

Global Money Dispatch

In preparation for the release of U.S. G-SIBs' first quarter earnings on Wednesday, in today's Dispatch, we review how the surge in reserves and Treasury supply affected the balance sheet of the U.S. banking system in the aggregate during the first quarter. When the U.S. G-SIBs start to report on Wednesday, we will provide a detailed, bank-by-bank breakdown of this aggregate picture.

To provide the aggregate picture, we use three datasets: the weekly H.4.1, H.8, and ICI reports that provide information on the balance sheets of the Fed, banks, and money funds, respectively. Each of these releases provides data as of the end of day on Wednesday, so conceptually, the Fed's numbers on reserve balances should line up with banks' holdings of reserves at the Fed – but they do not. So what follows is a rough estimate of how reserves were absorbed by various types of banks and where money funds put their cash.

Thus, during the first quarter, QE4 and the decline in Treasury's cash balances added just over \$800 billion of reserves into the system. \$300 billion of this was absorbed ("sterilized") by money funds moving cash into the o/n RRP facility and the GSEs and CCPs moving cash into their deposit accounts at the Fed.

Reserves increased by just over \$500 billion – this is a highly reliable number, as it comes from the Fed's weekly H.4.1 release. But mapping this increase to various types of banks' holdings of reserves at the Fed is an imprecise exercise, as the H.8 release is based on surveying banks regarding their Fed balances, not the Fed reporting the balances that various types of banks keep at the Fed.

The \$130 billion discrepancy between the H.4.1 and H.8 measures isn't ideal, but it is what it is – maybe the Fed should consider sourcing the H.8 numbers on banks' reserve balances not through surveys filled out by individual banks but through aggregating the actual reserve balances various types of banks have at the Fed. Proportionally, large U.S. banks took down about half of the \$500 billion increase in reserves during the first quarter, or about \$250 billion.

Of this \$250 billion, the bulk was presumably absorbed by the U.S. G-SIBs, which has nudged the G-SIBs close to their SLR limits (see the second chart). Unlike reserves, the G-SIBs haven't added any Treasuries during the quarter (see the last chart). Coming into the second quarter, reserves soared further as foreign banks upped their borrowing in the o/n eurodollar market, but the G-SIBs' reserve holdings appear to have increased as well by \$200 billion.

It isn't obvious how G-SIBs had capacity for that. Limits on buybacks until July 1st could be a factor. We should have the full picture by lunchtime on Wednesday.

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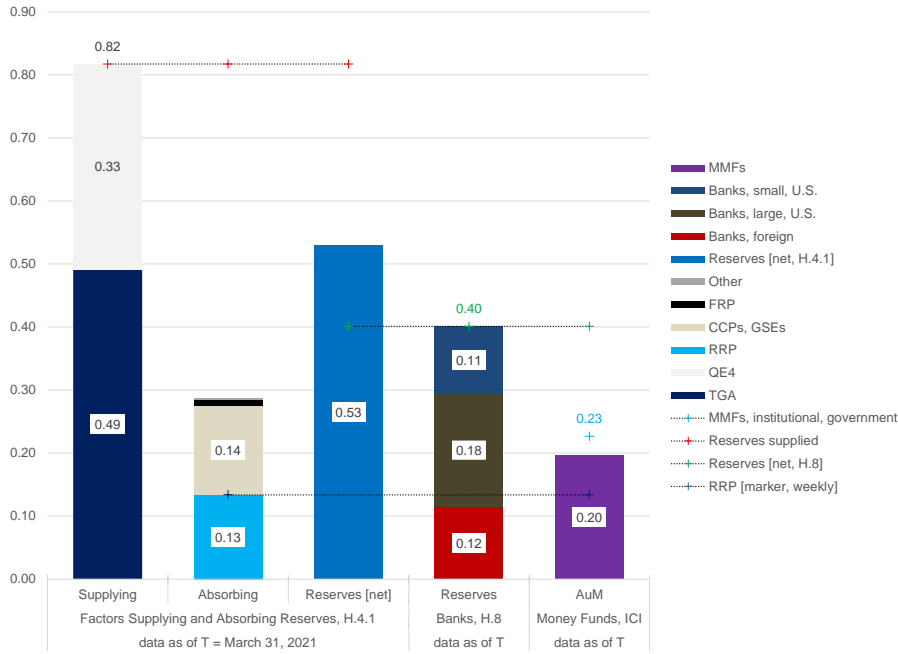
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[Weekly]: Large U.S. Banks Continue to Absorb Reserves (1)

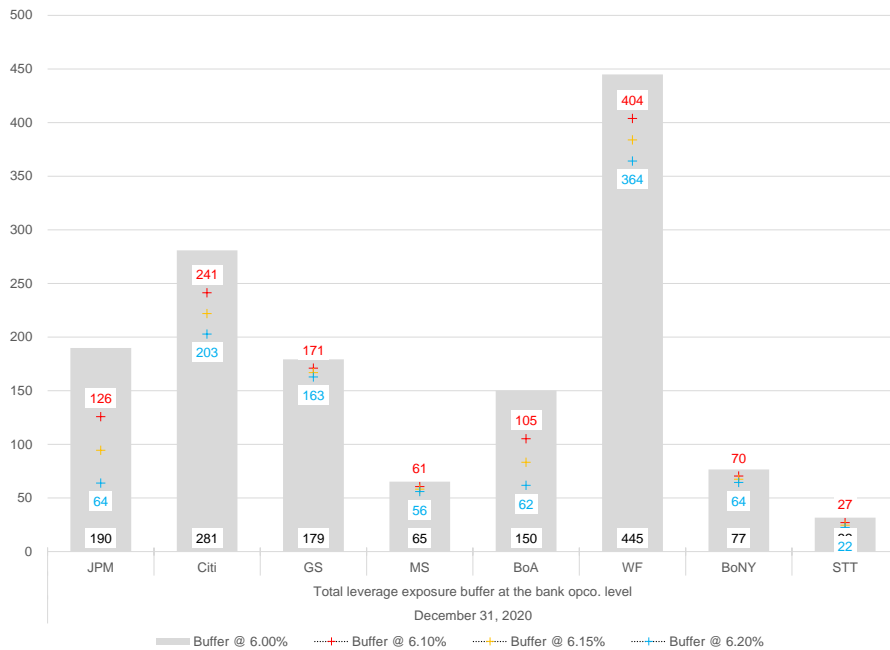
\$ trillion, all datasets as of March 31st, 2021



Source: Federal Reserve, ICI, Credit Suisse

[Quarterly]: The SLR Is Becoming Binding Fast

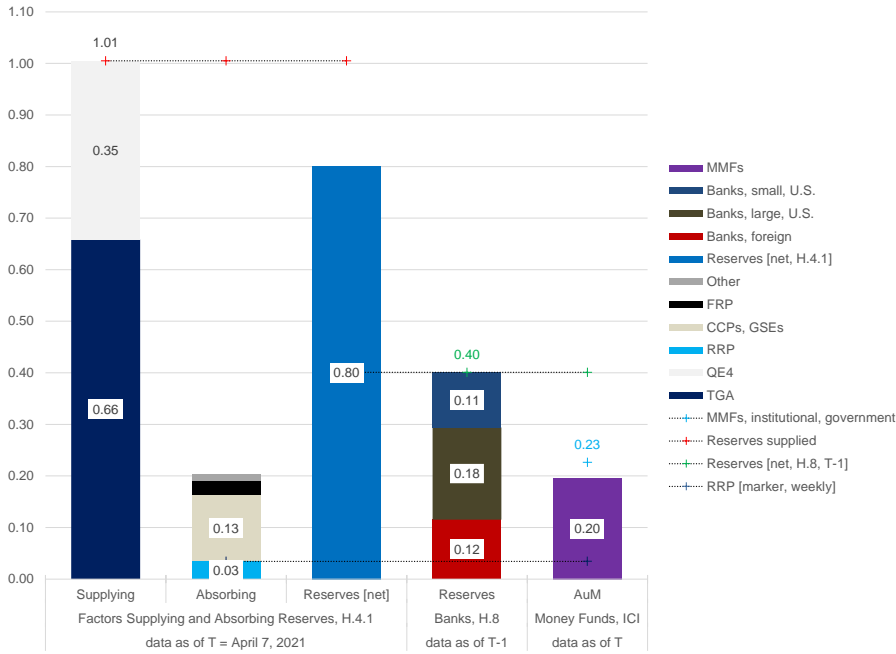
\$ billion



Source: FFIEC 031, Credit Suisse

[Weekly]: Large U.S. Banks Continue to Absorb Reserves (2)

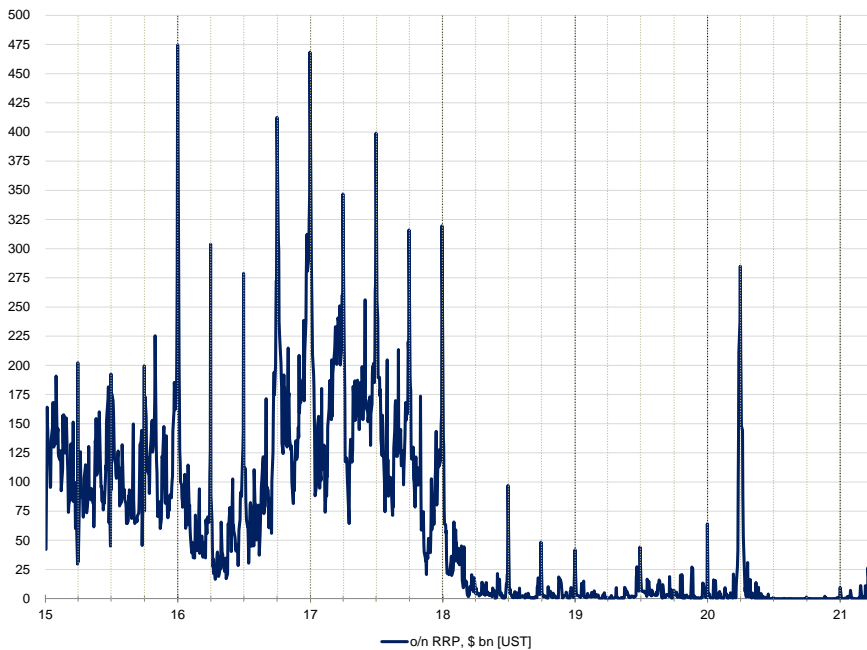
\$ trillion, H.8 data on banks' holdings of reserves lags the H.4.1 and ICI data by one week



Source: Federal Reserve, ICI, Credit Suisse

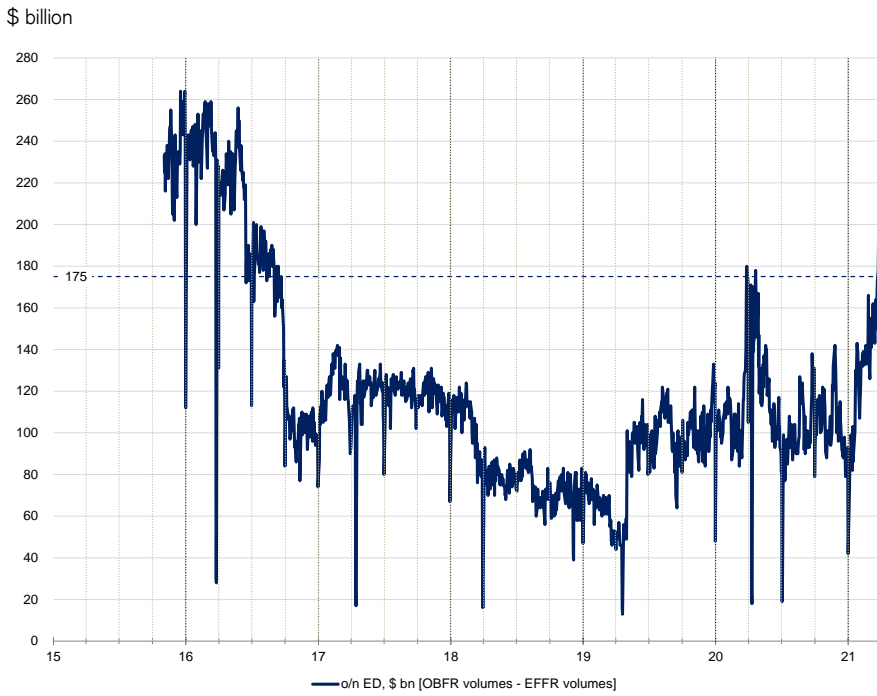
[Daily]: o/n RRP Usage Remains Low

\$ billion



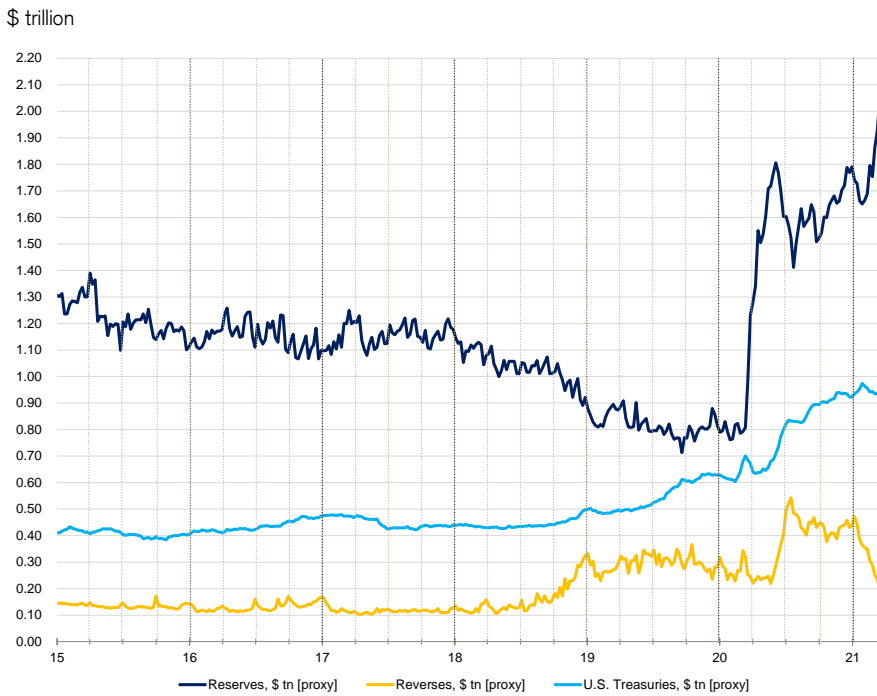
Source: FRBNY, Credit Suisse

[Daily]: o/n Eurodollar Volumes



Source: FRBNY, Credit Suisse

[Weekly]: Large U.S. Banks' HQLA Holdings



Source: Federal Reserve, Credit Suisse

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