Rates Spark: A Fed Chair walked into a bar

He'll not talk about the grand jury proceeding. He'll not talk about whether he'll leave in May. He'll not talk about who the next Chair might be. Shame, as that's mostly what we really want to know. Still, he will do a balancing act on the state of the economy, and on the prognosis for rates (no change for now). And he'll comment on bank reserves stabilisation

At the press conference following the Federal Reserve's rate decision, Chair Powell is not likely to talk about the things we want to know

The Fed will see positives coming from the bills-buying programme so far

Since the Fed re-ignited its bills-buying programme, some $65bn has been added. Total bills holdings are now at almost $260bn. Over the same period, some $20bn of MBS has rolled off the balance sheet. Latest data also show a rise in government bond holdings. All in all, in net terms, there has been a $55bn build in the Fed's holdings of securities since mid-December 2025. That has been partly offset by a rise in the Treasury cash balance through tax inflows. It leaves bank reserves at around $3tr.

And, importantly, repo conditions have calmed. The Fed will be happy with this outcome, as the genesis of the renewed bills-buying programme has been to calm the perception of liquidity tightness that had emerged. That said, the effective fed funds rate remains elevated relative to where it was. It had been 8bp above the fund rate floor. It's now 14bp above. That may not seem like much, but it is an irritation for the Fed. In fact, it was this drift higher that really prompted the Fed into bills-buying-action. Ideally, the Fed would like to see the effective fund rate drift lower again.

As it is, the effective funds rate is just 1bp below the rate paid on excess reserves, which in fact should act as a ceiling for the effective funds rate. The Fed will still likely declare recent developments as positive, and there has certainly been a net calming repo circumstances. Likely, no further action will be required in this space at this juncture. The policy will remain one of building the bills holdings while reducing the MPS holdings, and keep the government bond holdings broadly as is (total Fed holdings are currently $6.2tr, a little over half of which is in government bonds).

Germany sees good demand for newly introduced 20y benchmark

Germany sold €6.5bn in new 20y bonds, drawing close to record demand with a book of €73bn. It is the first new benchmark launch with a 20y maturity, built out in part to spread increasing funding needs, but also as a reaction to the Dutch pension reform expected to lower the structural demand for the longer 30y maturity bucket.

As such, this new 20y bond from Germany is part of a broader rethink of issuance strategies also observed elsewhere, from the Netherlands itself to even Slovenia. We think this should help the ultra-long bonds come off their cheap valuation versus swaps as supply and demand come into better balance, even as the ultra-long curves can still resteepen as the transition of pension funds progresses and hedging strategies are adjusted.

Wednesday's events and market view

The Fed is set to decide on its monetary policy stance, though markets agree that it is unlikely to change. The main focus will therefore be on possible dissent and communication, also around the issue of the Fed's independence. The decision will also be overshadowed by President Trump's upcoming pick of a new Fed Chair.

There will be very little data out of the eurozone and only one ECB presentation during the European evening by Isabel Schnabel potentially of note.

In primary markets, Germany will be auctioning €6bn in 10y Bunds and Portugal is selling up to €1.25bn in 5y and 10y maturity bonds. The US Treasury sells US$30bn in new 2y floating rate notes.

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