An SEC-registered Investment Advisor
Not Money Printing
GFC2: The Bowl’s Empty
(Eurodollar University)
Federal Reserve: Liabilities & Capital

Reserve Balances w/Federal Reserve Banks
week avg; billions of $'s

+$1.48 T in 8 weeks

+$624.8 bln in 10 weeks
Federal Reserve: Liabilities & Capital

Reserve Balances w/Federal Reserve Banks
week avg; billions of $'

Quantity of reserves only imply what the Fed is doing, not what banks are doing (latter far more important); thus, if the Fed is doing something, then it’s likely in response to what banks aren’t doing.

+$1.48 T in 8 weeks

+$624.8 bln in 10 weeks

didn’t work; four more months of GFC1

Fed is doing nothing while banks were doing quite a lot; system grows exponentially without ‘bank reserves’ because it evolved outside of them.
In reply, Mr. Coombs said an effort could be made to develop such a measure, but he doubted that it would be successful. The volume of funds which might be shifted back and forth between the of the monetary statistics arose in connection with Euro-dollars; he suspected that at least some part of the Euro-dollar-based money supply should be included in the U.S. money supply. More generally, he thought M1 was becoming increasingly obsolete as a monetary indicator. The Committee should be focusing more on M2, and it should be moving toward some new version of M3--especially because of the participation of nonbank thrift institutions in money transfer activities.

FOMC Memorandum of Discussion
December 1974
Not Money Printing

First, we showed that the liquidity facilities and other credit programs introduced by the Federal Reserve in response to the crisis have created, as a by-product, a large quantity of reserves in the banking system. Second, we showed that while the lending decisions and other activities of banks may result in small changes in the level of required reserves, the vast majority of the newly created reserves will end up being held as excess reserves. The dramatic buildup of excess reserves reflects the large scale of the Federal Reserve’s policy initiatives; it conveys no information about the effects of these initiatives on bank lending or on the level of economic activity.

Todd Keister and James J. McAndrews
Why Are Banks Holding So Many Excess Reserves?
FRBNY Current Issues
Volume 15, Number 8; December 2009
Not Money Printing

“This is how you should view the Fed’s balance sheet from the most charitable point of view. The central bank isn’t adding more money to a static system already filled with it; like our engine analogy, Jay Powell is frantically trying to replace what has already leaked out. The more he puts in, the more the balance sheet is expanded, the more you know must’ve gone missing.

It’s a warning, not a solution.

Alhambra Investments
The Global Engine Is Still Leaking
April 13, 2020
**TIPS Yields & Breaks**

*FOMC Apr 2019: ‘Many participants viewed the recent dip in PCE inflation as likely to be transitory...’*

*Where’s the inflation? +$1.48 T bank reserves in 8 weeks*

*May 29, 2018*
TIPS Yields & Breaks

Where's the inflation?

+$1.48 T
bank reserves
in 8 weeks
Fed Funds LIBOR

though LIBOR is coming down, it remains way too high, esp. if there has been a 'flood' of 'liquidity' from the Fed (IOW, there hasn't been)

+$1.48 T
bank reserves
in 8 weeks
TED Spread

Spread between 3-month US LIBOR and 3-month US Treasury bill equivalent yield

+$1.48 T bank reserves in 8 weeks

still higher than the highest of any other episode since '09, incl. 2011 (Euro$ #2)
TED Spread

Spread between 3-month USS LIBOR and 3-month US Treasury bill equivalent yield

- rate cuts!
- TAF auctions!!
- overseas $ swaps!!!
- more cuts!
- more TAF!!
- more swaps!!!
- more acronyms!!!!

- Bear Stearns
- Lehman/AIG
- Aug 9, 2007
MR. BULLARD. There is, to be sure, still some potential for additional upheaval, depending in part on the managerial agility among key financial firms. However, the U.S. economy is now much better positioned to handle financial market turmoil than it was six months ago. This is due to the lending facilities now in place and to the environment of low interest rates that has been created. Renewed financial market turmoil, should it occur during the summer or fall, would not now be as worrisome from a systemic risk perspective.
TED Spread

Spread between 3-month USS LIBOR and 3-month US Treasury bill equivalent yield

MR. BULLARD. This is due to the lending facilities now in place and to the environment of low interest rates that has been created. Renewed financial market turmoil, should it occur during the summer or fall, would not now be as worrisome from a systemic risk perspective.
Nikkei 225 Stock Index

-30.6%
Not Money Printing
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CONCLUDED