A tool for swelling reserves on hand

Concerned about reducing pressure in the money markets, the Federal Reserve (Fed) will proceed with outright securities purchases in addition to its repurchase agreement operations (repo). At the end of the year, between USD 365 bn and 400 bn* in central bank money could thus be injected into the current accounts of banks.

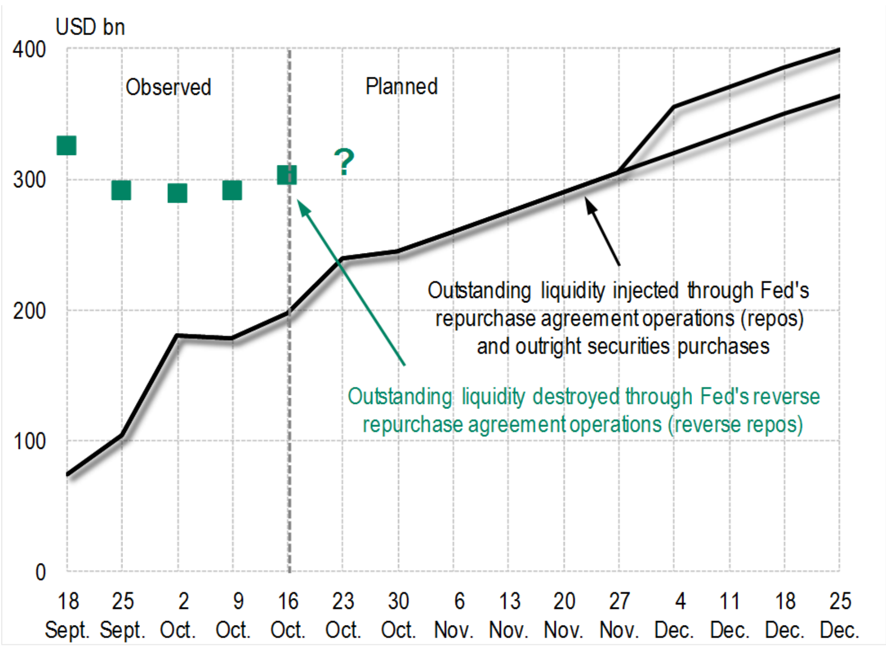
Given the current amount of the outstanding liquidity lent, the upward trend in currency in circulation and the foreseeable rebuilding of the Treasury account with the Fed, the banks' reserves with the central bank are unlikely to increase by more than USD 130 bn by the end of the year (to a total of nearly USD 1600 bn, the April 2019 level).

Yet these supplementary reserves could be smaller if the Fed maintains its generous reverse repo operations with foreign central banks. By restricting their scale, however, it would be able to free up space on its balance sheet for bank reserves.

* We assume the pace of securities purchases will be USD 15 bn per week. The lower end of the estimation range is based on the hypothesis that the current ceiling on repo operations will be maintained at USD 215 bn (USD 75 bn in overnight repos + 4 longer-term refinancing operations of USD 35 bn each), while the upper end is based on the assumption that in December, the ceiling on repo operations will be raised to the September level of USD 250 bn (USD 100 bn in overnight repos + 1 longer-term refinancing operation of USD 30 bn + 2 longer-term refinancing operations of USD 60 bn each).

Schizophrenia

On 16 Oct. 2019, the Fed injected USD 200 bn of liquidity and destroyed USD 300 bn



Source: Federal Reserve, FRBNY, BNP Paribas