

ShadowStats Flash Update No. 11

Fed Launches New Round of "Quantitative Easing"

October 12, 2019

**Federal Reserve Launches New Round of Quantitative Easing
In All But Name**

**At Least \$60 Billion of Treasury Bill Purchases
Per Month into Second-Quarter 2020**

Aimed at Rebuilding the Fed Balance Sheet

**Mounting Economic Weakness and Systemic Instabilities Still
Leave Open a Possible 0.50% Rate Cut at October 29/30 FOMC**

**Further Expansion of the Informal Quantitative Easing or
Renewed Formal Quantitative Easing Is Likely**

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Today's very brief **Flash Update No. 11** highlights yesterday's (October 11th) Federal Reserve Board (FRB) announcement that it will renew net purchases of U.S. Treasury debt (Treasury Bills) aimed at relieving funding stresses in the U.S. financial system. Such is renewed Quantitative Easing in all but name, as discussed previously in [Flash Update No. 8](#) and [Flash Update No. 10](#). Following in the week ahead, **Commentary No. 985-A** reviews and details rapidly deteriorating broad domestic economic conditions, and **Commentary No. 985-B** reviews the recent and likely pending actions by the Fed's Federal Open Market Committee (FOMC) and will update the *ShadowStats Financial Market ALERT*.

The ShadowStats broad outlook remains unchanged, other than as exacerbated by fast-moving and potentially extreme domestic and global political instabilities and other systemic stresses, as highlighted in [Flash Update No. 9](#), [Flash Update No. 10](#) and as reviewed regularly in the **Daily Update** section of the [ShadowStats](#) home page. In the context of intensifying near-term financial market risks, the ShadowStats broad outlook in the weeks and months ahead remains for:

- A rapidly intensifying U.S. economic downturn.
- Mounting selling pressure on the U.S. dollar (particularly against stronger currencies such as the Swiss Franc).
- Continued flight to safety in precious metals, with upside pressures on gold and silver prices.
- Increasingly high risk of extraordinarily heavy stock-market selling.

Your comments and suggestions are invited. Always happy to discuss what is happening.

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Quantitative Easing by Any Other Name Stimulates the Economy

FOMC Announces Treasury-Bill Purchases Into at Least Second-Quarter 2020 in Order to Boost Systemic Liquidity. Announced yesterday (October 11th) by the FOMC, beginning next week, the Federal Reserve will begin buying \$60 billion in Treasury Bills, per month in order to provide liquidity to the money markets (see the *FOMC's Statement Regarding Monetary Policy* on page 4). Federal Reserve Chairman Jerome H. Powell had suggested in an earlier October 8th speech (see page 5) that such a move was coming, but he emphasized "... that growth of our balance sheet for reserve management purposes should in no way be confused with the large-scale asset purchase programs [a.k.a. Quantitative Easing] that we deployed after the financial crisis."

ShadowStats discussed in [*Flash Update No. 10*](#), **"The Still-Deepening and Yet Not Fully Recognized New U.S. Economic Recession Was Triggered by Overly Aggressive Federal Reserve Tightening and Rate Hikes in the Last Couple of Years.** Accordingly, it is time now for the Fed to ease aggressively, not only cutting its targeted Federal Funds Rate by 0.50%, but also by re-expanding Quantitative Easing (QE) at the upcoming October 29th to 30th FOMC meeting. The New York Federal Reserve effectively has been forced to provide QE in recent weeks, in order to maintain adequate overnight systemic liquidity, recently announcing continuing overnight funding through November 4th, post FOMC. ..." Also, see [*Flash Update No. 8*](#).

Adding Liquidity to the System Tends to Boost the Economy, Irrespective of Intent. Cash is fungible, and cash in the system tends to increase with added liquidity. Such tends to support and expand economic activity, irrespective of how much the FOMC would like the world to think that the U.S. economic activity is just fine and dandy. Those specific areas will be addressed in pending *Commentaries No. 985-A and No. 985-B*.

**[The FOMC Statement and the excerpt from Chairman Powell's speech
begin on the next page.]**

Following is the FRB's October 11th Press Release on the new "non-QE," see highlighted text.

FOMC's Statement Regarding Monetary Policy Implementation

Consistent with its January 2019 Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization, the Committee reaffirms its intention to implement monetary policy in a regime in which an ample supply of reserves ensures that control over the level of the federal funds rate and other short-term interest rates is exercised primarily through the setting of the Federal Reserve's administered rates, and in which active management of the supply of reserves is not required. To ensure that the supply of reserves remains ample, the Committee approved by notation vote completed on October 11, 2019 the following steps:

- In light of recent and expected increases in the Federal Reserve's non-reserve liabilities, the Federal Reserve will purchase Treasury bills at least into the second quarter of next year in order to maintain over time ample reserve balances at or above the level that prevailed in early September 2019.
- In addition, the Federal Reserve will conduct term and overnight repurchase agreement operations at least through January of next year to ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation.

These actions are purely technical measures to support the effective implementation of the FOMC's monetary policy, and do not represent a change in the stance of monetary policy. The Committee will continue to monitor money market developments as it assesses the level of reserves most consistent with efficient and effective policy implementation. The Committee stands ready to adjust the details of these plans as necessary to foster efficient and effective implementation of monetary policy.

In connection with these plans, the Federal Open Market Committee voted unanimously to authorize and direct the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

“Effective October 15, 2019, the Federal Open Market Committee directs the Desk to undertake open market operations as necessary to maintain the federal funds rate in a target range of 1-3/4 to 2 percent. In light of recent and expected increases in the Federal Reserve's non-reserve liabilities, the Committee directs the Desk to purchase Treasury bills at least into the second quarter of next year to maintain over time ample reserve balances at or above the level that prevailed in early September 2019. The Committee also directs the Desk to conduct term and overnight repurchase agreement operations at least through January of next year to ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation. In addition, the Committee directs the Desk to conduct overnight reverse repurchase operations (and reverse repurchase operations with maturities of more than one day when necessary to accommodate weekend, holiday, or similar trading conventions) at an offering rate of

1.70 percent, in amounts limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of \$30 billion per day.

The Committee directs the Desk to continue rolling over at auction all principal payments from the Federal Reserve's holdings of Treasury securities and to continue reinvesting all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities received during each calendar month. Principal payments from agency debt and agency mortgage-backed securities up to \$20 billion per month will continue to be reinvested in Treasury securities to roughly match the maturity composition of Treasury securities outstanding; principal payments in excess of \$20 billion per month will continue to be reinvested in agency mortgage-backed securities. Small deviations from these amounts for operational reasons are acceptable.

The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions.”

More information about these plans may be found on the Federal Reserve Bank of New York's [website](#).

Excerpted from Federal Reserve Chairman Jerome H. Powell’s speech of October 8th (see highlighted text).

Chairman Powell's Speech: Data-Dependent Monetary Policy in an Evolving Economy

... Our influence on the financial conditions that affect employment and inflation is indirect. The Federal Reserve sets two overnight interest rates: the interest rate paid on banks' reserve balances and the rate on our reverse repurchase agreements. We use these two administered rates to keep a market-determined rate, the federal funds rate, within a target range set by the FOMC. We rely on financial markets to transmit these rates through a variety of channels to the rates paid by households and businesses—and to financial conditions more broadly.

In mid-September, an important channel in the transmission process—wholesale funding markets—exhibited unexpectedly intense volatility. Payments to meet corporate tax obligations and to purchase Treasury securities triggered notable liquidity pressures in money markets. Overnight interest rates spiked, and the effective federal funds rate briefly moved above the FOMC's target range. To counter these pressures, we began conducting temporary open market operations. These operations have kept the federal funds rate in the target range and alleviated money market strains more generally.

While a range of factors may have contributed to these developments, it is clear that without a sufficient quantity of reserves in the banking system, even routine increases in funding pressures can lead to

outsized movements in money market interest rates. This volatility can impede the effective implementation of monetary policy, and we are addressing it. Indeed, my colleagues and I will soon announce measures to add to the supply of reserves over time. Consistent with a decision we made in January, our goal is to provide an ample supply of reserves to ensure that control of the federal funds rate and other short-term interest rates is exercised primarily by setting our administered rates and not through frequent market interventions. Of course, we will not hesitate to conduct temporary operations if needed to foster trading in the federal funds market at rates within the target range.

Reserve balances are one among several items on the liability side of the Federal Reserve's balance sheet, and demand for these liabilities—notably, currency in circulation—grows over time. Hence, increasing the supply of reserves or even maintaining a given level over time requires us to increase the size of our balance sheet. As we indicated in our March statement on balance sheet normalization, at some point, we will begin increasing our securities holdings to maintain an appropriate level of reserves. That time is now upon us.

I want to emphasize that growth of our balance sheet for reserve management purposes should in no way be confused with the large-scale asset purchase programs [Quantitative Easing] that we deployed after the financial crisis. Neither the recent technical issues nor the purchases of Treasury bills we are contemplating to resolve them should materially affect the stance of monetary policy, to which I now turn.

Our goal in monetary policy is to promote maximum employment and stable prices, which we interpret as inflation running closely around our symmetric 2 percent objective. At present, the jobs and inflation pictures are favorable. Many indicators show a historically strong labor market, with solid job gains, the unemployment rate at half-century lows, and rising prime-age labor force participation. Wages are rising, especially for those with lower-paying jobs. Inflation is somewhat below our symmetric 2 percent objective but has been gradually firming over the past few months. FOMC participants continue to see a sustained expansion of economic activity, strong labor market conditions, and inflation near our symmetric 2 percent objective as most likely. Many outside forecasters agree. ...

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