



Primary dealers absorb nearly 40% of the Fed's net sales of Treasuries

Since October 2017, the Federal Reserve (Fed) has no longer been rolling over all of the debt maturing in its securities portfolio. In other words, it is proceeding with net asset sales (tapering). By 26 June, its holdings of US Treasuries had declined by USD 355 billion while Agency debt securities and Agency mortgage backed securities were down by USD 249 billion.

The shrinking of the Fed's balance sheet has had a notable impact on money market rates due to the pressure it is placing on central bank liquidity. Pressures have picked up since last fall, when declining yields reduced investors' appetite for Treasuries. As a result, there has been a big increase in the net position of primary dealers in Treasuries: inventory increased by USD 140 billion between October 2018 and June 2019. To finance these "net purchases", primary dealers have increased their borrowing on the repo market, placing upward pressure on repo rates.

**Primary dealers act as a market maker for government securities, participating in auctions, placing securities and ensuring liquidity in the secondary market for T-bills.*

