FED ACTS AGAIN

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The Federal Reserve (Fed) has come in yet again on an inter-meeting basis . Here's the quick take:

- First up, quantitative easing (QE) is being revived to include the whole Treasury maturity spectrum, not just T-bills.
- More importantly, the Fed will be increasing the size of its repo operations to $500 billion each today and tomorrow. That's $1 trillion in funding market injections!
- These operations will continue on a weekly basis using one- and three-month maturities. This is key because it provides liquidity/funding for a "term" period, not just overnight.
- More to come? We're going to be keeping a watchful eye out between now and the Mar 18 FOMC meeting.
- Another rate cut sure seems to be in the cards, but in my opinion, they are of little utility here—IT'S THE FUNDING MARKETS!
- Today's announcement is a step in the right direction, but I would like to see more. Give it all you got! Now is not the time to be cute…
- Be even more proactive and reinstall the financial crisis playbook, reopening the "alphabet soup" facilities that were used then.
- Avoiding stresses in the funding markets should be the Fed's primary goal.
- Let fiscal policy aid the economy. Given the toxic situation in DC, I know this seems like a tough call, but Congress and the White House need to come together and pass *something* now!
- The only way to break this negative feedback loop is monetary and fiscal policy acting in coordination. The Fed is doing its part…

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Treasury Bill : A treasury bill (T-Bill) is a short-term debt obligation backed by the U.S. government with a maturity of one month (four weeks), three months (13 weeks) or six months (26 weeks).

Repo rates : Repo rate is the rate at which the central bank of a country lends money to commercial banks in the event of any shortfall of funds.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Rate Cut : A decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institution.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.