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Article

Five charts explain how the Fed plans to shrink its balance sheet

Why the Fed's USD 4.5 trillion balance sheet reduction plan matters for markets - and why this could push yields higher

We've got the plan, now all we need is a date

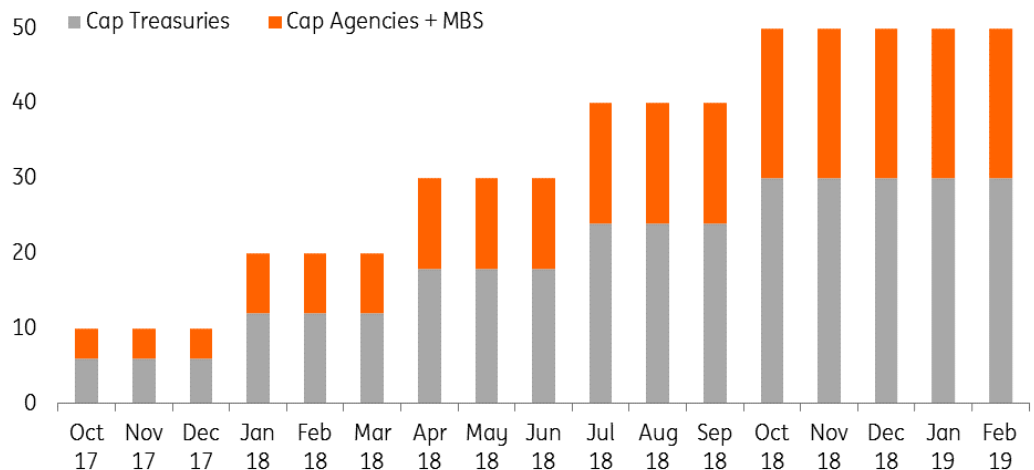
The Federal Reserve's balance sheet has ballooned since the start of the financial crisis, expanding from \$700bn to \$4.5 trillion today. With the growing economy, asset prices having recovered and the financial system in much better health, the Fed has made it clear it wishes to 'normalise' or shrink it. This will be done very gradually by ceasing its current policy of reinvesting maturing assets.

However, we are yet to receive a start date. The minutes of the July FOMC meeting suggested several participants were 'prepared to announce a start date', but 'most preferred to defer that decision' until there were some stronger economic figures.

We believe the upcoming September FOMC meeting will be that point, with an October start looking likely.

1 Fed will let a capped amount of Treasuries roll-off each month

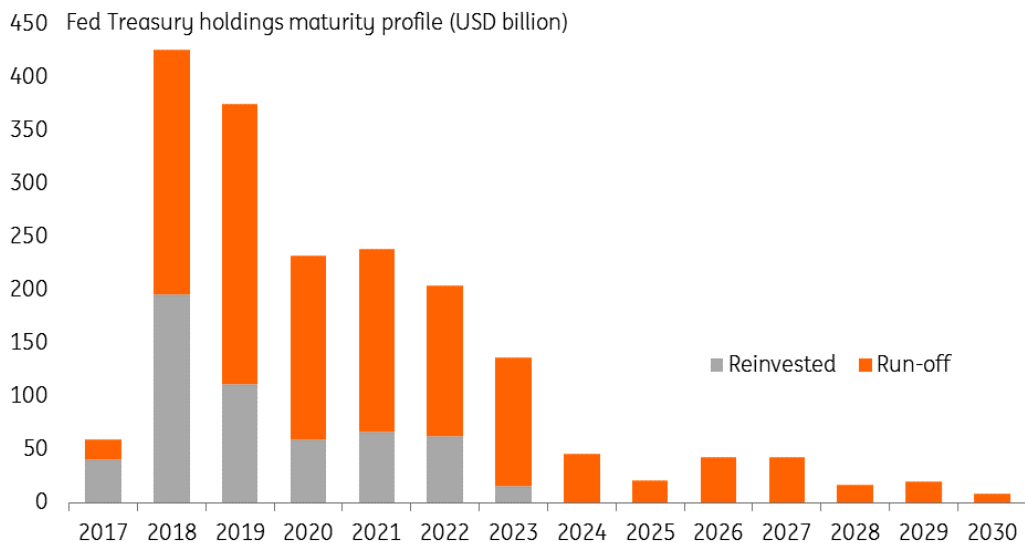
60 Amount of assets the Fed will allow to "roll-off" the balance sheet each month (USD billion)



Source: Federal Reserve, ING

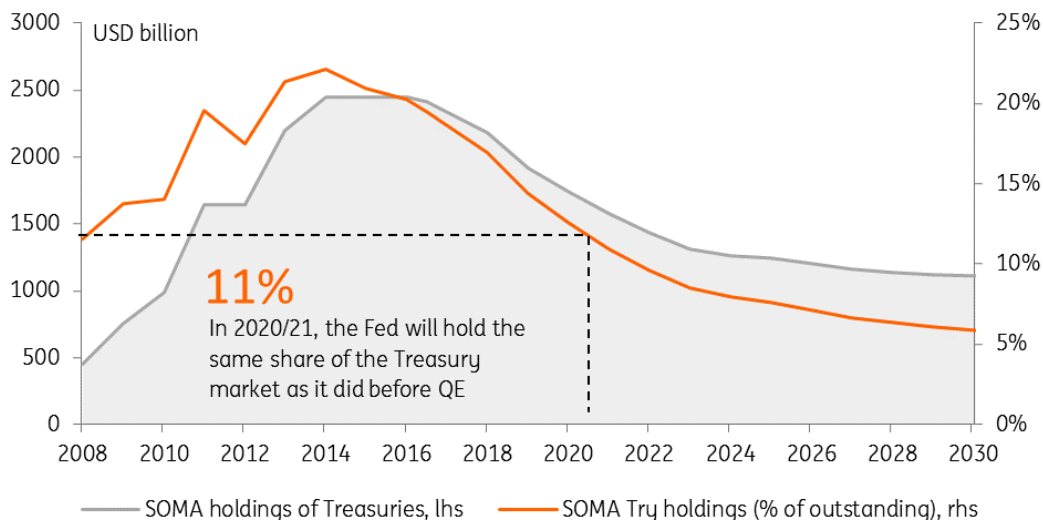
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Significant chunk of Treasuries to roll-off each year



Source: Bloomberg, ING calculations

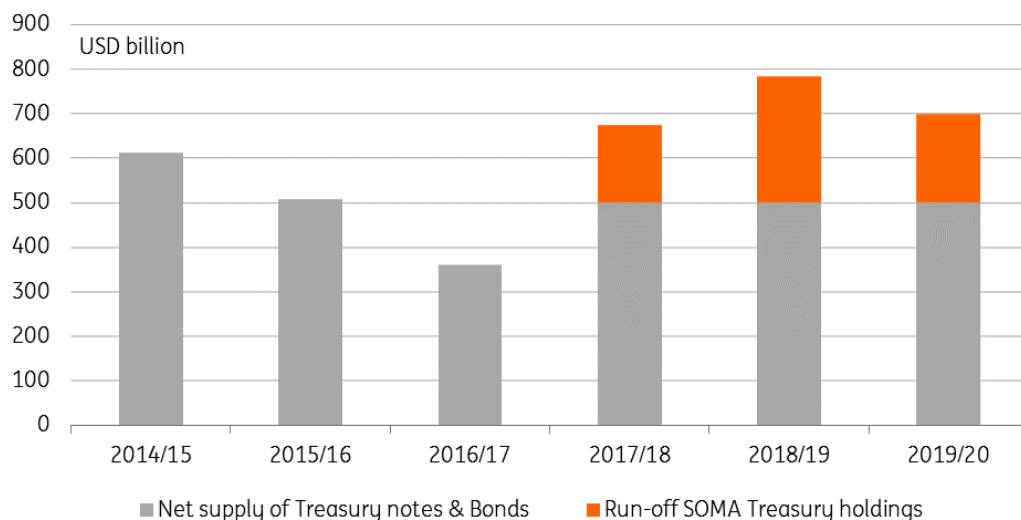
3 Fed plans to 'grow into' its balance sheet



Source: Bloomberg, ING calculations

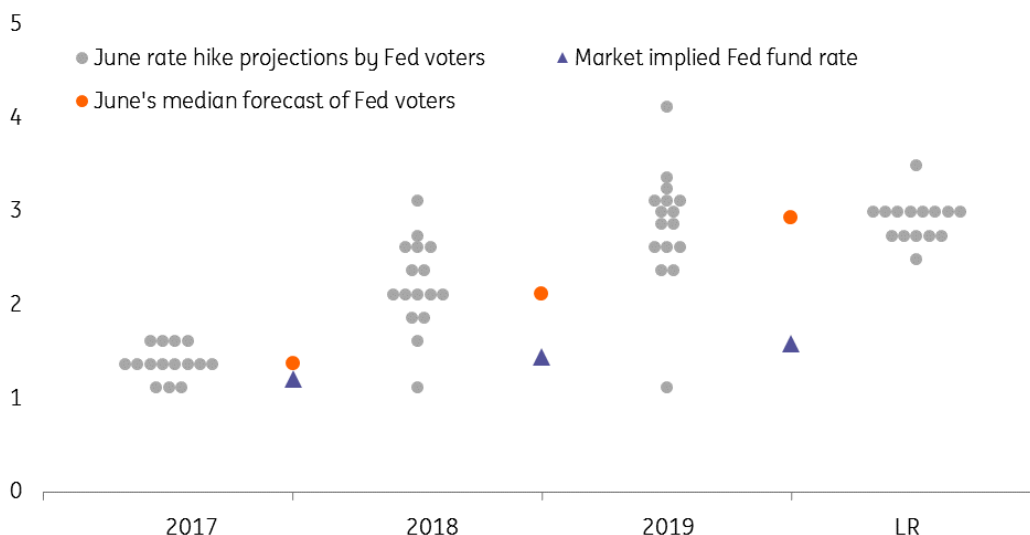
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The yield curve could steepen as the Fed unwinds



Source: Bloomberg, ING calculations

5 Hikes to continue - if inflation stages a turnaround



Source: Federal Reserve

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