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The Fed Officially Announces Big Bond-Buying Change

Market participants sensed that the Fed was suddenly changing its tune with respect to its balance sheet back in January. The balance sheet primarily refers to all the bonds the Fed purchased as a part of the various Quantitative Easing plans conducted throughout the recovery to the Great Recession. At the time, those QE plans technically involved "printing money."

But it wasn't just money dropped from helicopters. The money was used to buy investments--in this case Treasury and Mortgage-Backed-Securities debt. Those bonds earn the Fed some income and they also get the principal returned when the bonds mature.

The Fed HAD been using that incoming principal to buy more of the same bonds until 2018, when they began letting the balance sheet "runoff" by a controlled amount each month. Eventually the "control" (a cap on how much they'd allow to NOT be reinvested) reached $30 bln/month. Today's changes mean that the Fed is reducing that cap to $15 bln in May. So in a month and a half, there will be an additional $15bln/month in bond buying, and that will ramp up to $30bln a month by September.

Net/net, this is like QE4, without the Fed needing to print any new money. They may say that they want to use their Fed Funds Rate as the key policy tool, but today' massive rally in bonds suggests markets are clearly willing to be influenced by the balance sheet.

NOTE: The Fed is making another change by finally shifting away from buying agency mortgage-backed-securities. They view the mortgage market as strong enough to generate its own demand--something its been doing fairly successfully since October 2018 when the Fed's reinvestments in MBS ran dry.

All the details on the changes can be found at THIS LINK.

For the non link-clicking types, here you go:

To ensure a smooth transition to the longer-run level of reserves consistent with efficient and effective policy implementation, the Committee intends to slow the pace of the decline in reserves over coming quarters provided that the economy and money market conditions evolve about as expected.

- The Committee intends to slow the reduction of its holdings of Treasury securities by reducing the cap on monthly redemptions from

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.81	-0.02
10 YR Treasury	4.9299	+0.0084
30 YR Treasury	5.3082	+0.0081

Pricing as of: 10/30 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

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the current level of $30 billion to $15 billion beginning in May 2019.

- The Committee intends to conclude the reduction of its aggregate securities holdings in the System Open Market Account (SOMA) at the end of September 2019.
- The Committee intends to continue to allow its holdings of agency debt and agency mortgage-backed securities (MBS) to decline, consistent with the aim of holding primarily Treasury securities in the longer run.
    - Beginning in October 2019, principal payments received from agency debt and agency MBS will be reinvested in Treasury securities subject to a maximum amount of $20 billion per month; any principal payments in excess of that maximum will continue to be reinvested in agency MBS.
    - Principal payments from agency debt and agency MBS below the $20 billion maximum will initially be invested in Treasury securities across a range of maturities to roughly match the maturity composition of Treasury securities outstanding; the Committee will revisit this reinvestment plan in connection with its deliberations regarding the longer-run composition of the SOMA portfolio.
    - It continues to be the Committee's view that limited sales of agency MBS might be warranted in the longer run to reduce or eliminate residual holdings. The timing and pace of any sales would be communicated to the public well in advance.
- The average level of reserves after the FOMC has concluded the reduction of its aggregate securities holdings at the end of September will likely still be somewhat above the level of reserves necessary to efficiently and effectively implement monetary policy.
    - In that case, the Committee currently anticipates that it will likely hold the size of the SOMA portfolio roughly constant for a time. During such a period, persistent gradual increases in currency and other non-reserve liabilities would be accompanied by corresponding gradual declines in reserve balances to a level consistent with efficient and effective implementation of monetary policy.
- When the Committee judges that reserve balances have declined to this level, the SOMA portfolio will hold no more securities than necessary for efficient and effective policy implementation. Once that point is reached, the Committee will begin increasing its securities holdings to keep pace with trend growth of the Federal Reserve's non-reserve liabilities and maintain an appropriate level of reserves in the system.

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