

Liquidity Regulations, Money Markets and Monetary Policy

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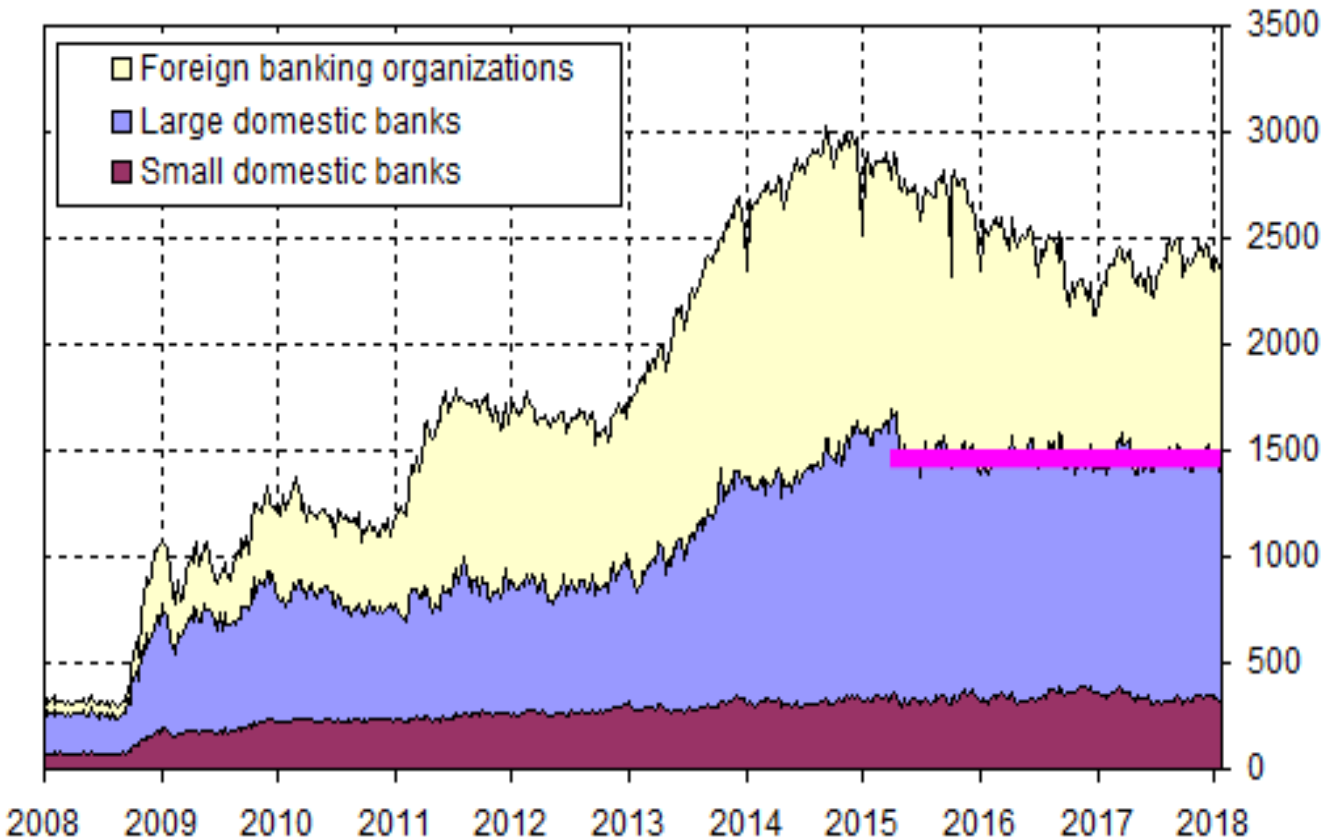
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Distribution of Cash Assets Among Different Categories of Commercial Banks

Reserve balances and TDF investments account for the bulk of cash assets on the Fed's weekly H.8 report - In billions of dollars

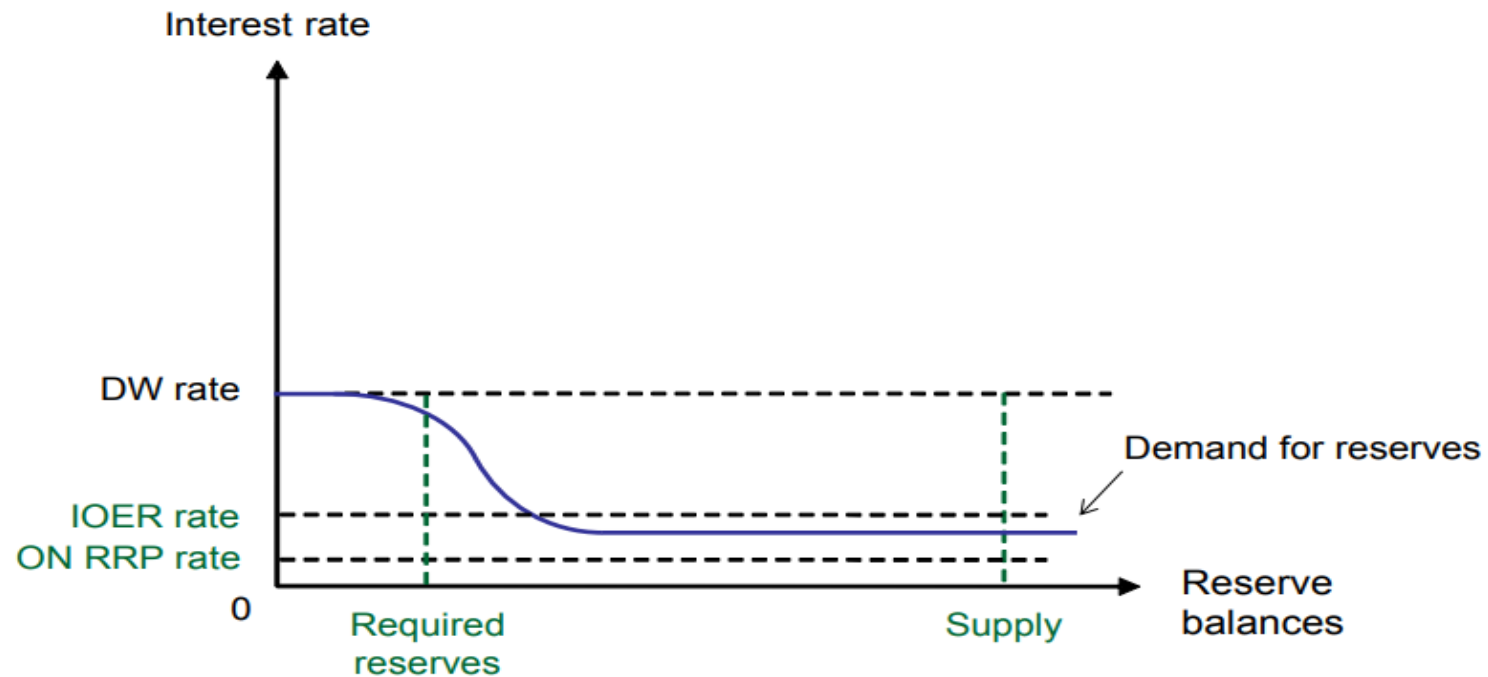


A 3-year experiment in regulatory revealed preference...

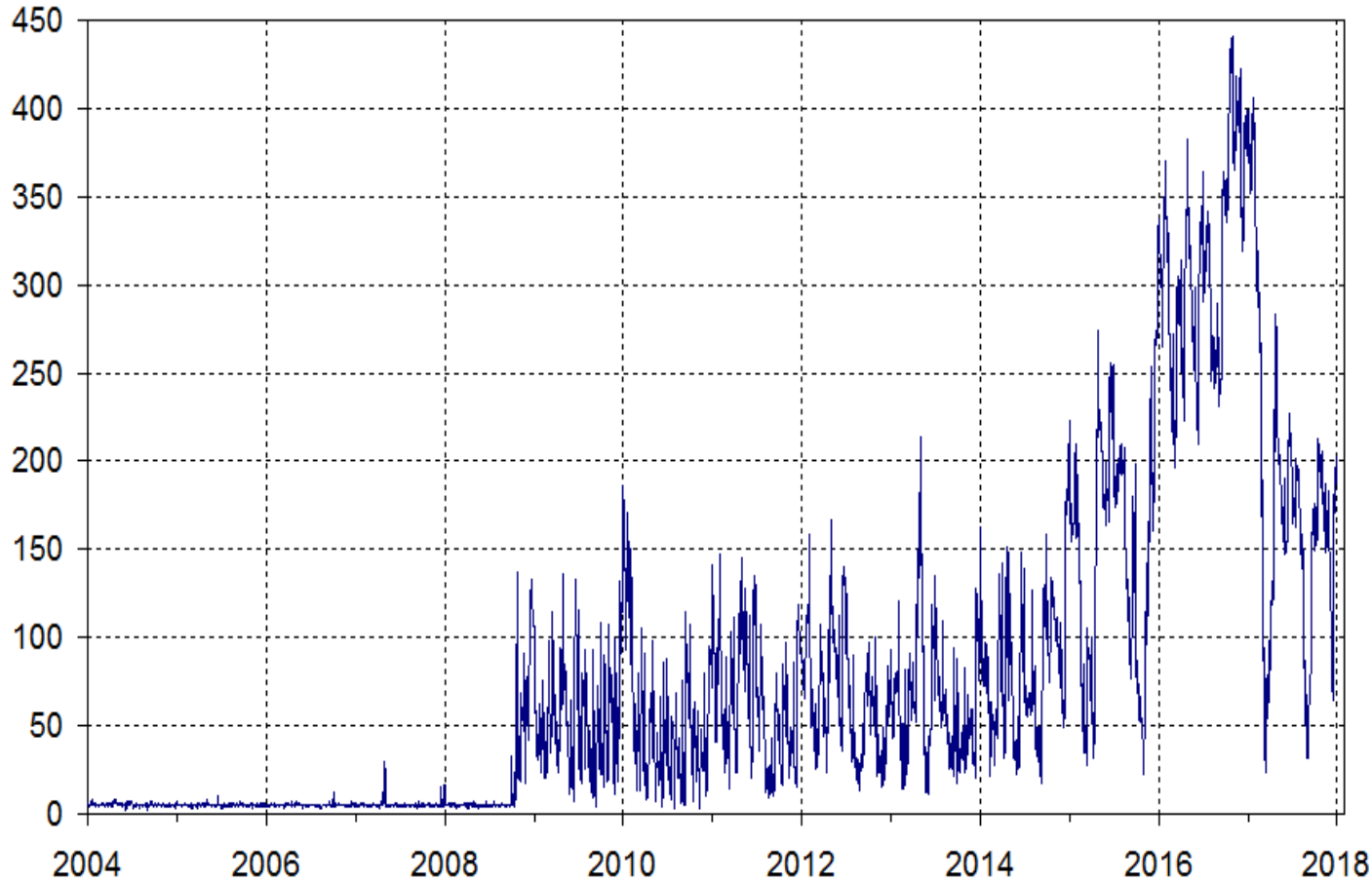
As long as foreign banks are willing to act as the swing players in the market for reserves, domestic banks can control the amount of reserves they absorb. And for the past three years, the answer to that particular optimization problem has held steady at \$1.5 trillion.

View from the New York Fed's Open Market Desk: Keep the supply of reserves in the flat part of the demand curve

Figure 1
Current Framework for Monetary Policy Implementation



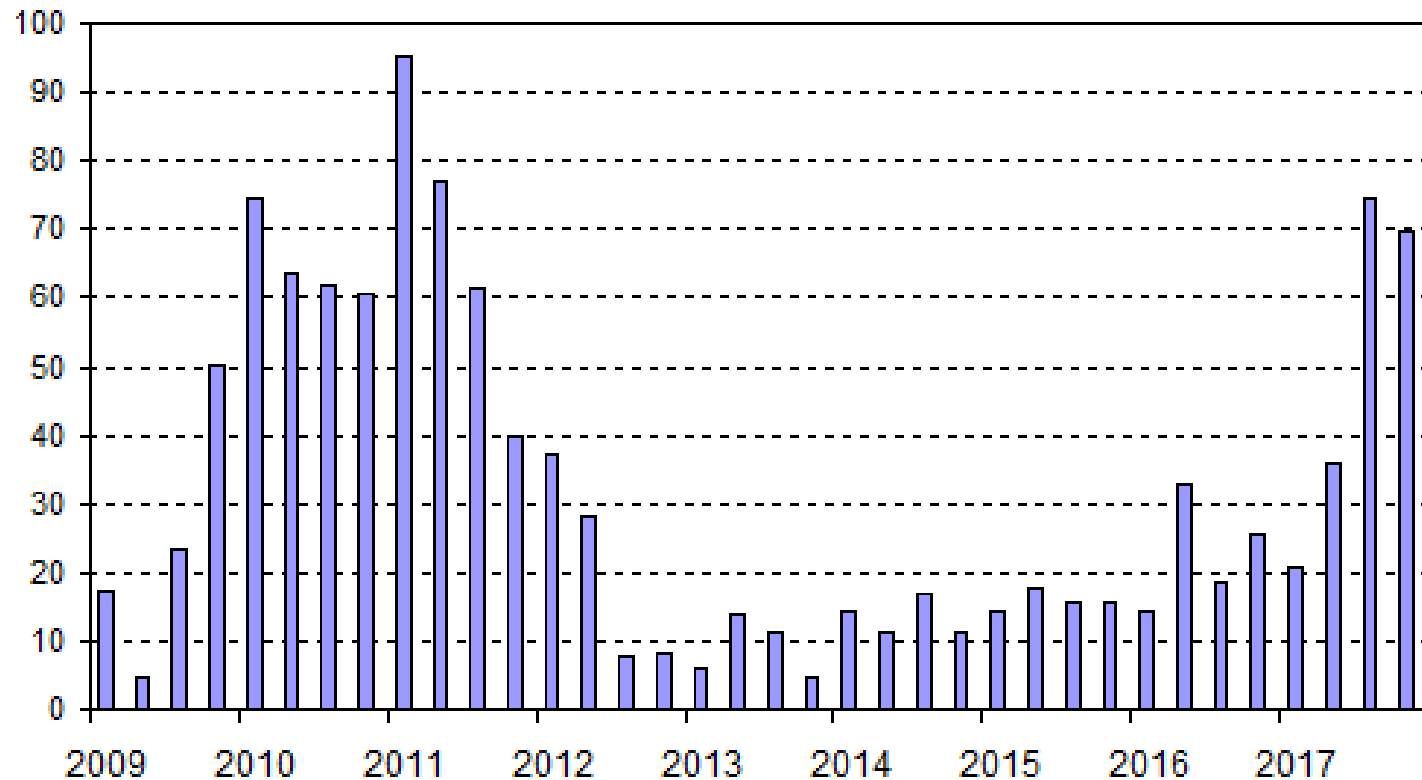
The Treasury's General Account at the Fed
in billions of dollars



Demise of the TT&L system

In the absence of a functional Treasury tax and loan system, the Treasury's account at the Fed will be far more volatile than in the past

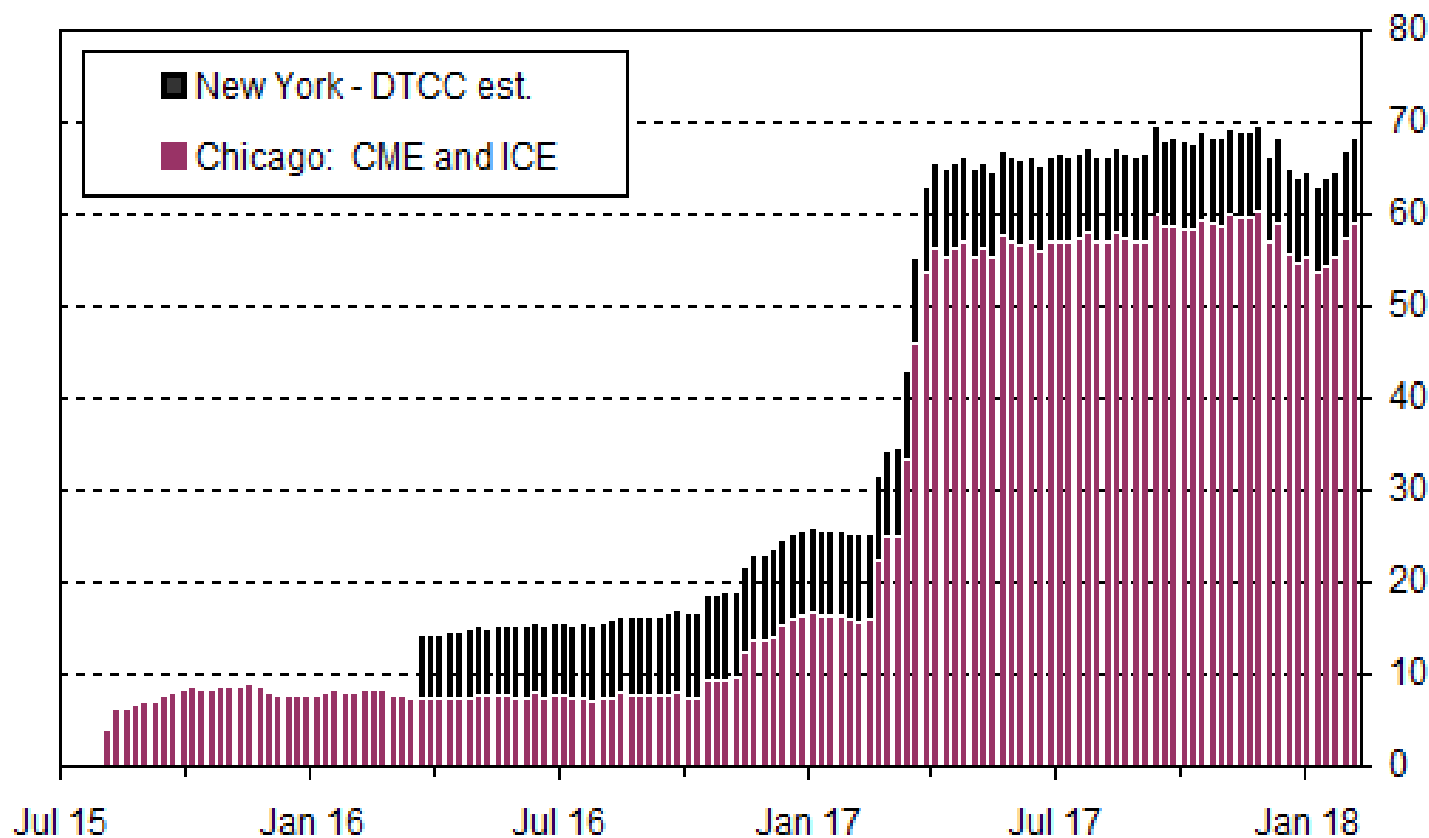
Quarter-End Holdings of Deposits at the Federal Reserve: Barclays Bank PLC
in billions of dollars



It's not just the supply side – demand matters too...

Demand for Fed balances may be much more volatile as international banks adopt a multi-currency strategy for managing their liquidity positions

Estimated Financial Market Utility Deposits at the New York and Chicago Federal Reserve Banks -- Wednesday levels in billions of dollars



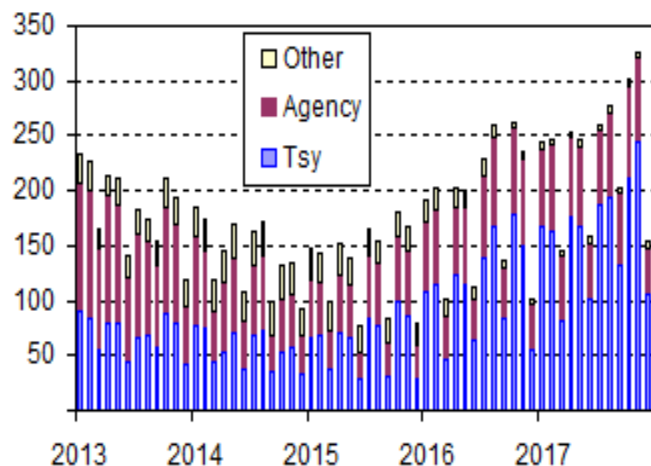
The outlook for CCP balances at the Fed is a major unknown for the balance sheet

Financial market utilities could – and should – make greater use of central bank liquidity services going forward

MMF Repos with Extreme European Window-Dressers

The totals reflect the activity of seven French, German and Swiss institutions

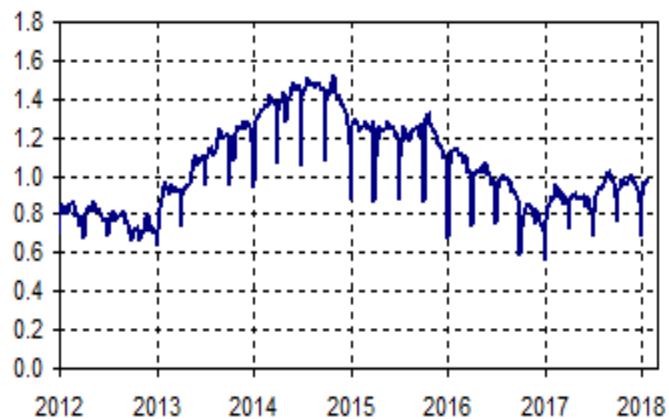
Month-end values in billions of dollars - broken down by collateral type



Cash Assets of U.S. Branches & Agencies of Frgn Banks

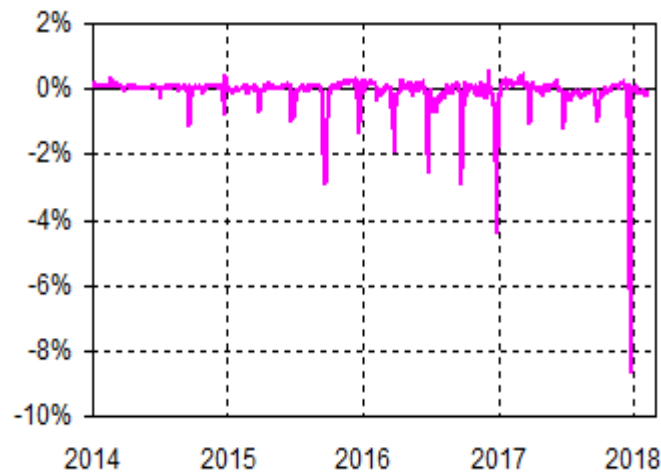
Wednesday levels combined with quarter-end figures from the

Fed's "Table 4.30" - in trillions of dollars

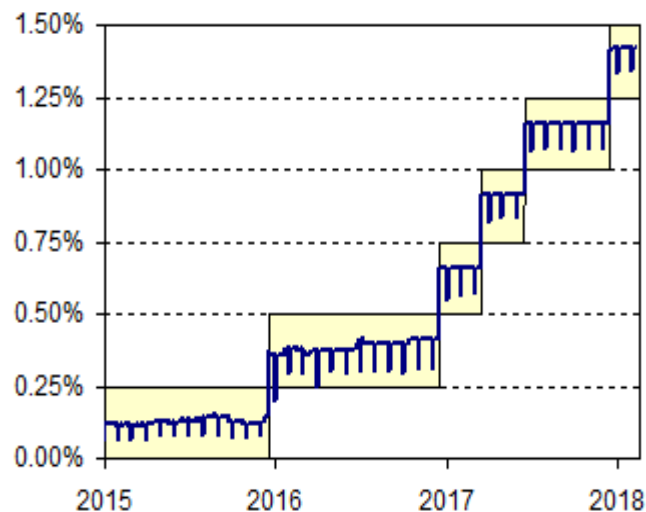


Japanese 1-Week Interest Rates Implied by FX Forwards

Annualized interest rates



Fed Funds Rate Relative to the FOMC's Target Range

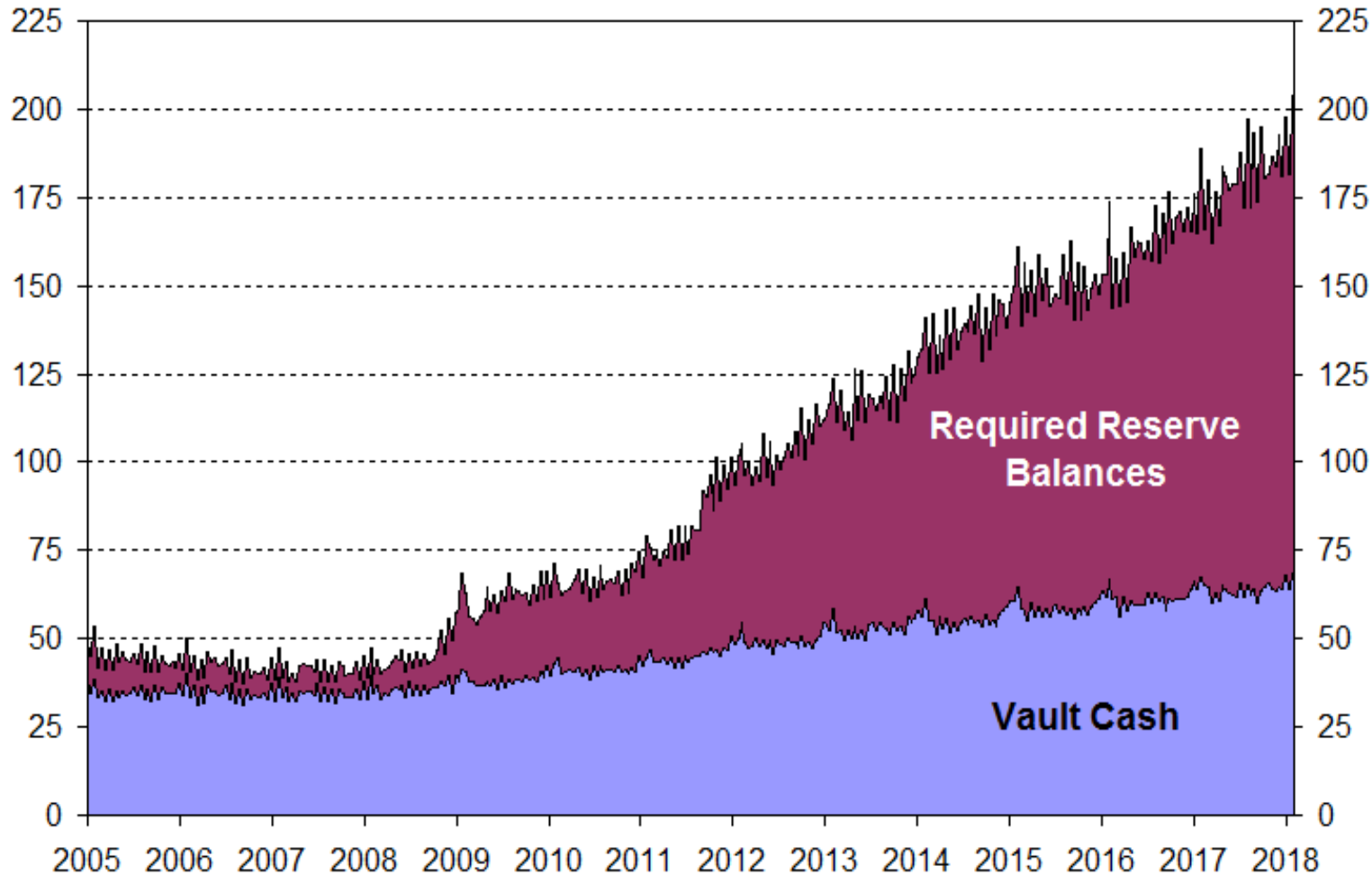


Regulatory constraints have resulted in some striking money market distortions since the crisis

These are most apparent on statement dates, but there would be potential for more endemic market inefficiencies if the cost of meeting LCR HQLA requirements were unduly expensive.

Breakdown of Required Reserves: Vault Cash vs Required Reserve Balances

Bi-weekly averages in billions of dollars



While still dwarfed by excess reserves, required reserve balances have surged

Required reserves now exceed \$130 billion. They cannot be counted as HQLA for LCR purposes in the U.S., but may serve to meet the many other liquidity objectives that banks have.