Weekly Commentary

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Fed on the ball again

[Editor's note: This commentary was written before the Federal Reserve's action on March 15 to lower the fed funds target range by 100 basis points to a range of 0% to 0.25% along with other action.]

This week the Federal Reserve again aggressively stepped up in face of the uncertainties and financial market volatility caused by the coronavirus. On Friday, it announced that, in addition to daily and 2-week operations already in place, it will offer an additional $1 trillion in 1- and 3-month term liquidity each week for the next four weeks.

The statement released by the Fed indicated that these changes are being made "to address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak," but many have observed that the action feels a lot like quantitative easing. We have been closely monitoring the repo market throughout this period, but have seen no signs of stress in our high-quality repo counterparties. While the market continues to wait for more details on the U.S. fiscal stimulus plan, these actions by the Fed should provide ample liquidity to the repo market until the virus threat has passed. We still anticipate at least a 50-basis-point ease by the Fed at or before the March 18 Federal Open Market Committee meeting, with the possibility of moving even closer to the zero lower bound.

The London interbank offered rate (Libor) fell last week amid the market rout ending Friday with 1-month at 0.80%, 3-month at 0.84% and 6-month at 0.82%.

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