



FEDERAL RESERVE BANK *of* NEW YORK

Balance Sheet Runoff and Money Market Monitoring
Crane's Money Fund Symposium

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The views here are of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or Federal Reserve System.

A Year in Numbers

	June 2023	June 2024	Change
Fed Funds Target Range	5.00-5.25%	5.25-5.50%	+0.25%
SOMA Securities Holdings	\$7.7 trillion	\$6.8 trillion	-\$900 bn
Reserves	\$3.4 trillion	\$3.5 trillion	~unch
ON RRP	\$2.1 trillion	\$400 billion	-\$1700 bn
MMF AUM	\$5.9 trillion	\$6.4 trillion	+\$500 bn



Federal Reserve Balance Sheet Reduction To Date, so called "QT"

- Since June 2022, the FOMC has been reducing the SOMA portfolio by allowing securities to redeem subject to a monthly cap; the balance sheet has declined by \$1.7 trillion.
- Declines in ON RRP balances thus far have matched SOMA portfolio runoff.
- Reserve balances are little changed.

Figure 1: Selected Assets of Federal Reserve

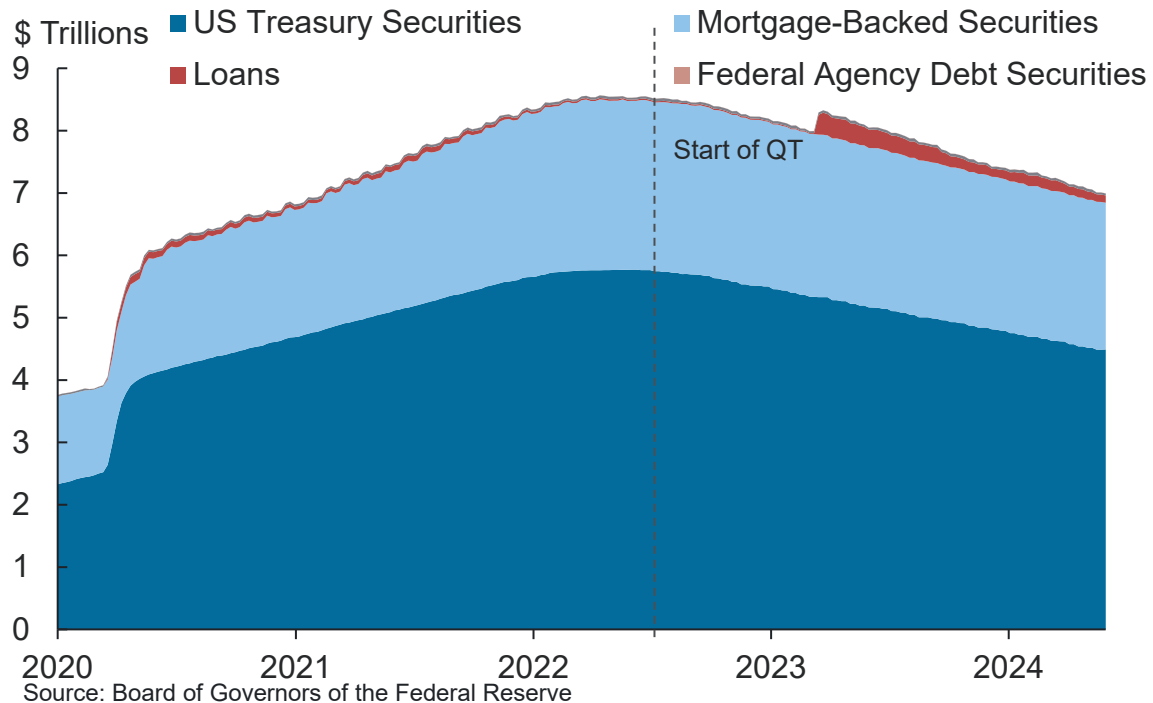
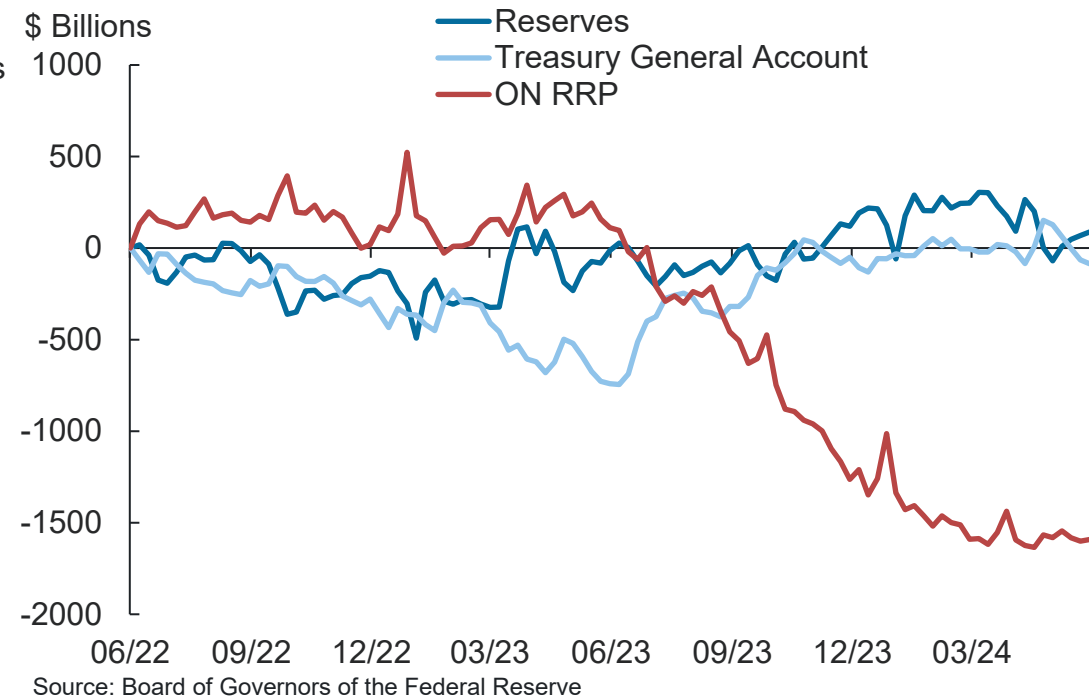


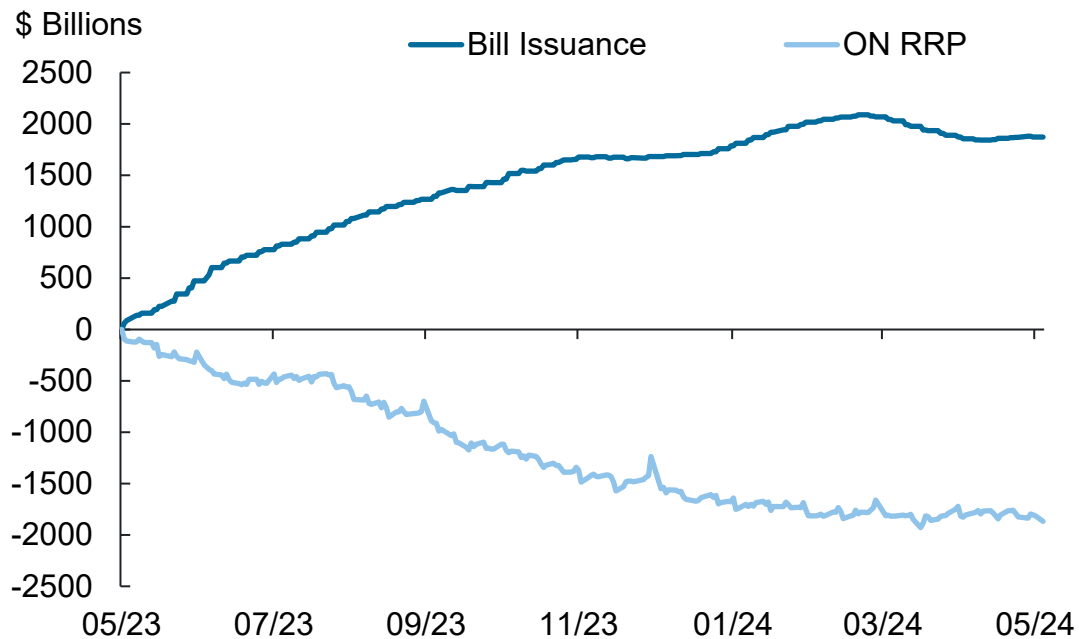
Figure 2: Change in Selected Fed Liabilities since Start of QT



Impact of Balance Sheet Reduction in Money Markets

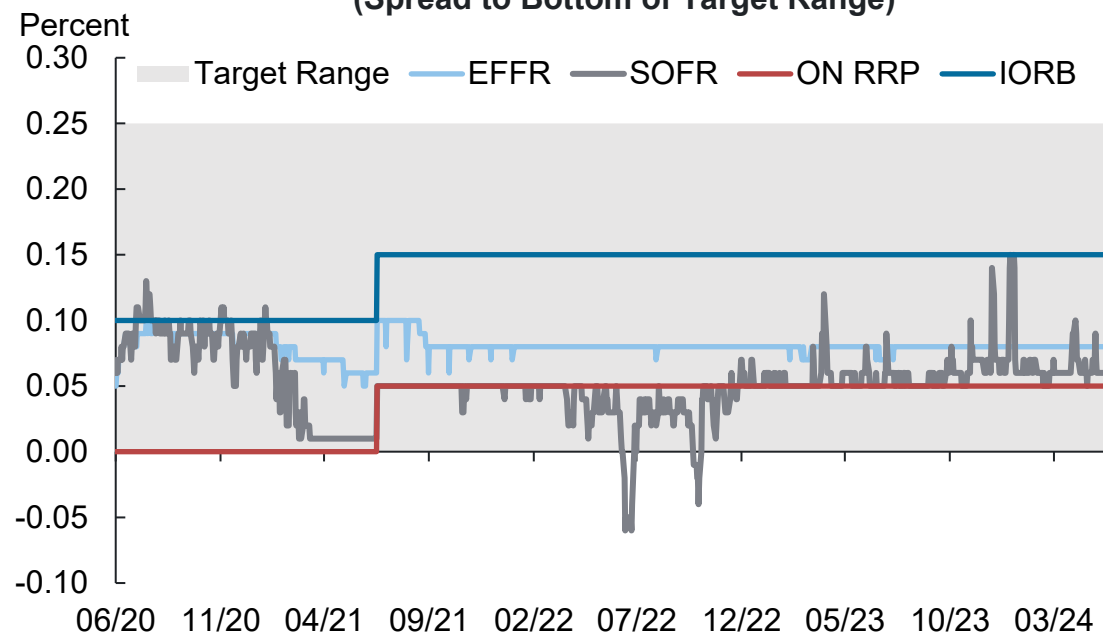
- ON RRP counterparties moved out of the facility as the supply of alternative investments grew and comparative rates became more attractive.
- The Fed continues to exercise firm rate control through administered rates amid meaningful shifts in the balance sheet and reductions in liquidity.

Figure 3: Bills vs ON RRP since June 2023



Source: Federal Reserve Bank of New York

Figure 4: Administered Rates and Overnight Rates (Spread to Bottom of Target Range)



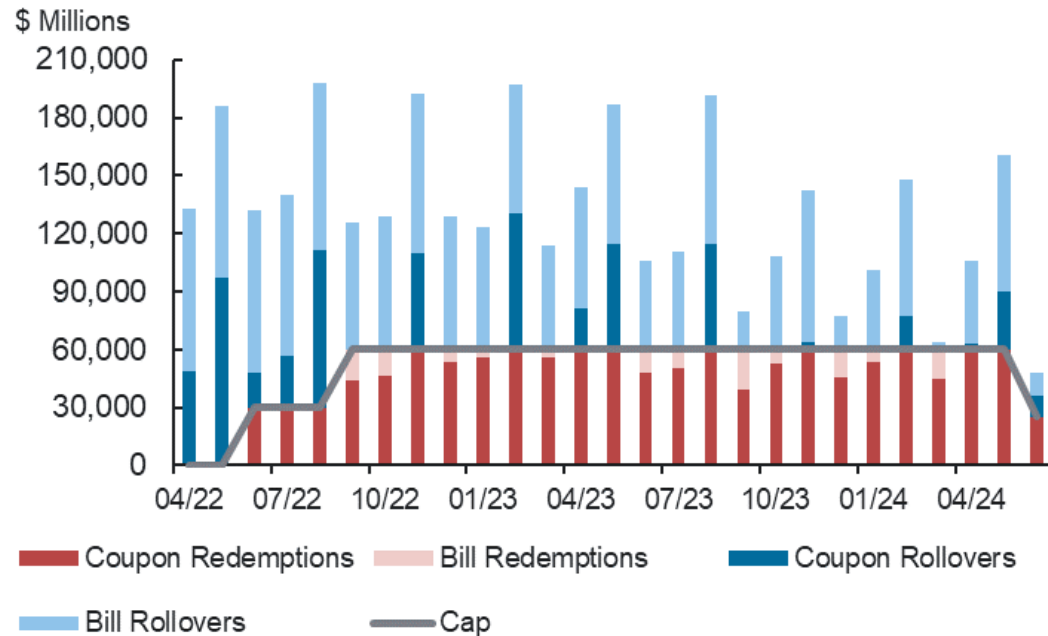
Source: Federal Reserve Bank of New York



Balance Sheet Outlook

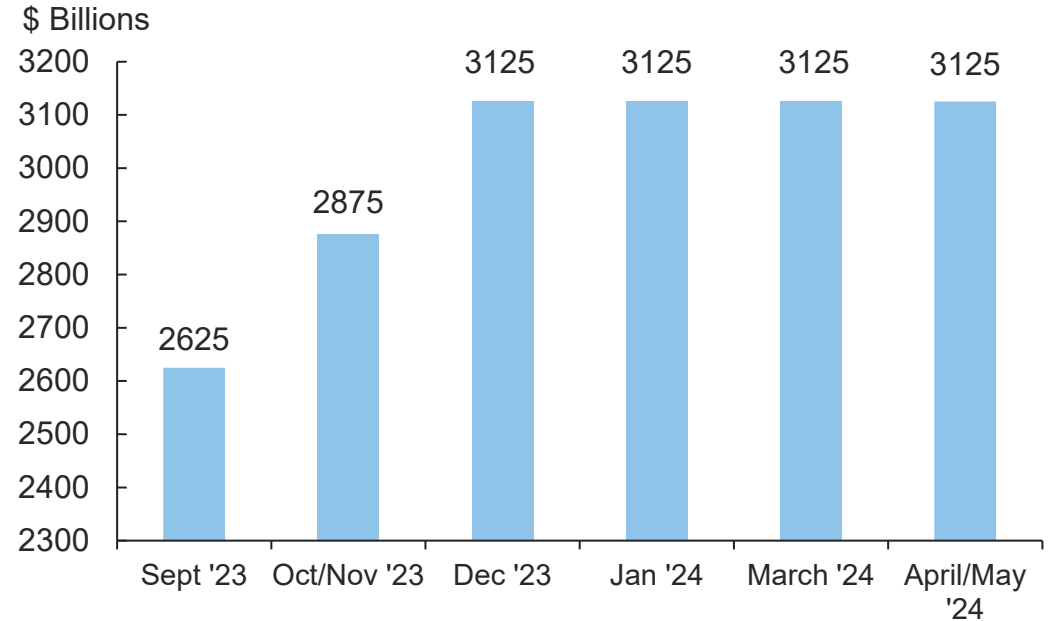
- In May 2024, the FOMC decided to slow runoff by lowering the monthly redemption cap for Treasuries to \$25 billion starting in June, but maintained the \$35 billion Agency debt and MBS redemption cap.
- QT should continue to push money market rates higher, widening spreads to IORB.
- ON RRP is expected to decline to near-zero then reserves should decline more substantially.

Figure 5: Coupon Rollovers, Redemptions and Bill Maturities



Source: Federal Reserve Bank of New York

Figure 6: Median Expectations for Level of Reserves at End of QT

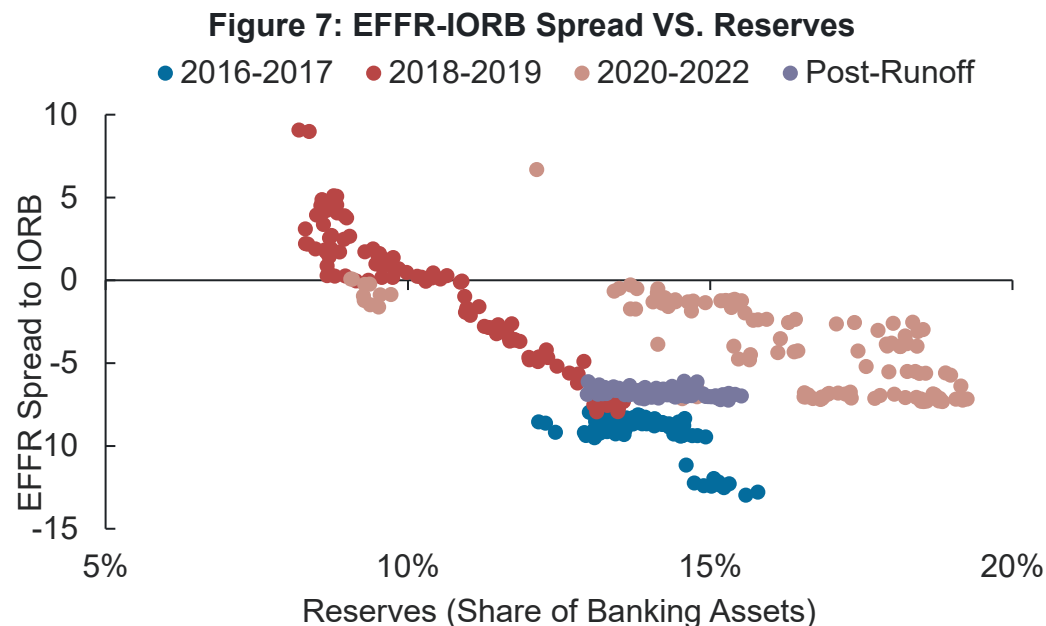


Source: Federal Reserve Bank of New York Survey of Primary Dealers

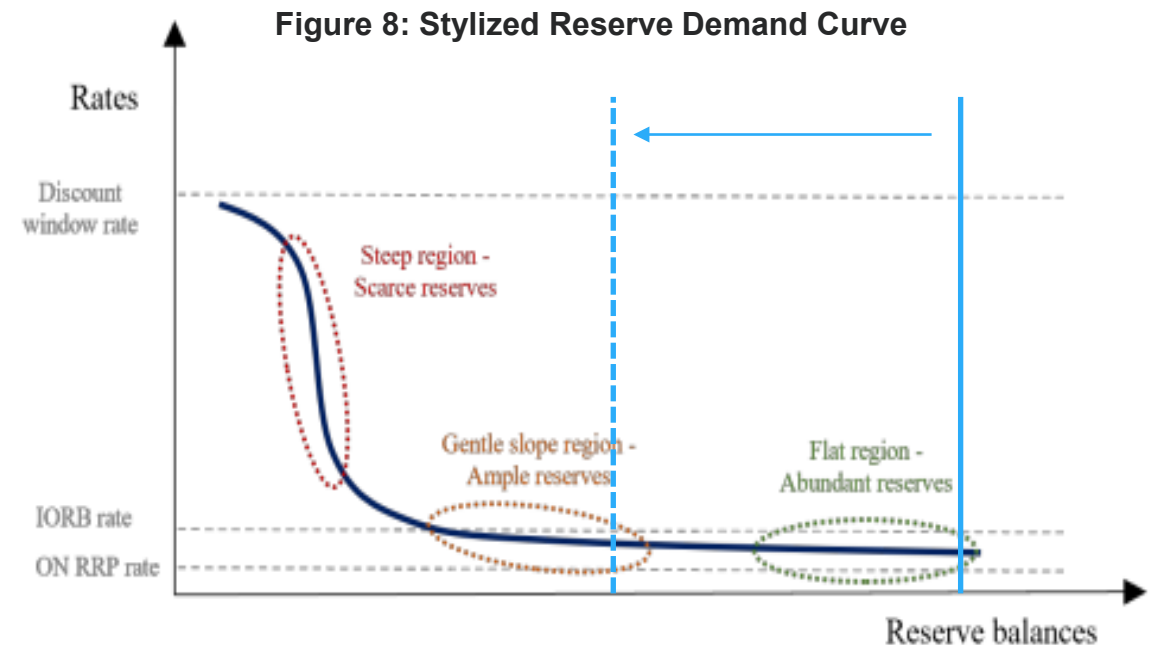


Return to Ample Reserves

- In May 2022, the FOMC issued plans for reducing the balance sheet and their intent to first slow runoff, and then stop the decline in SOMA when reserve balances are somewhat above ample levels. Balance sheet growth resumes to maintain ample reserves.
- The goal is to operate within 'gently sloped' region of the demand curve, where administered rates exert control over overnight rates and modest changes in reserve balances result in only modest changes in EFFR.



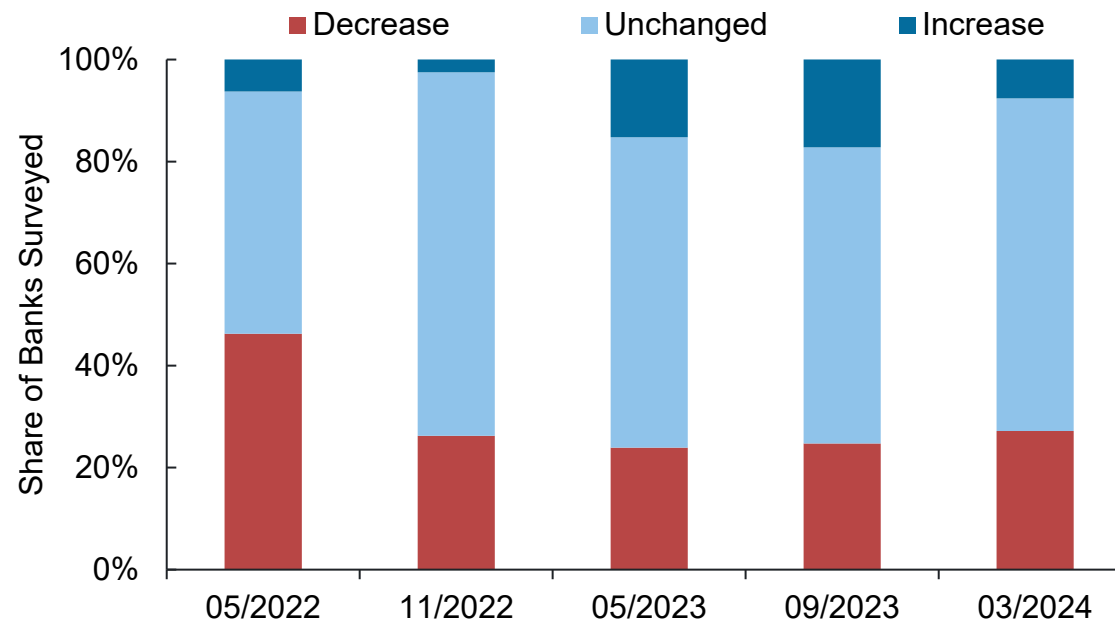
Source: Federal Reserve Bank of New York



Monitoring QT and Reserve Demand

- The Fed continues to monitor money markets and reserve conditions for indicators of ampleness through a variety of models and market metrics.
- We communicate regularly with market participants through outreach and formal surveys including the Senior Financial Officer Survey (SFOS).
- Standing backstop facilities limit the spillover from occasional disturbances in money markets that could pressure the EFFR above the top of the range.

Figure 9: SFOS Respondent Projected Change to Reserve Balances in Six Months



Source: Federal Reserve Senior Financial Officer Survey



Operational Readiness

- Continue to participate in small value exercises and conduct test trades to prepare for other market environments and contingency scenarios.
- Observing steady interest in the SRF from banks and increased participation. Natural to expect routine tests of various sizes, frequency, eligible security types.

Figure 10: SRF Take-up and Number of Counterparties

