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Weekly Commentary

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Fed weighing more repo facilities

For the most part, the minutes of the June Federal Open Market Committee (FOMC) meeting offered only a little insight on the decisions laid out in the statement. Policymakers stressed they will be patient in making any changes to monetary policy as uncertainty still reigns. The pandemic's vast distortion of data continues to weigh on their thoughts on inflation. But they are aware of the danger and are considering when to taper asset purchases in response.

At that meeting FOMC participants raised the rate on its Reverse Repo Facility and Interest on Excess Reserves by 5 basis points each, to 5 basis points and 15 basis points, respectively. This has led to higher gross yields in overnight rates and better functioning operations. The minutes show that policymakers also discussed creating a domestic standing repo facility (SRF) and a standing Foreign International Monetary Authorities (FIMA) repo facility. The idea is "to have these facilities play a backstop role in fostering effective implementation of monetary policy and supporting smooth functioning of markets." This would be a welcome tool for the money markets and the economy in general.

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Views are as July 12, 2021 and are subject to change based on market conditions and other factors.