

## Global Money Dispatch

Our focus recently has been the question of who will buy Treasury securities and MBS when the Fed starts to taper QE. We've shown that large U.S. banks have been the main marginal buyers since the beginning of the Covid-19 pandemic. J.P. Morgan and Japanese megabanks seem to have a 10-year yield bogey that's meaningfully better than rates during the second quarter, around 1.75%, and RV hedge funds want certainty that bases and repo rates won't blow out.

Enter the [SRF](#).

One press headline yesterday read, "*Fed Surprises Markets with Repo Facility Amid Abundance of Cash*". We'd say, "*Fed Foams the Runway with Repo Facility Ahead of Taper*". The SRF is a stroke of genius. It generates demand for Treasuries and MBS. It is basically "financed" QE, as opposed to "funded" QE.

"Funded" QE is when the Fed *buys* bonds and creates permanent reserves. "Financed" QE is when the Fed *repos* bonds and creates temporary reserves.

Central banking isn't rocket science. Whatever a central bank does is always either a permanent open market operation (POMO) or a temporary one (TOMO).

Funded QE = POMO. Financed QE = TOMO.

Financed QE rolled to infinity is like funded QE: buying bonds on scale and financing them on scale is the same thing – the central bank absorbs collateral and puts cash in the system, and the question of marginal buyers is resolved.

We have two SRFs: domestic and foreign. The domestic one is ready for dealers to use for intermediation starting today and will give confidence for RV funds to harvest emerging bases as taper commences. Repocalypse is no longer a risk.

The domestic SRF will be ready for bank portfolios small and large by the time taper commences (banks can start applying for access starting October 1<sup>st</sup>). Why should small banks sit on \$500 billion of excess reserves if they now have the means to turn collateral into reserves on demand (the "[butter heater](#)" is a reality).

Why should foreign central banks keep \$250 billion in the foreign repo pool at 5 bps (a static pool that's a stable, precautionary pool of liquidity) when they can buy 5-year Treasuries at 75 bps and repo them for 25 bps for a few days if you have a sudden liquidity need. SRF makes [collateral king](#), once again...

Of course, with so many excess reserves in the system, we are far from the SRF being used, but its existence will improve demand for collateral meaningfully.

The SRF created \$500-750 billion of demand for collateral at the stroke of a pen. SLR reform and lifting Wells Fargo's asset growth ban will improve the picture but are now less urgent. The SRF improves demand for bonds. Let's taper...

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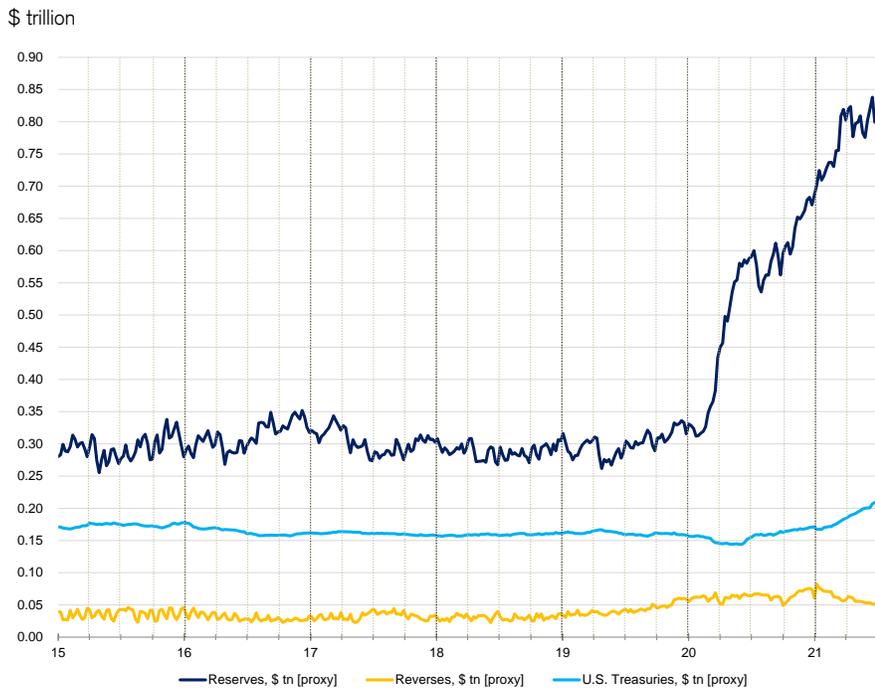
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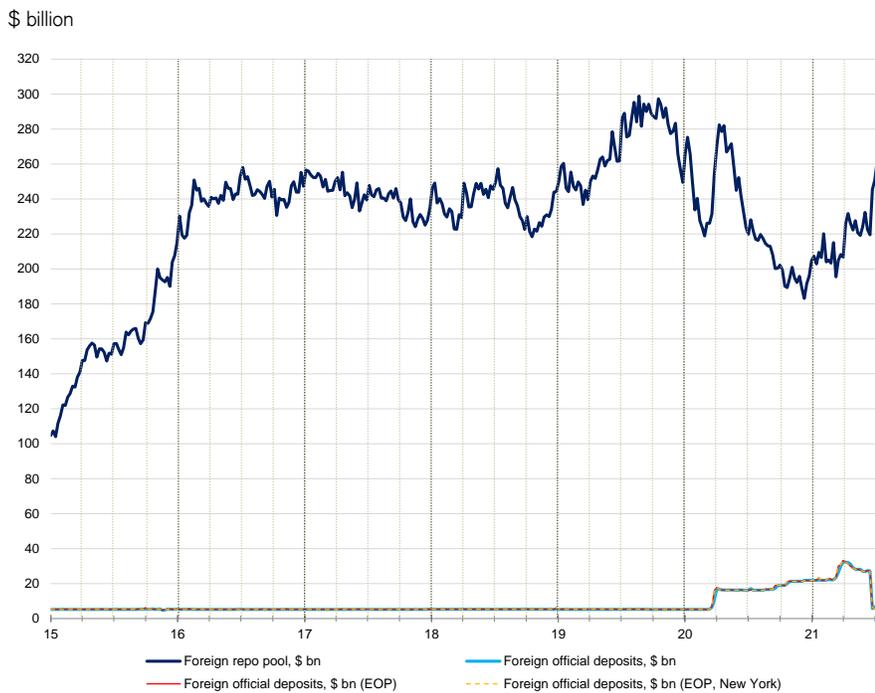
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**[Weekly]: Why Should Small U.S. Banks Hold So Many Reserves?**



Source: Federal Reserve, Credit Suisse

**[Weekly]: Why Should Foreign Central Banks Hold So Much Cash?**



Source: Federal Reserve, Credit Suisse

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