Weekly Commentary

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FOMC to get technical

With the myriad actions the Federal Reserve has taken in response to the coronavirus' effect on the economy, the Federal Open Market Committee (FOMC) likely will have less to say after its meeting next week. Fed Chair Jerome Powell has made it clear interest rates will not rise anytime soon, so the announcement on Wednesday should instead be an update on the health of the U.S. economy and some technical adjustments. Quite technical, in fact. We expect policymakers to raise the rate of the reverse repo facility by 5 basis points, and it is possible they will do the same for the interest on excess return (IOER). Actually, it would be a surprise to the market if the former does not happen, and that is the last thing the Fed wants in this environment.

Use of the Money Market Mutual Fund Liquidity Facility (MMLF) and the Primary Dealer Credit Facility (PDCF) decreased slightly this week, while that of the Commercial Paper Funding Facility (CPFF) increased.

The London interbank offered rate (LIBOR) curve continued to drop, with 1-month falling 23 basis points to 0.44%, 3-month decreasing 22 basis points to 0.89% and 6 month slipping 18 basis points to 0.92%. This is the first time since March 16 that 3-month LIBOR dipped below 1.00%, as it is starting to fall in line with activity in the financial commercial paper market.