Weekly Commentary

MAY 1, 2020

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

A rare miss for the Fed

The Federal Reserve's response to the coronavirus crisis has been so robust that it almost seems like nitpicking to bring up something it didn't do. But on April 29, the Federal Open Market Committee did not raise the level of the reverse repo program (RRP) from zero to 5 basis points and the interest on excess reserves (IOER) from 5 to 10 basis points. The markets thought the Fed should do this to take more control of the federal funds rate and to raise the floor for rates above zero. However, in his press conference, Chair Jerome Powell hinted the Fed could do more. Cash managers hope increasing overnight rates will be considered.

Of those many programs already in place, the money market facilities have declined in usage. It would not surprise us if the Fed reduces the amount of lending offered for the Money Market Mutual Fund Liquidity Facility (MMLF), Primary Dealer Credit Facility (PDCF) and Commercial Paper Funding Facility (CPFF). That the latter has only collected around $3 billion shows that direct issuers are no longer having difficulty placing paper in the marketplace with counterparties and investors. Certainly, the commercial paper market is normalizing, with the London interbank offered rate (Libor) falling and spreads narrowing. Across the industry, around half of the assets lost in the prime space came back in April and government funds still are experiencing inflows.

The LIBOR curve continued to drop during the week, with 1-month falling to 0.30%, 3-month decreasing to 0.54% and 6 month slipping.

G40461-19 (5/20)

Views are as of May 1, 2020, and are subject to change based on market conditions and other factors.