



FEDERAL RESERVE BANK *of* NEW YORK

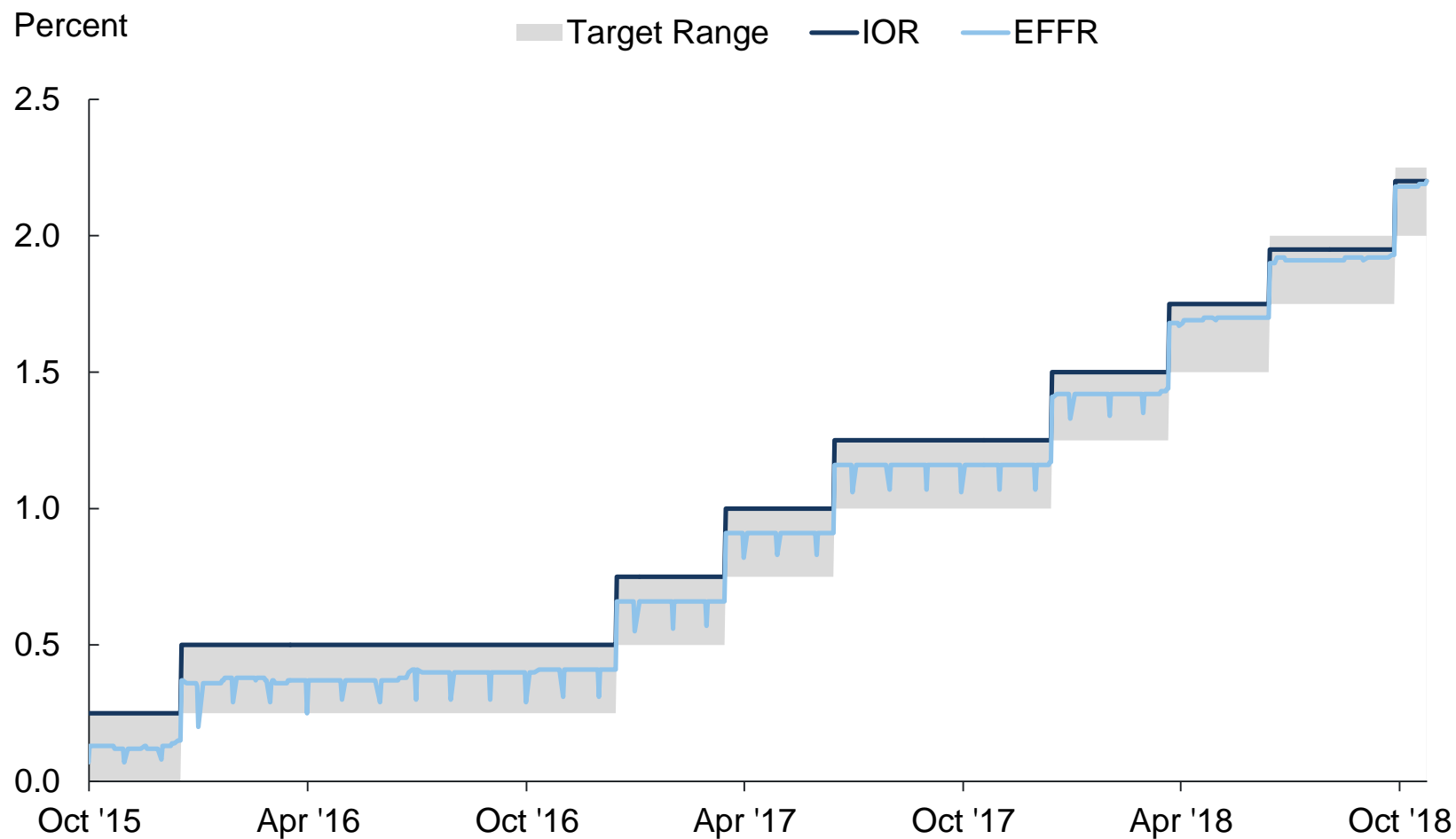
U.S. Monetary Policy Normalization is Proceeding Smoothly

Remarks at the China Finance 40 Forum – Euro 50 Group – CIGI Roundtable
Paris, France

Simon Potter
October 26, 2018

The views presented here are those of the author and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System

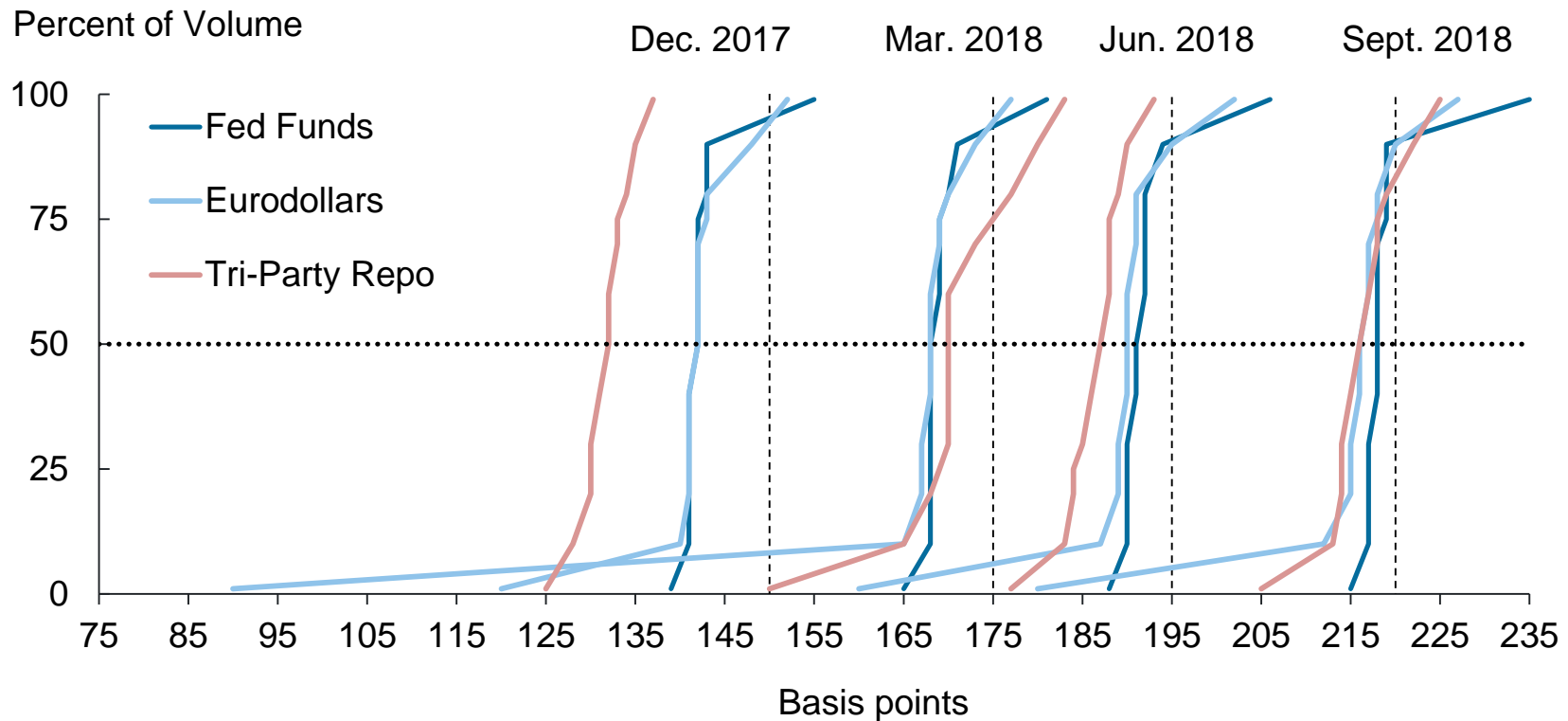
Figure 1: Effective Federal Funds Rate (EFFR) and Interest on Reserves (IOR)



Source: Federal Reserve Bank of New York; Board of Governors.



Figure 2: Average Distribution of Traded Overnight Money Market Rates



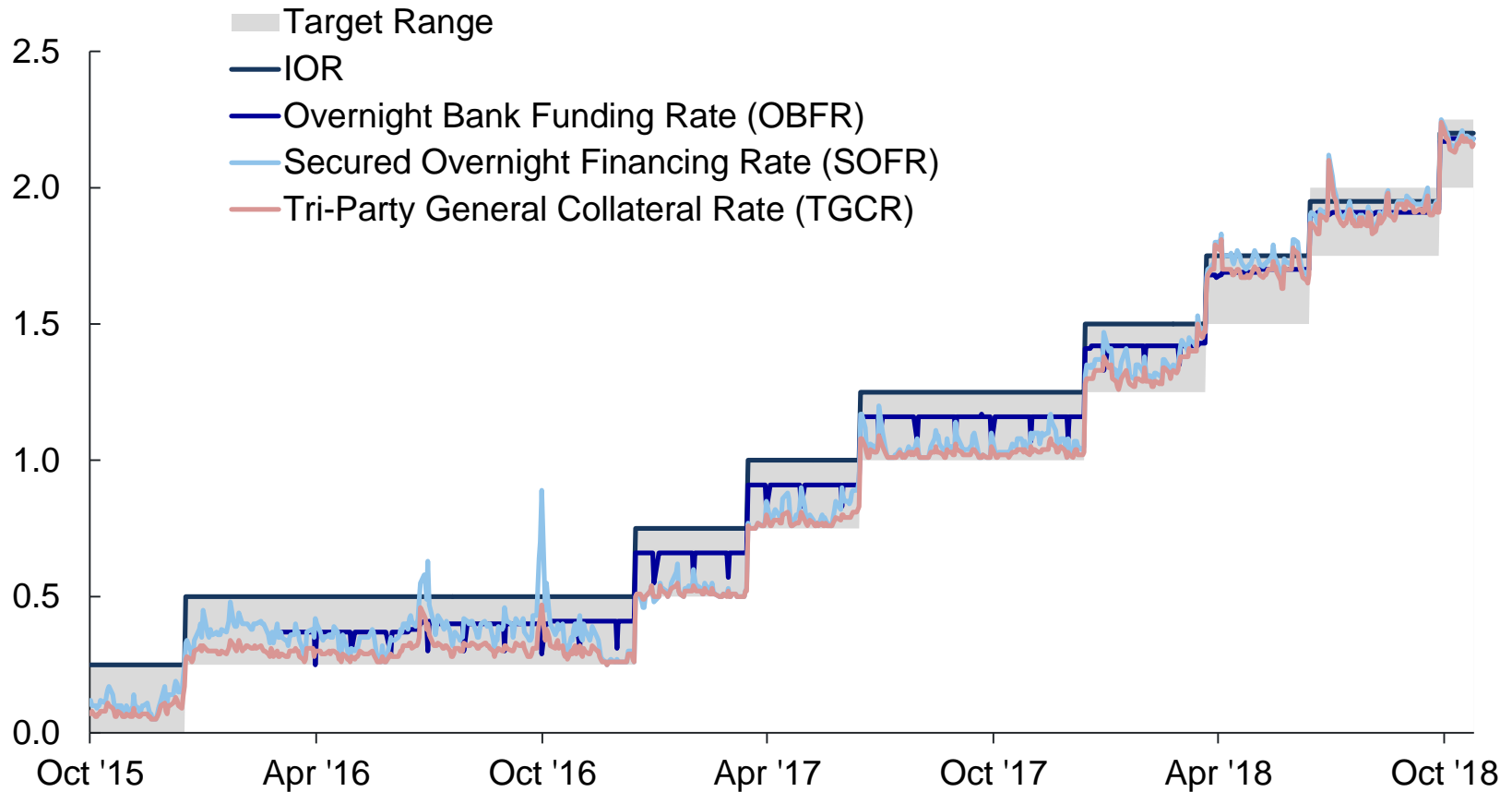
Note: Each period comprises the 10 non-month-end business days following a change to the target range. Distributions represent the volume-weighted 1st, 10th, 20th, 25th, 30th, 40th, 50th, 60th, 70th, 75th, 80th, 90th, and 99th percentile of rates. Dotted line represents the median rate. Dashed lines represent IOR during each period.

Source: FR 2420 *Report of Selected Money Market Rates*; BNYM; Board of Governors.



Figure 3: Select Overnight Money Market Rates

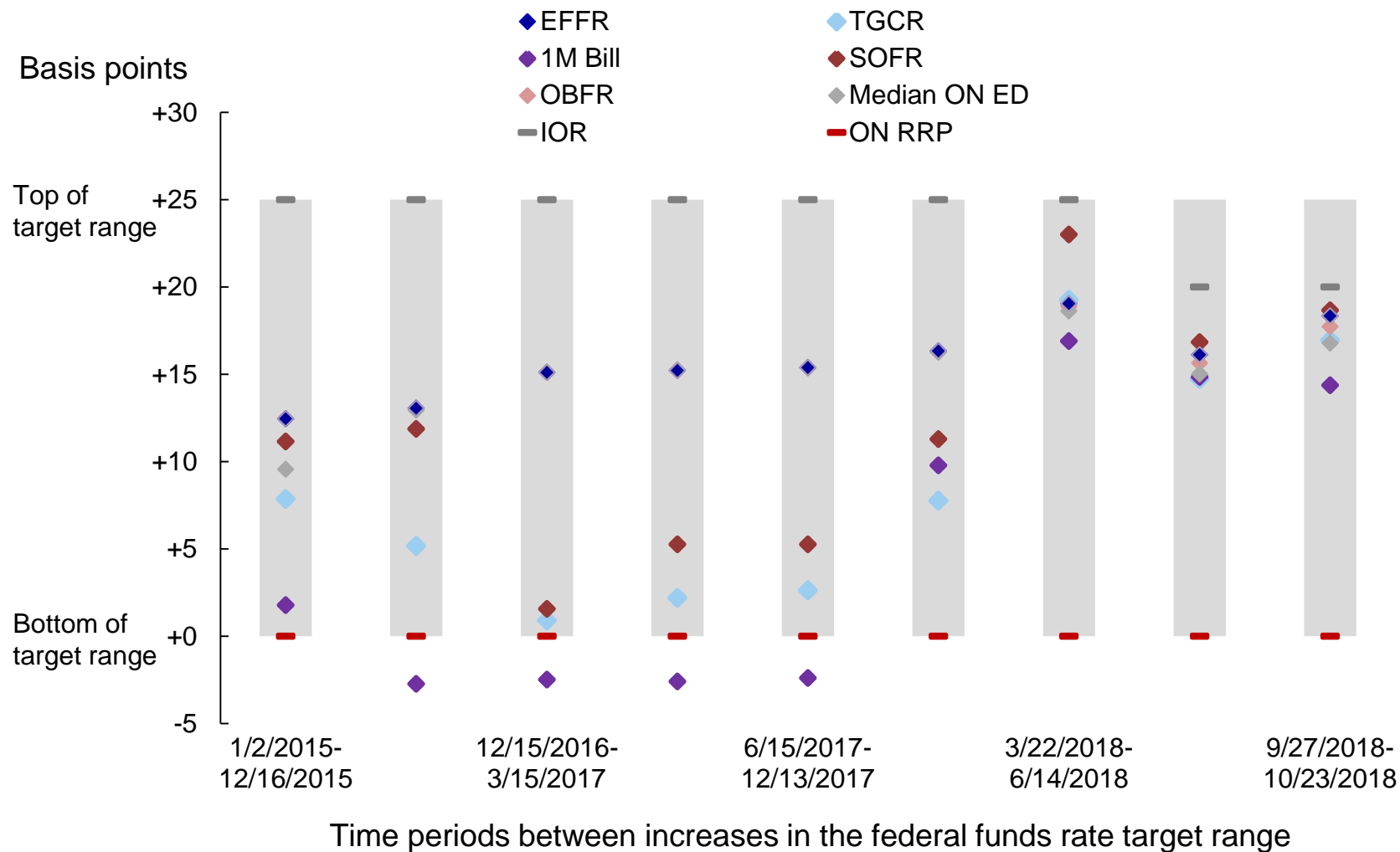
Percent



Source: Federal Reserve Bank of New York; Board of Governors.



Figure 4: Overnight Rate Dispersion

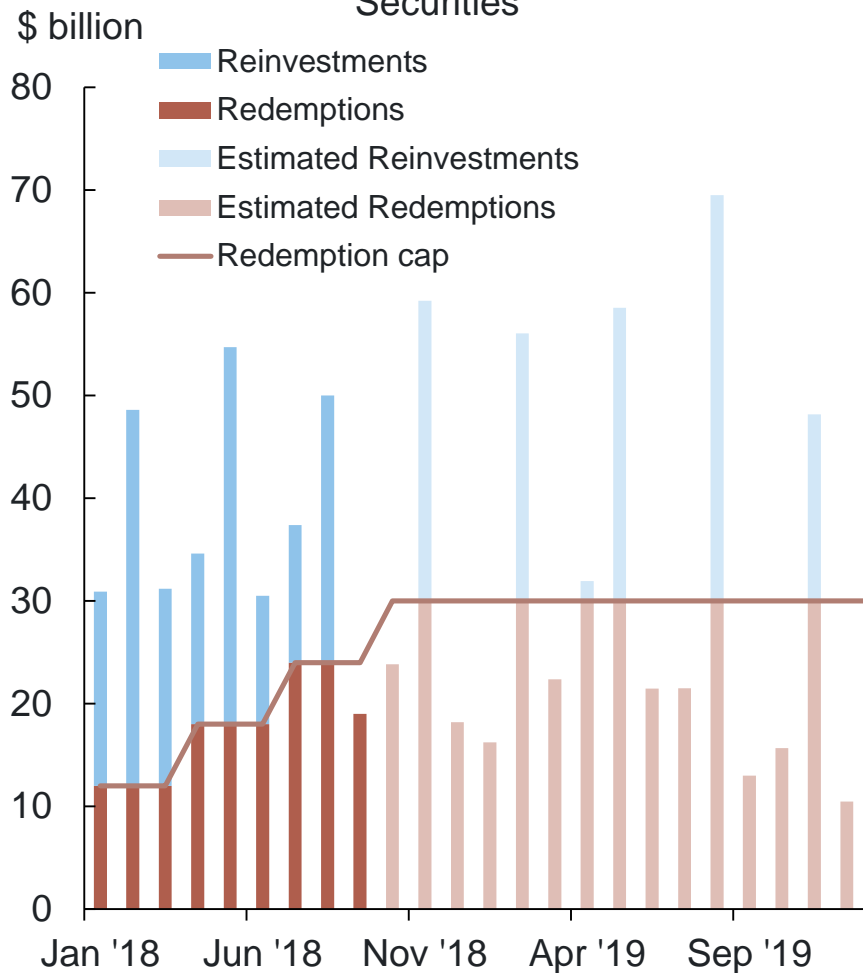


Source: Federal Reserve Bank of New York; Board of Governors; Bloomberg.



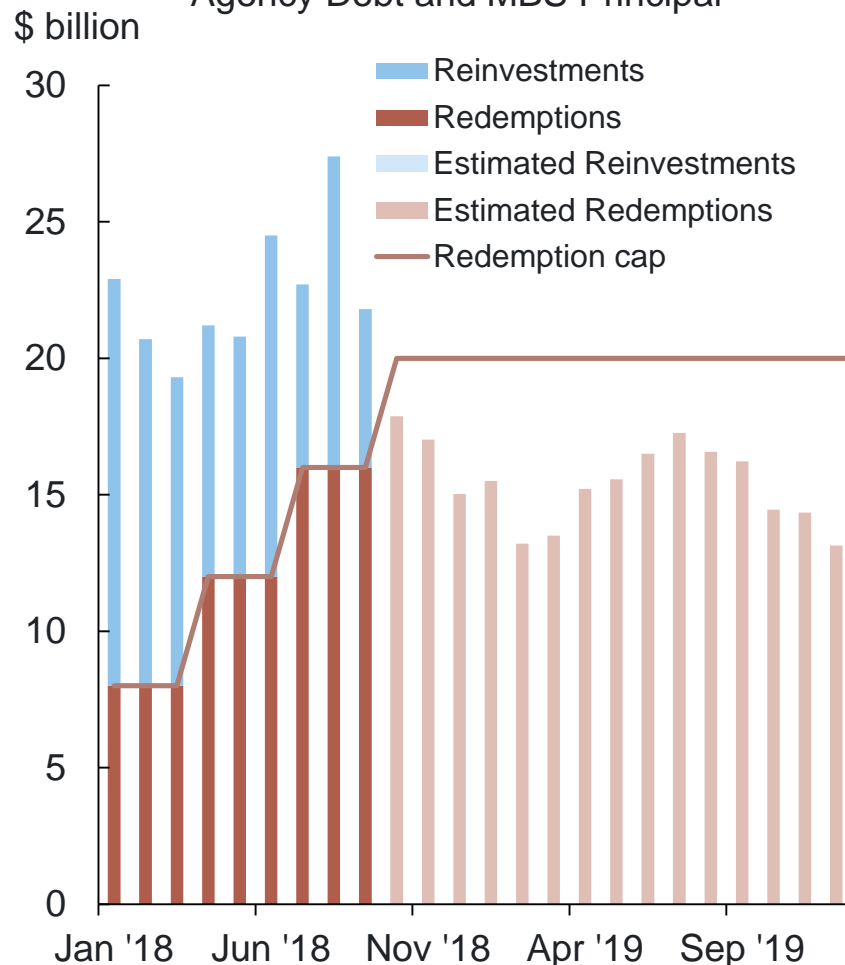
Figure 5: Principal Payments on SOMA Security Holdings

Maturity Profile of SOMA Treasury Securities



Source: Federal Reserve Bank of New York.

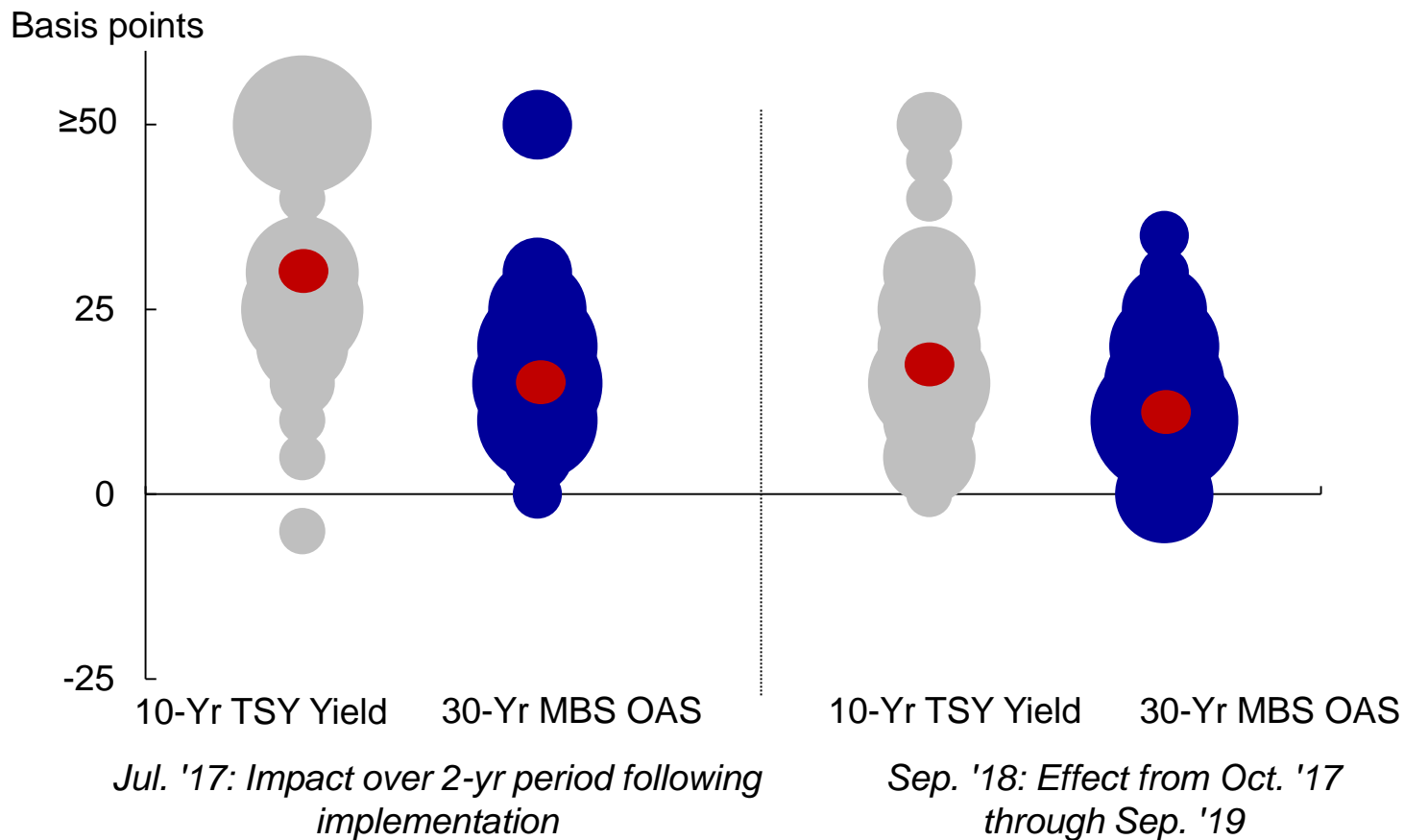
Projected Paydown Profile of SOMA Agency Debt and MBS Principal



Source: Federal Reserve Bank of New York. Based on current market-implied interest rate assumptions.



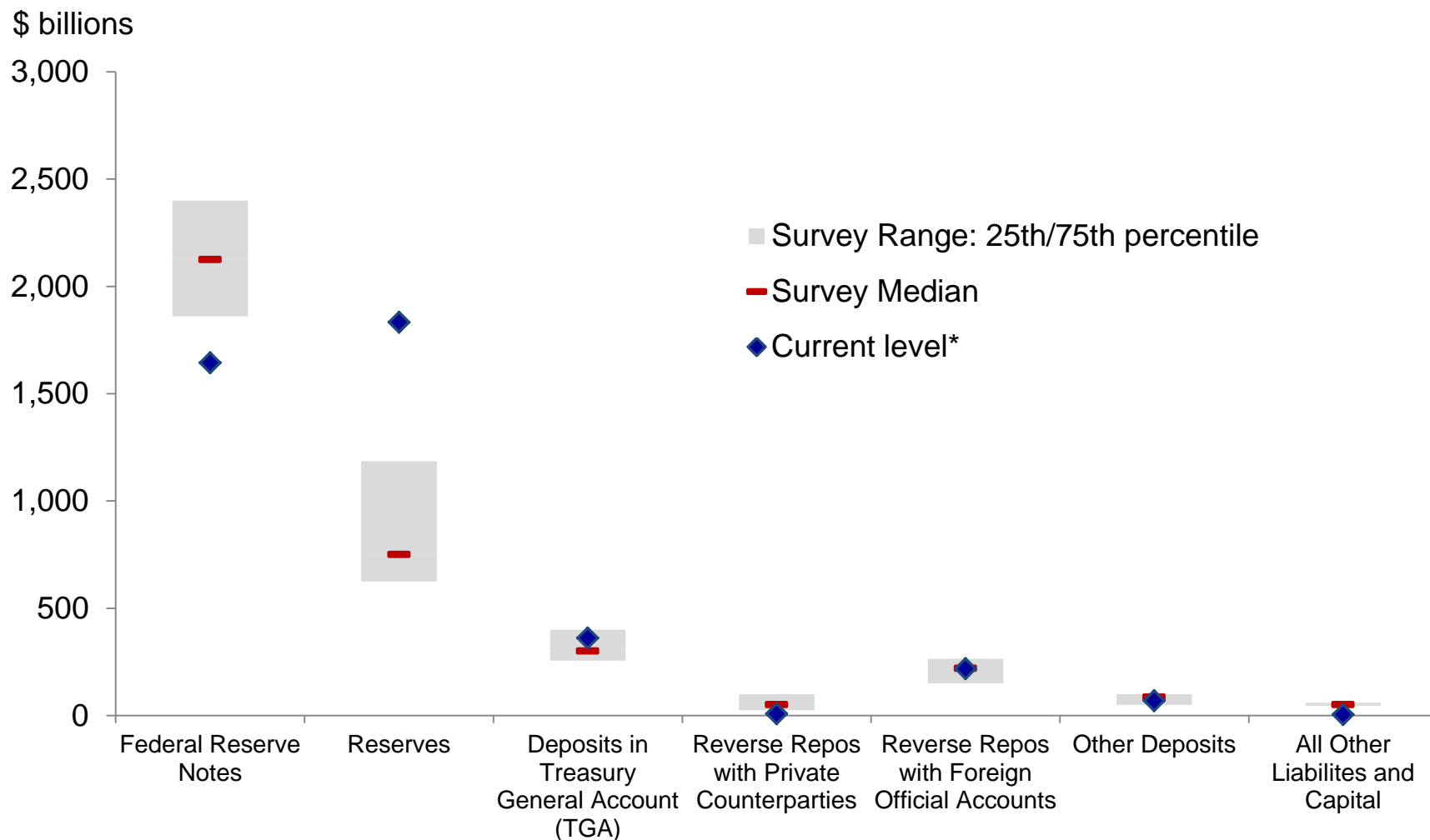
Figure 6: Estimated Impact of Changes to Reinvestment Policy



*Red dot indicates median. Based on a matched sample of responses from the July 2017 and September 2018 Surveys of Primary Dealers and Market Participants.
Source: Federal Reserve Bank of New York.



Figure 7: Expectations for Liabilities and Capital (on average in 2025)

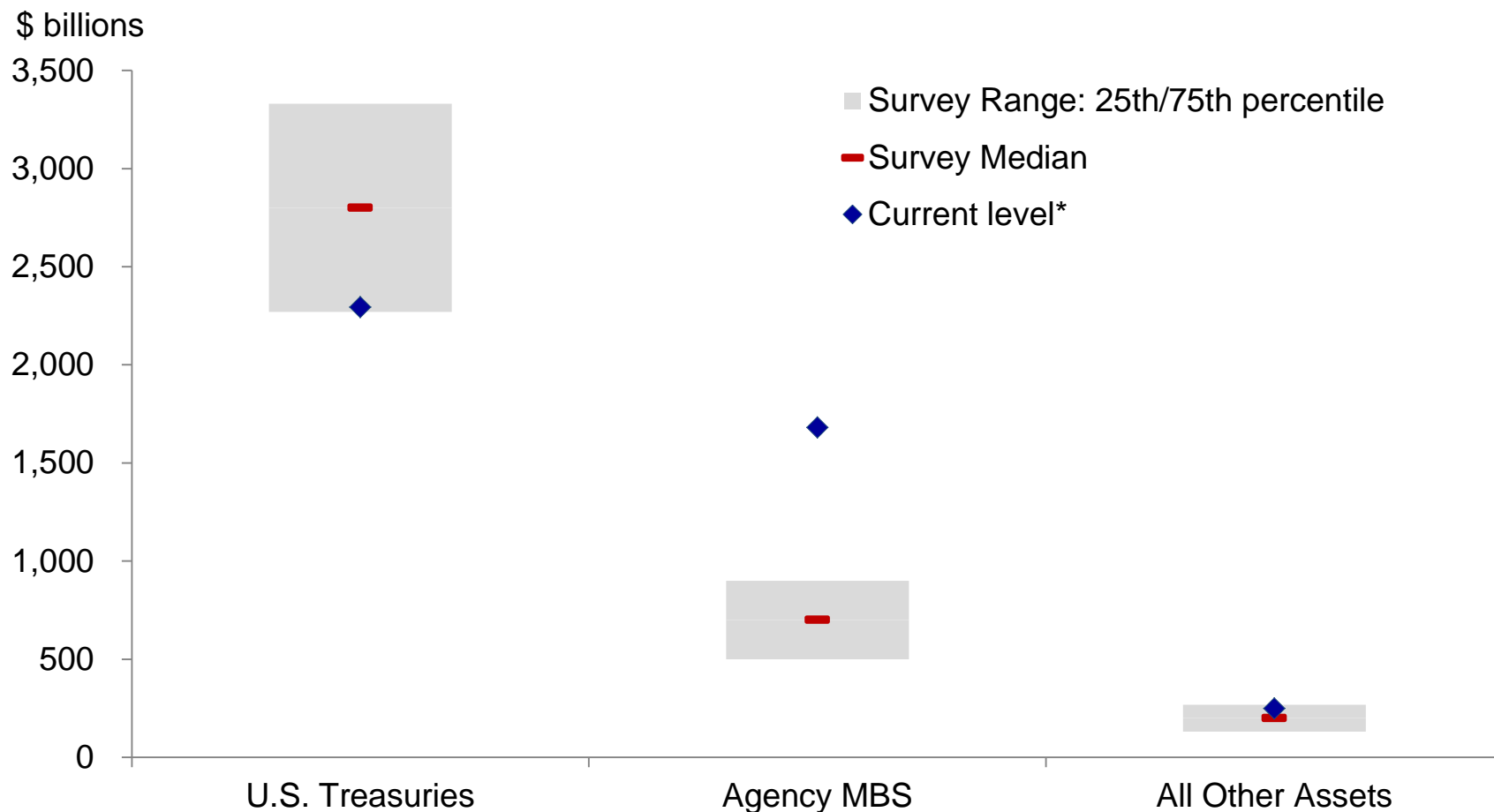


*Current figures from H.4.1 as of October 18, 2018

Source: Board of Governors, Federal Reserve Bank of New York; Based on all responses to the June 2018 Surveys of Primary Dealers and Market Participants.



Figure 8: Expectations for Assets (on average in 2025)



*Current figures from H.4.1 as of October 18, 2018

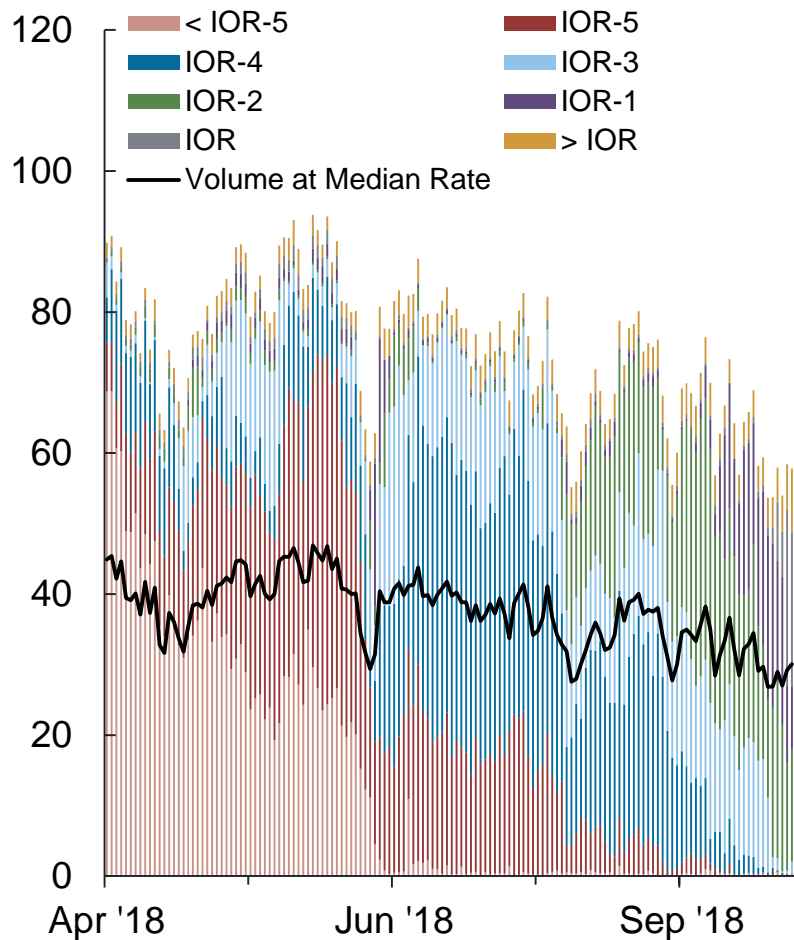
Source: Board of Governors, Federal Reserve Bank of New York; Based on all responses to the June 2018 Surveys of Primary Dealers and Market Participants.



Figure 9a: Federal Funds and Eurodollar Trading Volumes at Rates Relative to IOR

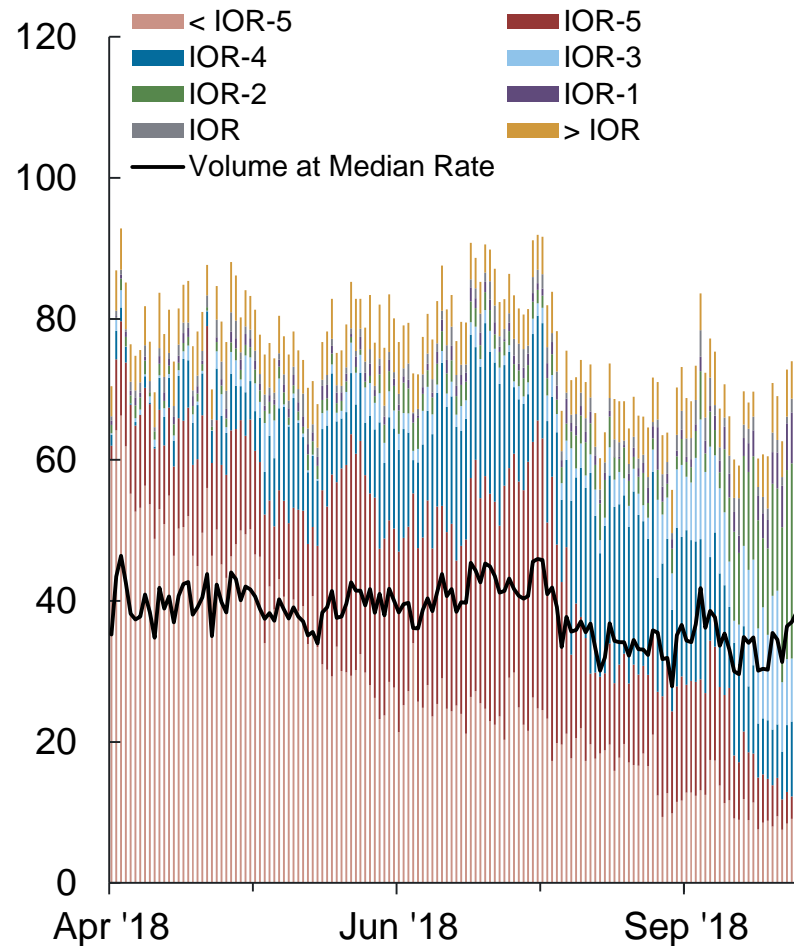
Federal Funds Volume Rate Distribution

\$ billions



Eurodollars Volume Rate Distribution

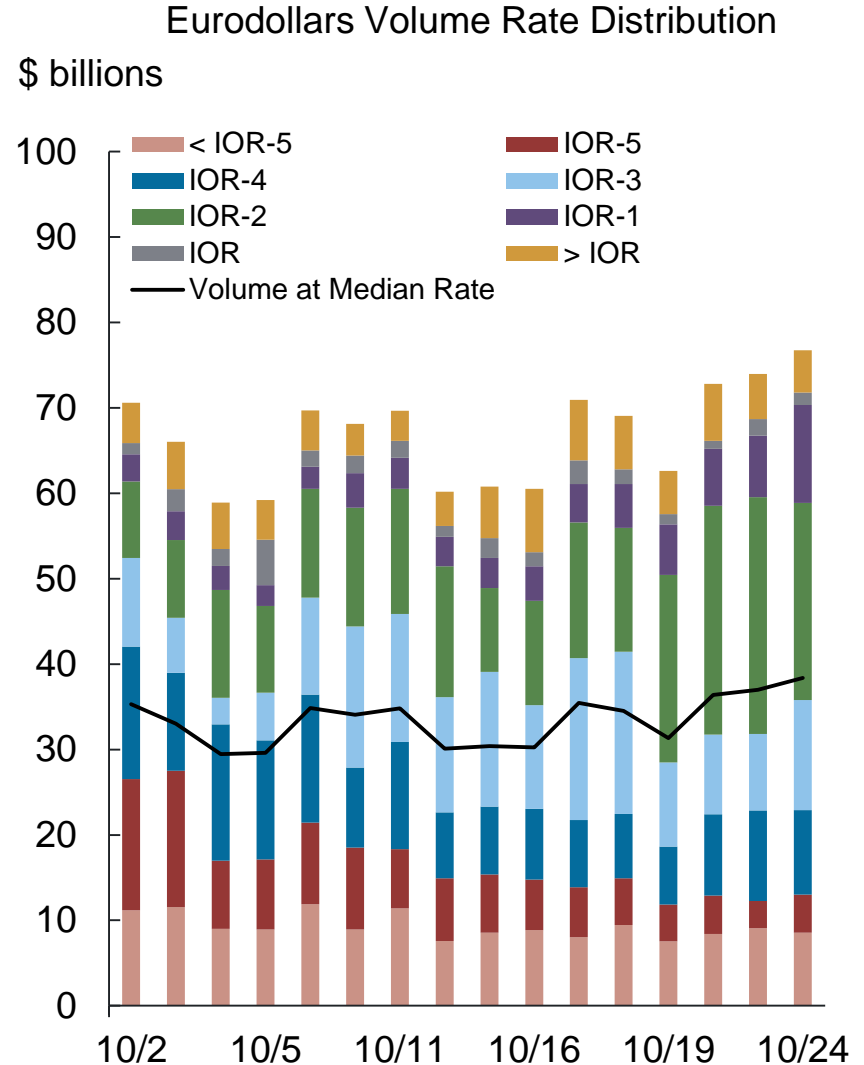
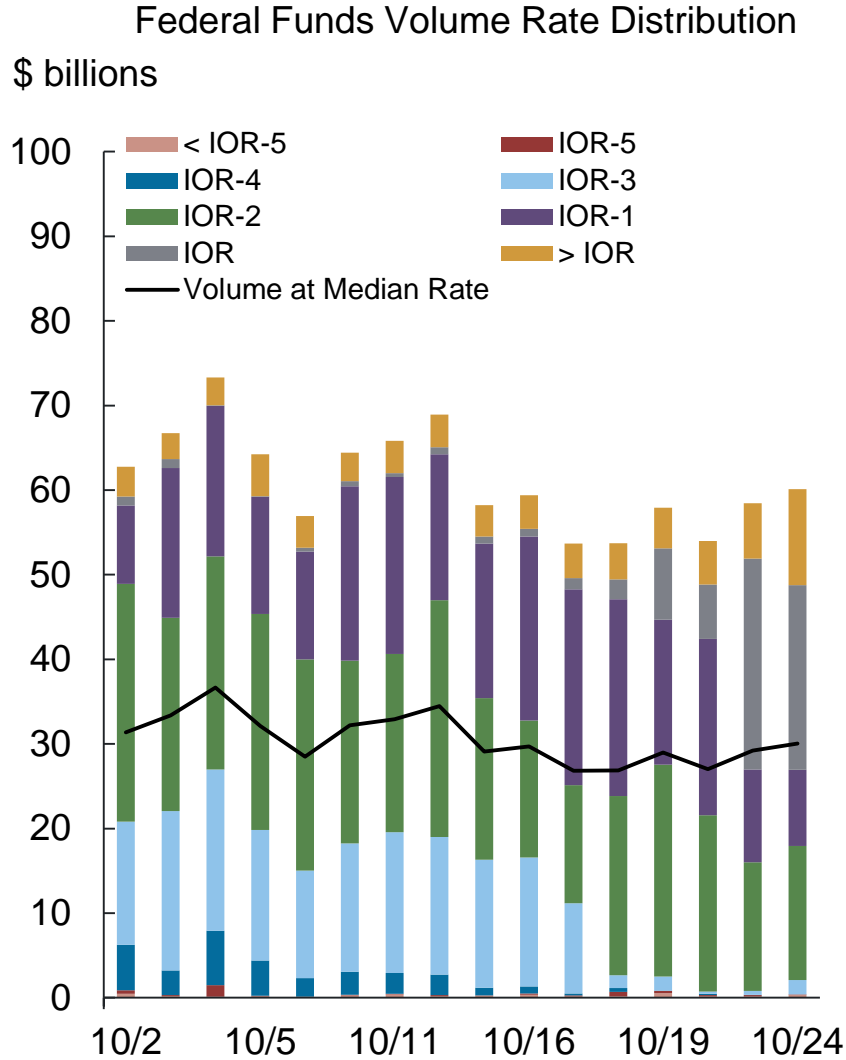
\$ billions



Source: FR 2420 *Report of Selected Money Market Rates*; Board of Governors.



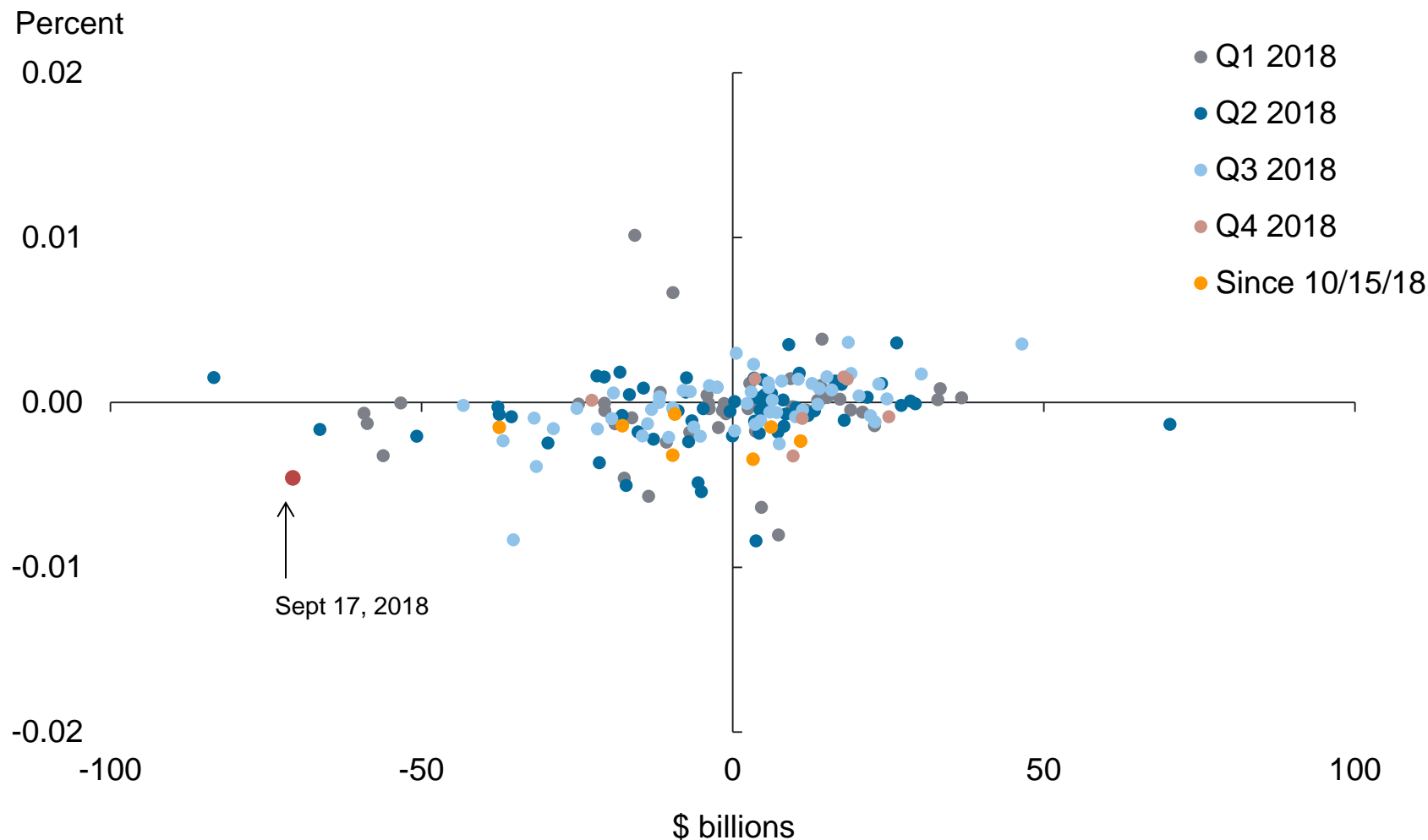
Figure 9b: Federal Funds and Eurodollar Trading Volumes at Rates Relative to IOR



Source: FR 2420 *Report of Selected Money Market Rates*; Board of Governors.



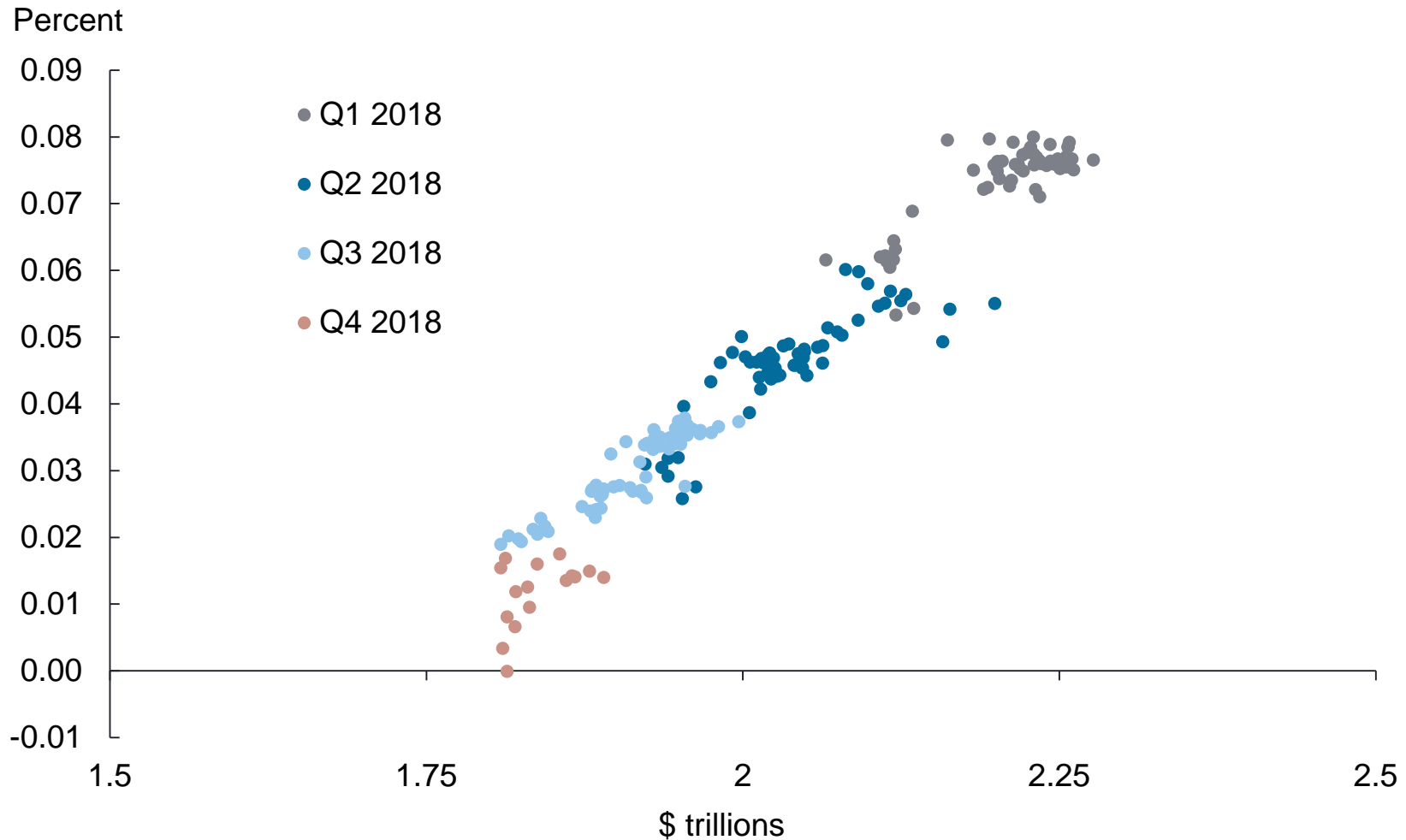
Figure 10: Daily Changes in Reserve Balances vs. Daily Changes in IOR-Average Fed Funds Rate Spread



Note: Weekly reserve balances are above the recent lows reached at the end of September. Average federal funds rate is calculated as the volume-weighted average federal funds rate. Excludes month-ends. Source: Federal Reserve Bank of New York; Board of Governors.



Figure 11: Daily Reserve Balances vs. Daily IOR-Average Fed Funds Rate Spread



Note: Average federal funds rate is calculated as the volume-weighted average federal funds rate. Excludes month-ends.

Source: Federal Reserve Bank of New York; Board of Governors.

