INVESTMENT COUNSEL AND MANAGEMENT

Fed Alert: Fed Emergency Decision

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The Fed's expansion of its open-ended quantitative easing program, together with new measures to lend directly to firms, shows that the Fed is moving beyond supporting liquidity and ramping up its support to the economy.

In a policy statement released at 8 am this morning, the Fed confirmed that it will continue its large-scale asset purchases "in the amounts needed". It is already buying $75 billion of Treasury securities a day, equivalent to a $1.6 trillion a month, and will step up its MBS purchases to $50 billion per day. It is also expanding the range of assets it buys to include agency CMBS & MBS. In addition, it also announced more generous terms for its repo operations, lowering the interest rate to 0%.

Perhaps the most interesting part of the announcement this morning was the establishment of a range of new credit facilities in collaboration with the Treasury, which the Fed says will support up to $300 billion of new financing to firms and households. The Treasury will provide $30 billion of capital from the Exchange Stabilization Fund to cover losses. At first glance, the terms appear to be very generous, including four-year loans to investment-grade corporations under a new primary market corporate credit facility, with no interest payments for the first six months. A new secondary market corporate credit facility, as part of the $300 billion package, establishes a special purpose vehicle which will buy corporate bonds rated BBB or better with a maturity of five-years or less. That essentially allows the Fed to sidestep the Federal Reserve Act which currently prevents the Fed from buying corporate bonds directly.

Taken together, these measures should help to ease financial conditions in the corporate bond market and will help support the significant package of direct assistance and loans coming as part of the third phase fiscal stimulus being written by Congress.

The source for the information above is Capital Economics.

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