Weekly Commentary

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Fed on fire

The Federal Reserve continues to impress with how swiftly it addresses market needs in the coronavirus crisis. Emergency rate cut? Check. New facilities? Done. Quantitative easing? Of course.

Last week, the Fed even beat itself to the punch when it extended many of the new special purpose vehicles the day before its Federal Open Market Committee meeting concluded with no change to the federal funds rate's target range of 0-25 basis points. End dates are now Dec. 31 for the Primary Dealer Credit Facility and Money Market Mutual Fund Liquidity Facility, and March 17, 2021, for the Commercial Paper Funding Facility. None of these programs have seen much use recently, but they give confidence to the markets simply by being there. I think all should stay in place until the pandemic is over or at least until we get a vaccine.

Policymakers also extended the Fed's dollar liquidity swap lines and repo facility for international monetary authorities through March 31, 2021. This is another good move as these have added support for the front end of the Treasury curve. Its increasing of overnight and term repo rates in June also has provided a boast with a rate floor above zero, leading the effective fed funds rate hovering around 9 basis points again this week.

The London interbank offered rate (LIBOR) fell slightly this week, with 1-month slipping to 0.15%, 3-month remaining at 0.25%, and 6-month dropping to 0.31%.

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