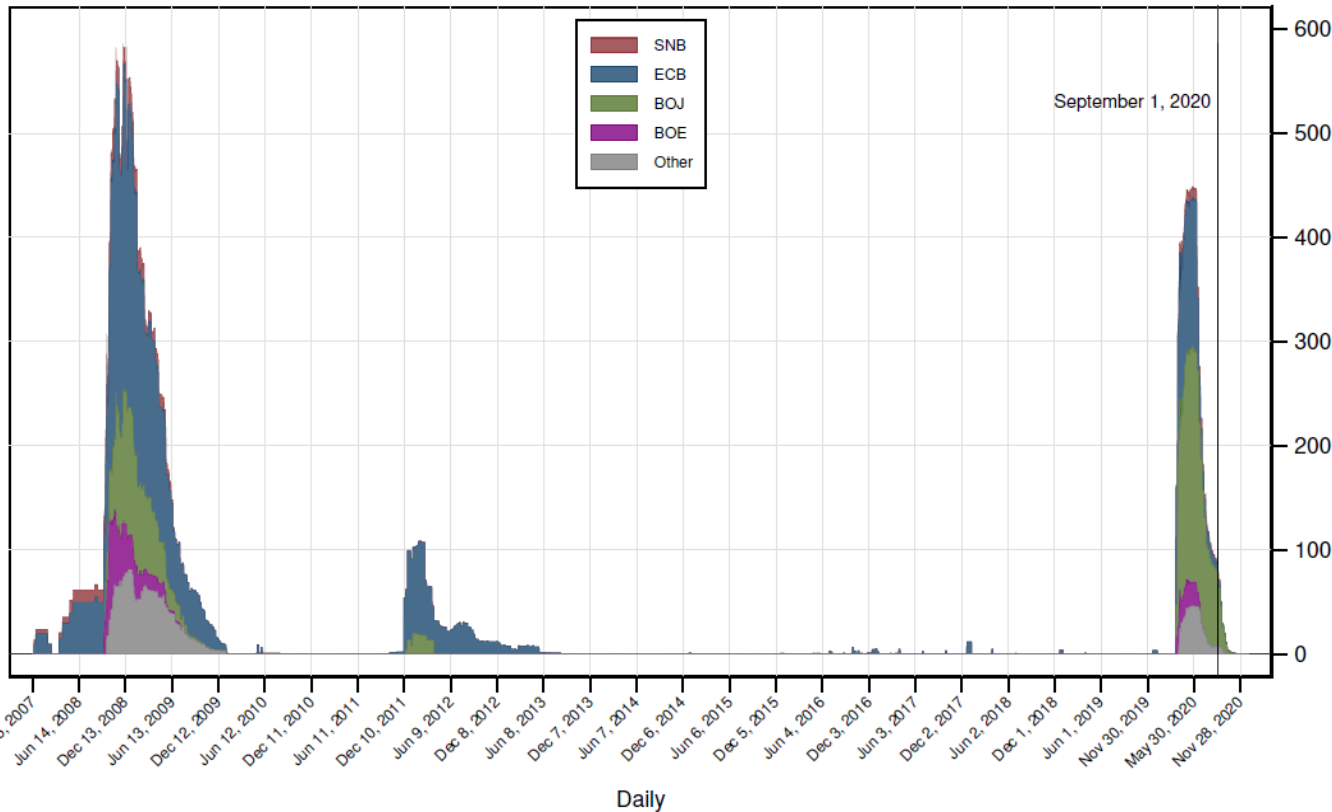
Source: Federal Reserve Bank of New York.

Recent developments: FX swaps outstanding

Central Bank Liquidity Swaps Outstanding

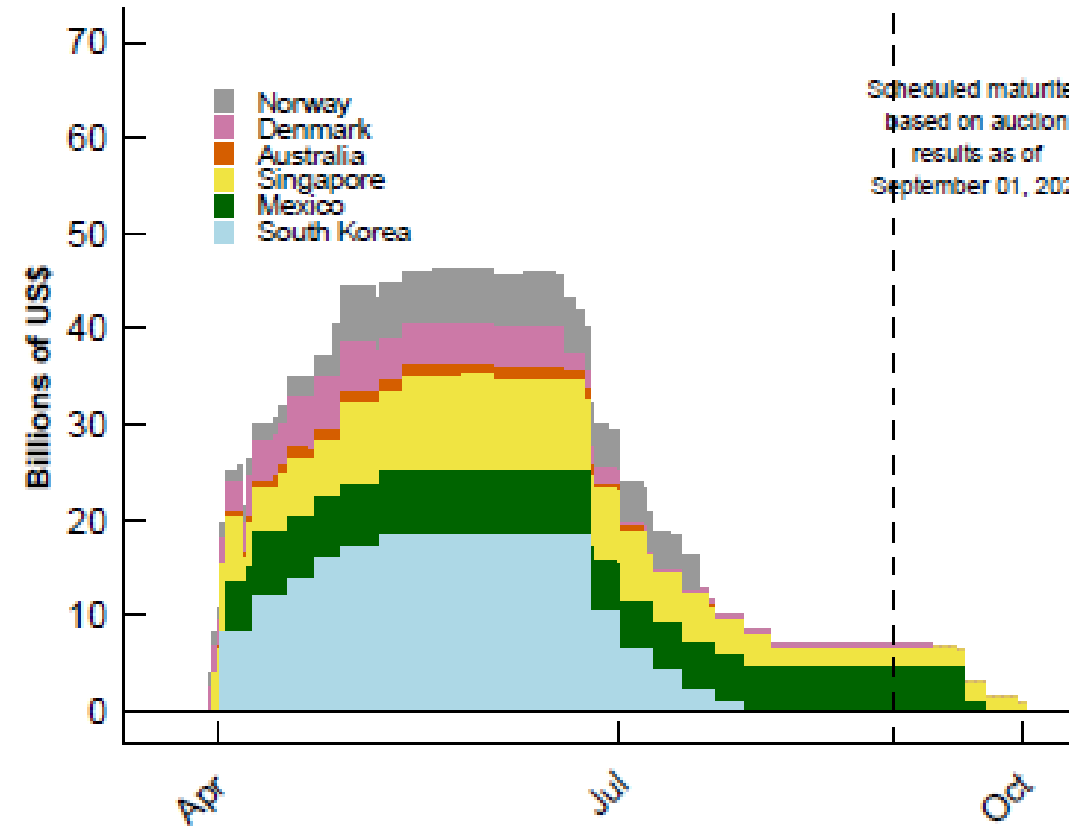
December 2007 – June 2020

Billions of dollars



Note: Values beyond the current date indicate the expiry pattern of currently outstanding swaps. Swap operations are being conducted weekly. Others includes Bank of Korea, Bank of Canada, Reserve Bank of Australia, Danmarks Nationalbank, Norges Bank, Banco de Mexico, Sveriges Riksbank

Temporary USD Swap Lines



Recent developments: credit facilities

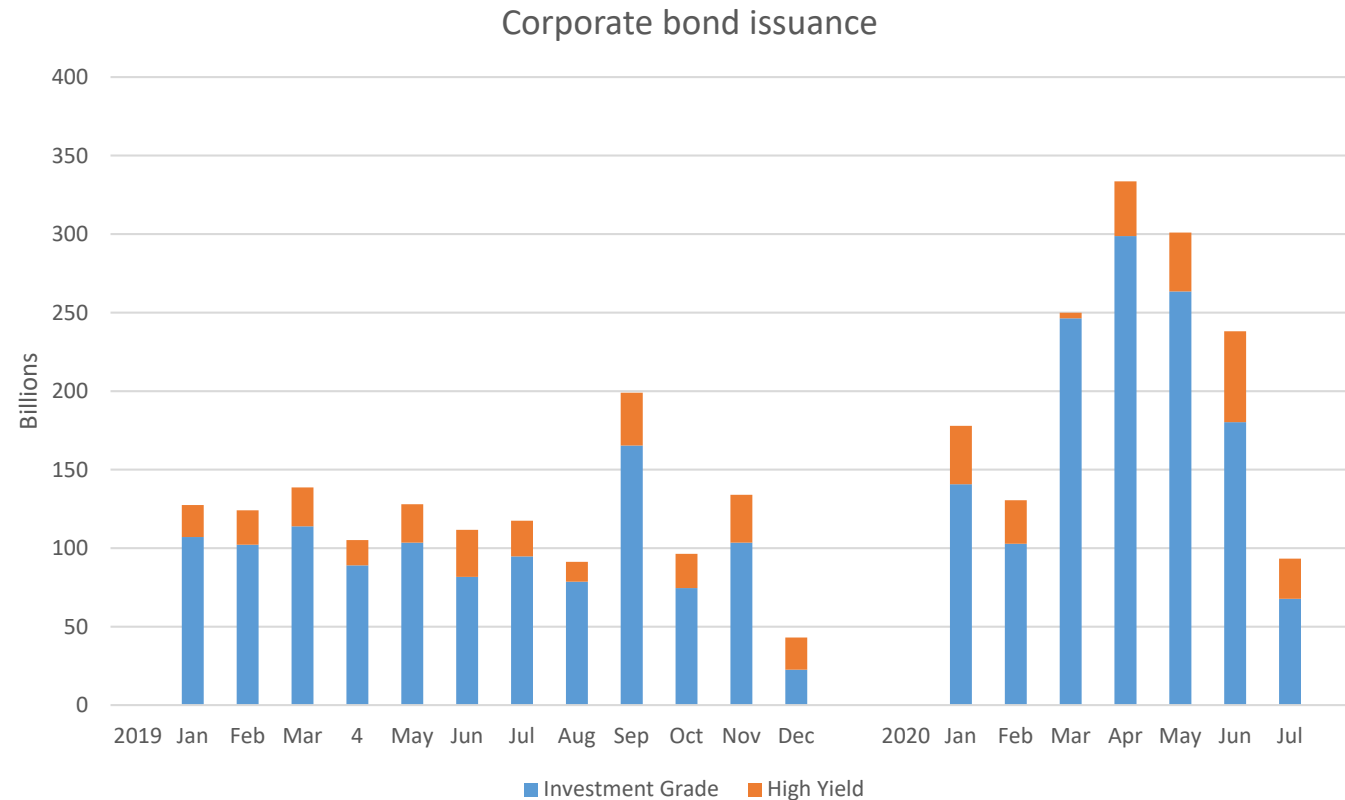
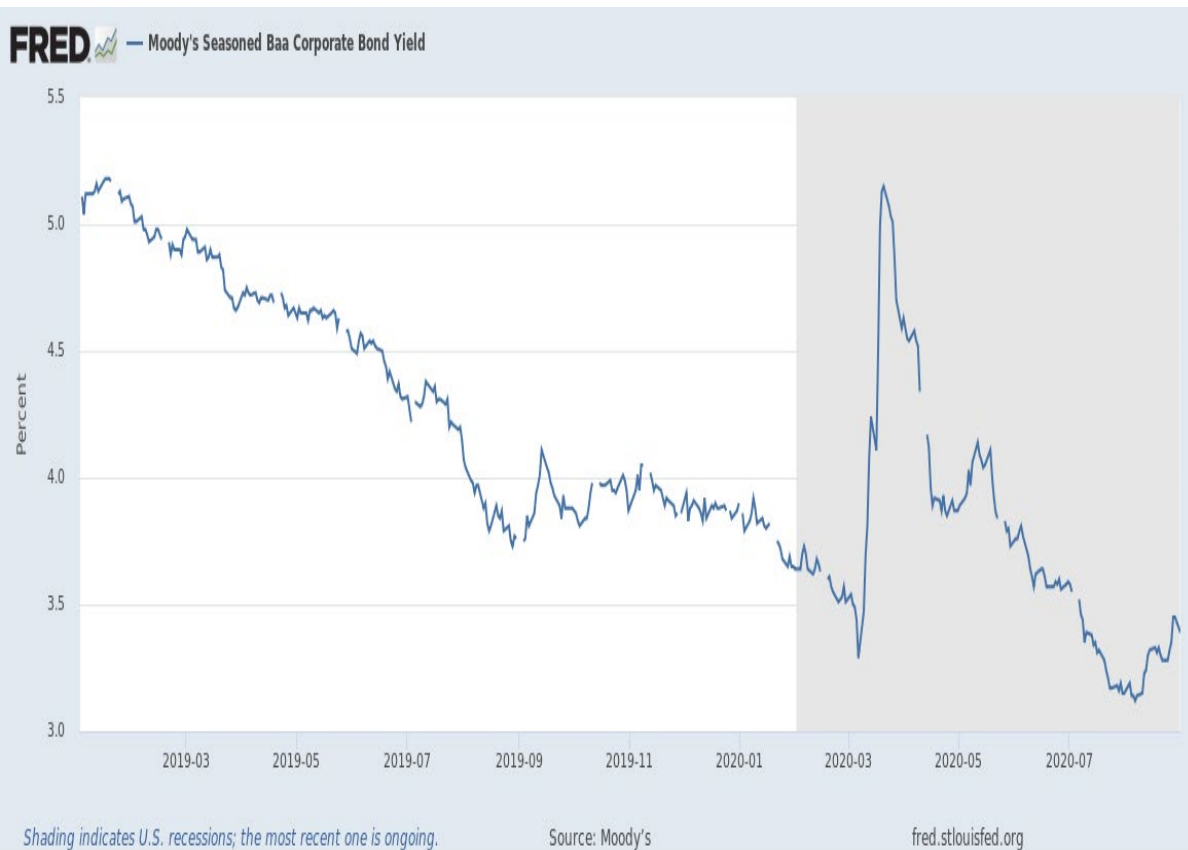
4. Information on Principal Accounts of Credit Facilities LLCs

Millions of dollars

Credit Facilities LLCs:	Wednesday Aug 26, 2020			
	Outstanding principal amount of loan extended to the LLC ¹	Net portfolio holdings of Credit Facilities LLCs		
		Outstanding amount of facility asset purchases ²	Treasury contributions and other assets ³	Total
Commercial Paper Funding Facility II LLC	30	30	8,558	8,588
Corporate Credit Facilities LLC	12,413	12,617	31,986	44,604
MS Facilities LLC (Main Street Lending Program)	855	855	37,515	38,371
Municipal Liquidity Facility LLC	1,651	1,651	14,890	16,541
TALF II LLC	2,266	2,256	8,515	10,771

Note: Components may not sum to totals because of rounding.

Recent developments: Corporate bonds



Source: SIFMA

Recent developments: Commercial and industrial loans

