



An SEC-registered Investment Advisor



Funding Pressures

Something Doesn't Seem Right

(**'dollars'** and **economy**)



Nothing To See Here

“ *They have no implications for the economy or the stance of monetary policy.* ”

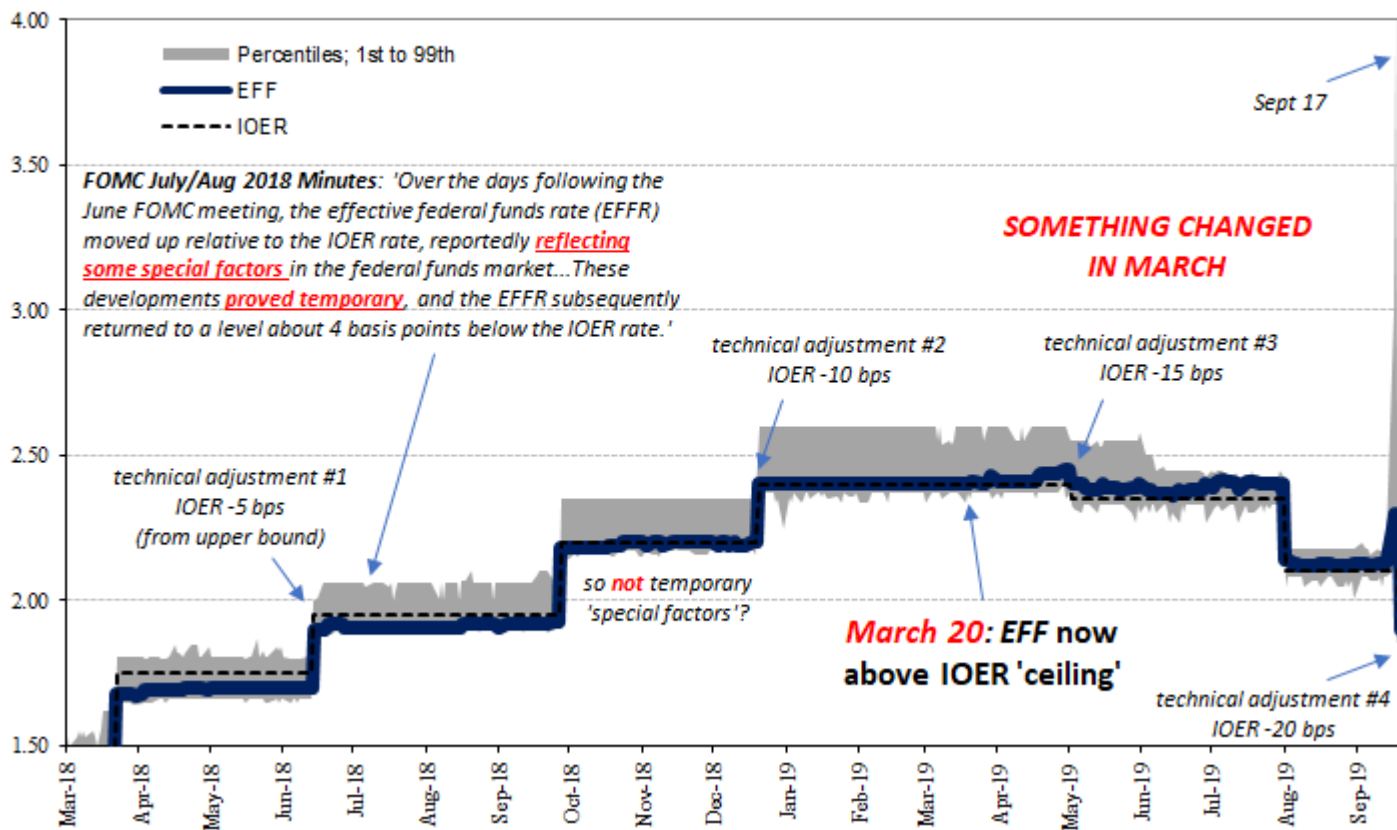


Federal Reserve Chairman Jay Powell, when asked about recent “funding pressures”

*Press Conference
September 18, 2019*

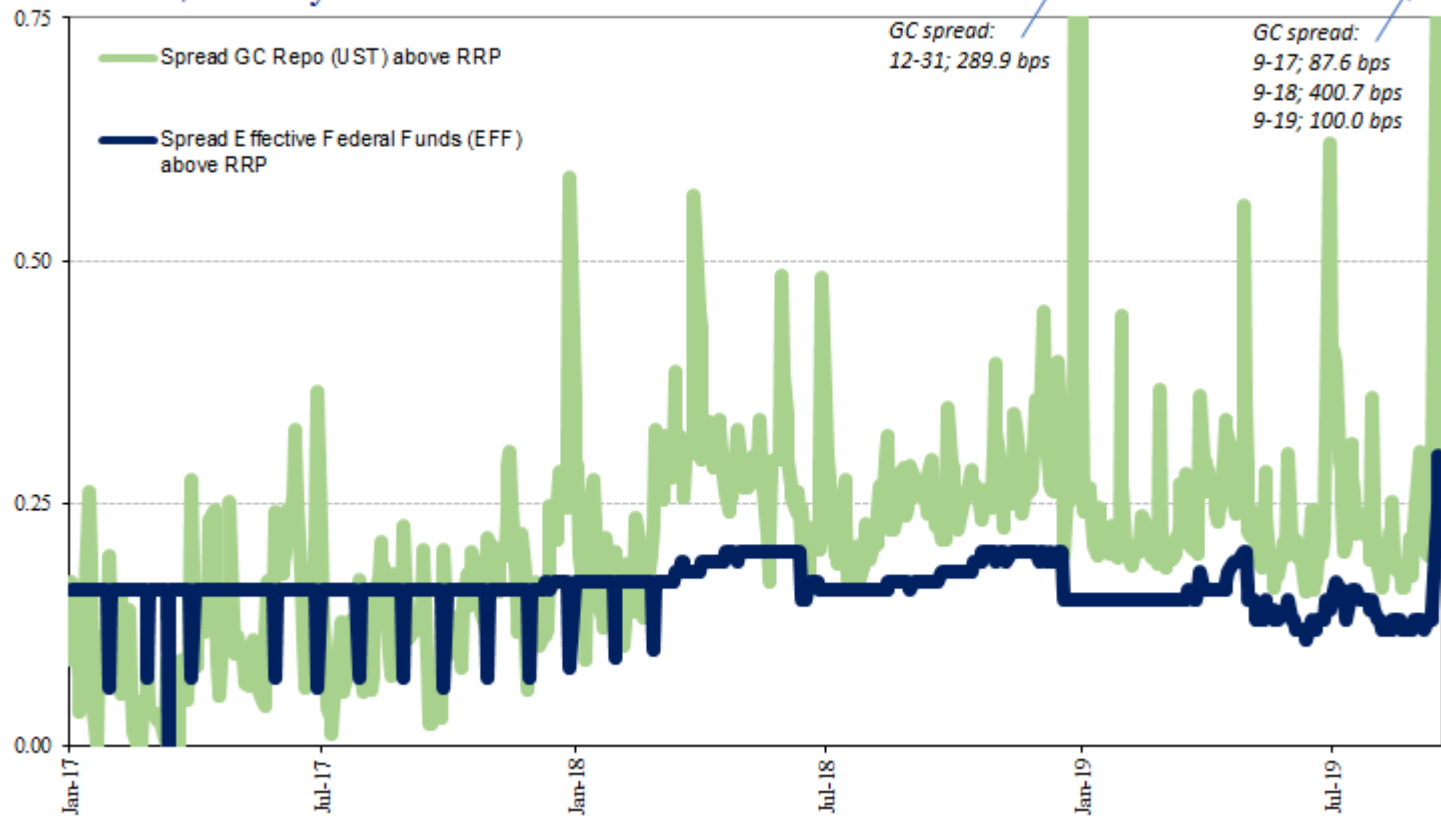


Federal Funds: Trading Range



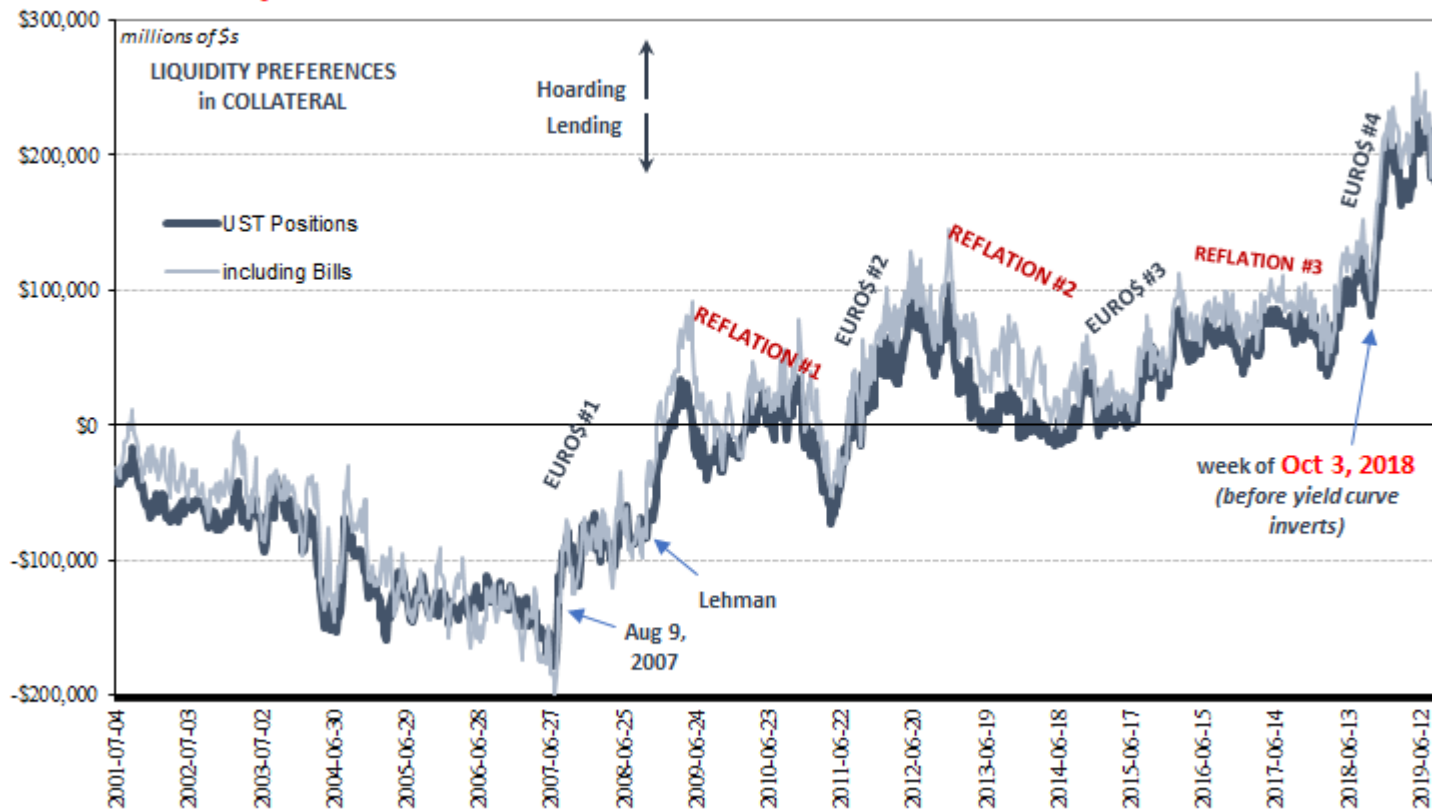


US\$ Money Market Rates



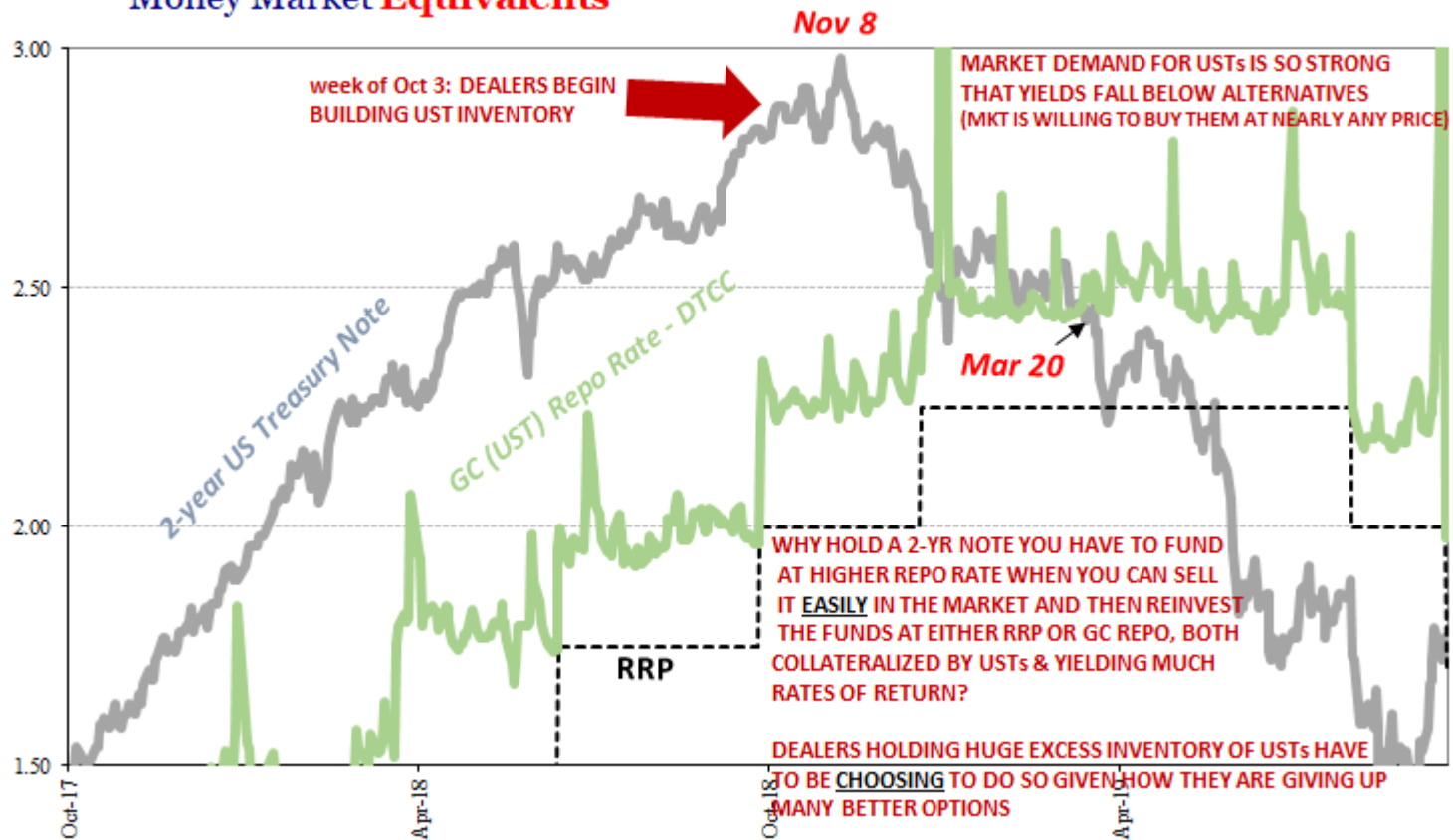


Primary Dealers Net UST Positions (excl. TIPS)





Money Market Equivalents



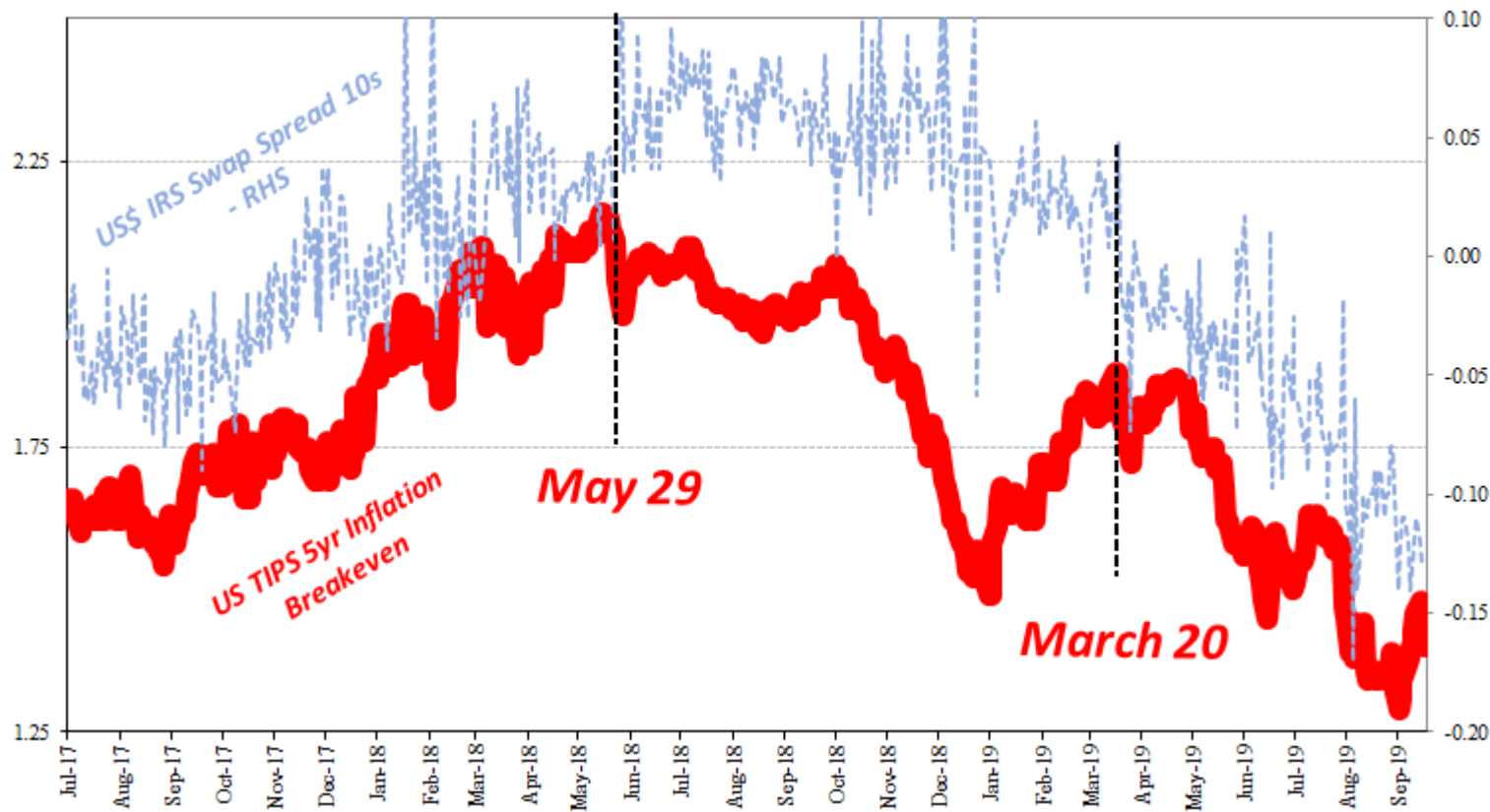


Global Bond Mkt - The World's 10s



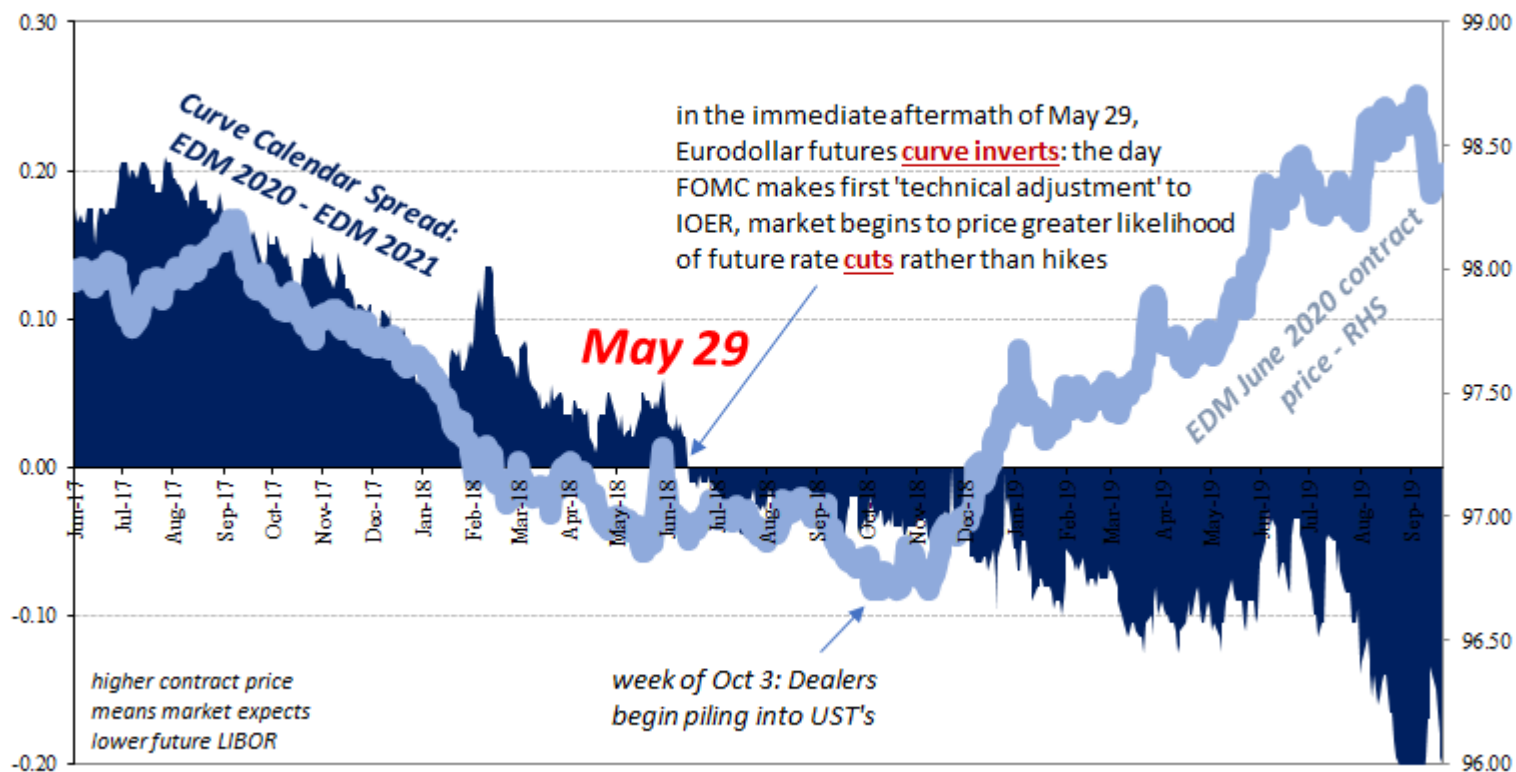


The Monetary Break **May 29**





Eurodollar Futures **Curve**



Nothing To See Here?



*A number of global factors were seen as contributing to downward pressure on term premiums, including central bank asset purchase programs and the **strong worldwide demand for safe assets**. In such an environment, an inversion of the yield curve might not have the significance that the historical record would suggest; the signal to be taken from the yield curve needed to be considered in the context of other economic and financial indicators.*

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Minutes of the Federal Open Market Committee July 31–August 1, 2018

A joint meeting of the Federal Open Market Committee and the Board of Governors was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, July 31, 2018, at 10:00 a.m. and continued on Wednesday, August 1, 2018, at 9:00 a.m.¹

PRESENT:

Jerome H. Powell, Chairman
John C. Williams, Vice Chairman
Thomas I. Barkin
Raphael W. Bostie
Lael Brainard
Loretta J. Mester
Randall K. Quarles

James Bullard, Charles L. Evans, Esther L. George,
Eric Rosengren, and Michael Strine, Alternate
Members of the Federal Open Market Committee

Patrick Harker, Robert S. Kaplan, and Neel Kashkari,
Presidents of the Federal Reserve Banks of
Philadelphia, Dallas, and Minneapolis, respectively

Mark A. Gould, First Vice President, Federal Reserve
Bank of San Francisco

James A. Clouse, Secretary
Matthew M. Laucke, Deputy Secretary
David W. Skidmore, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Mark E. Van Der Weide, General Counsel

Lorie K. Logan, Deputy Manager, System Open
Market Account

Ann E. Misback, Secretary, Office of the Secretary,
Board of Governors

Matthew J. Eichner,² Director, Division of Reserve
Bank Operations and Payment Systems, Board of
Governors; Michael S. Gibson, Director, Division
of Supervision and Regulation, Board of
Governors; Andreas Lehnert, Director, Division of
Financial Stability, Board of Governors

Rochelle M. Edge, Deputy Director, Division of
Monetary Affairs, Board of Governors

Jon Faust, Senior Special Adviser to the Chairman,
Office of Board Members, Board of Governors

Antonio N. Borefini, Special Adviser to the Chairman,
Office of Board Members, Board of Governors

Joseph W. Gruber and John M. Roberts, Special
Advisers to the Board, Office of Board Members,
Board of Governors

Linda Robertson, Assistant to the Board, Office of
Board Members, Board of Governors

Christopher J. Erceg, Senior Associate Director,
Division of International Finance, Board of
Governors; Gretchen C. Weinbach, Senior

FOMC Statement on Flattening Yield Curve

*Minutes of the Federal Open Market Committee
July 31–August 1, 2018 (published Aug. 22, 2018)*

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- *4th technical adjustment to IOER*
- *1st technical adjustment to RRP*
- *Continued overnight repo operations*
- *Supplemented with several planned **term** repo operations*
- *Second rate cut (not one-and-done)*
- *Veiled references to more permanent architecture changes; either standing repo facility or restart of QE*
- *And fed funds remains significantly above IOER*

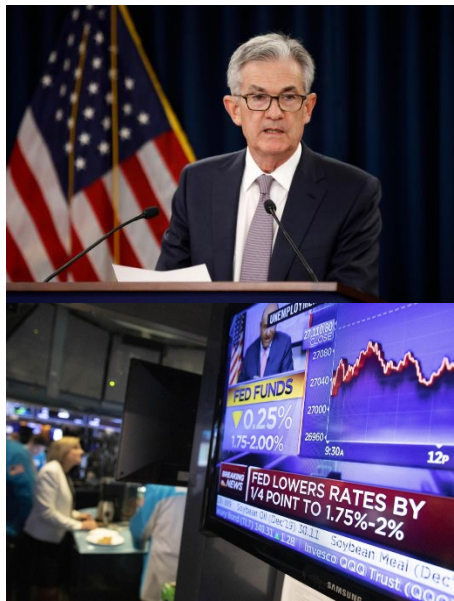
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BEFORE MAY 29, 2018:

- *Rate hikes would accelerate*
- *Inflation pressures would build*
- *Interest rates had nowhere to go but up*
- *Economic risks were all on the upside*

AFTER MAY 29, 2018 (funding pressures):

- *Rate cuts, not hikes*
- *Inflation expectations have crashed*
- *Interest rates sharply lower, record lows*
- *Economic risks have tipped toward recession*



Funding Pressures

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CONCLUDED

