The Fed throws everything at financial markets

The Federal Reserve is now throwing everything at financial markets - essentially what is unlimited quantitative easing. There's a raft of other measures too, as the Fed seeks to bring order to days of chaos. The fear is that if they aren't successful, the strains will only exacerbate what is already a desperate economic situation

Fed Chair, Jerome Powell

The Federal Reserve has just announced unlimited QE. It was burning through the $700 billion it announced eight days ago, having spent $272bn of the $500bn on Treasuries and $68bn of the $200bn of Mortgage-Backed Securities as of Friday, and looked set to have pretty much got through all of it by the end of this week.

The announcement states: “The Federal Reserve will continue to purchase Treasury securities and agency mortgage-backed securities in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions.” It will also expand the MBS purchases to include agency commercial MBS.

They will also expand their tools to “support the flow of credit to households and businesses”. This includes a combination of programmes that add $300bn in new financing to employers, consumers and businesses underpinned by $30bn in equity from the Department of the Treasury. This will involve the creation of a Primary Market Corporate Credit Facility for new bond and loan issuance with a Secondary Market Corporate Credit Facility to "provide liquidity for outstanding corporate bonds". These are for large corporates.

They are reinstating the Term Asset-Backed Securities Loan Facility (TALF) to promote credit to consumers and businesses. For municipalities, they are expanding the Money Market Mutual Fund Liquidity Facility by increasing the range of securities it can purchase. They are also expanding the Commerical Paper Funding Facility.

In addition to all of these market support mechanisms, the Fed "expects to announce soon the establishment of a Main Street Business Lending Program to support lending to eligible small and medium-sized businesses, complementing efforts by the Small Business Administration".

This wall of money and support for markets is receiving a big thumbs up with equity futures surging having been limit down in Asian trading while the 10Y Treasury yield is back down to 73bp having been up at 1.2% last Wednesday. It is all about trying to mitigate the negative implication from market strains that could exacerbate the huge downside risks to economic activity which are being created by country lockdowns to combat the spread of the virus.

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The pressure is now on Congress to get its act together and provide the support that the Fed cannot do – helping the vulnerable people who face the biggest health and economic consequences of the lockdowns.

The risk is that this wall of support from the Fed and the positive reaction in markets may give Congress a sense that it has more time and the pressure to deliver a package is reduced.

With initial jobless claims set to surge by in excess of 2 million this week alone – it would be higher, but jammed telephone lines and a crashed website mean not everyone can register, and certainly, it will be much higher in coming weeks – this all means that there is a large and rapidly growing proportion of the population who were living paycheque to paycheque facing immense strain and hardship.

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