

US: Fed steps in with US\$1.5 trillion

In response to increasingly dysfunctional markets, the Federal Reserve has stepped in with a massive liquidity injection to try and bring some calm



Source: Shutterstock

It has been a turbulent 36 hours for financial markets and the Federal Reserve Bank of New York. Under direction from Fed Chair Jerome Powell and the broader FOMC, it has taken the decision to step in with a US\$1.5 trillion liquidity injection and wider Treasury purchases. It increasingly looks like a confirmation that we are now in QE4 territory.

Both risk assets such as equities and safe havens, such as Treasuries and gold, have been experiencing losses as market participants scrambled for liquidity. The Fed has termed these "temporary distortions" and in response the Fed are offering a \$500bn 3M repo operation today with an additional US\$500bn 1M repo operation and another US\$500bn 3M repo operation tomorrow. This is a huge step up.

There will also be a change in the way the NY Fed manages its US\$60bn of reserve management purchases away from Treasury bills and into coupon bearing notes "across a range of maturities roughly matching the maturity composition of Treasury securities outstanding".

As we look towards next week's FOMC meeting this action signals the Fed is prepared to unleash its

full armoury with a growing possibility that they could cut the Fed funds target rate a full 100bp to 0-0.25% rather than stagger its stimulus with 50bp next week and a further 50bp in April. It also opens the door to the Fed formally announcing quantitative easing - something it has been at pains to deny with these and other recent measures that looked suspiciously like QE. With a meaningful fiscal stimulus looking some way off the markets will be looking for the Fed to deliver.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.