

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



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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.

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