April 5, 2020

Summary of U.S. Monetary Actions to Address COVID-19 Impacts

U.S. Monetary Actions to Address COVID-19 Impacts

The Fed has implemented several measures to stave off the effects of COVID-19, some enhanced by Congress.

Federal Reserve Actions Enhanced by Congress

Friday, March 27, 2020: Passage of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act provides for the creation of a Federal Reserve facility to make open market purchases of "State" and "Municipal" debt (as well as direct loans to those entities)

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  - The $454 billion ESF capital covers "eligible businesses" as well as "States" or "municipalities", with no specified breakdown between the Corporate and Municipal sectors
  - Although judging by other similar facilities and Administration statements, the total capacity of the SPV(s) is expected to be quite significant with leverage of approximately 10x on the $454 billion ESF investment, equating to roughly $4.54 trillion in capacity

- Allows the Fed and Treasury up to 10 days to begin purchasing municipal securities on the secondary market; with markets closed on April 10th for Good Friday, Monday, April 13th is the deadline

- *It is worth nothing that earlier drafts of the legislation had a potential Achilles Heel with an overly narrow definition of "States" and "Municipalities" that would have excluded the vast majority of municipal debt. Citi was the first to raise this issue on Sunday, and the definition was significantly improved in the final bill*
  - The definition is still imperfect and open to some further Fed interpretation, but now includes "a political subdivision of a State", "an instrumentality of a municipality, a State, or a political subdivision of a State" and "bi-State or multi-State entities"

Source: Citi internal.

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Modifying its unlimited quantitative easing program, the Fed plans to reduce the pace of its daily market activity. Additionally, the Fed has initiated a repurchase agreement facility for foreign central banks to support markets.

Federal Reserve Actions

Friday, March 27, 2020: Fed announced reduction in the pace of daily buying from $75 billion to $50 billion

- The pace had been $60 billion for its most recent two days of purchases, down from an earlier speed of $75 billion per day.
  - Purchases through Friday have totaled around $1 trillion. The Fed plans to buy Treasuries on Monday through Thursday next week, with markets closed Friday in observance of a holiday.

Tuesday, March 31, 2020: Announced a temporary overnight repurchase agreement facility for foreign central banks, available April 6th

- According to the Fed, the facility "reduces the need for central banks to sell their Treasury securities outright and into illiquid markets," and aims to help stabilize the market
  - "By allowing central banks to use their securities to raise dollars quickly and efficiently, the facility will also support local markets in U.S. dollars and bolster broader market confidence
  - "Stabilizing foreign dollar markets, in turn, will support foreign economic conditions and thereby benefit the U.S. economy through many channels, including confidence and trade."

Source: Citi internal; Board of Governors of the Federal Reserve System.

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Federal Open Market Committee Activity

Period	Planned Purchase Amount	Results ($Millions)	
3/24 - 3/27	The Desk plans to purchase approximately $300.0 billion ($75.0 billion per day) in Treasury purchases.	3/24	$68,953
		3/25	70,948
		3/26	73,680
		3/27	71,500
		3/24-27 Total	$285,081
3/30 -3/31	The Desk plans to purchase approximately $150.0 billion ($75.0 billion per day) in Treasury purchases.	3/30	$71,500
		3/31	72,900
		3/30-31 Total	$144,400
4/1	The Desk plans to purchase approximately $75.0 billion in Treasury purchases.	To be released	
4/2 - 4/3	The Desk plans to purchase approximately $120.0 billion ($60.0 billion per day) in Treasury purchases.	To be released	
4/6 - 4/9	The Desk plans to purchase approximately $200.0 billion ($50.0 billion per day on average) in Treasury purchases.	To be released	
4/10	Holiday (Good Friday) - Markets Closed		

Source: Federal Reserve Bank of New York.

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