

Fed says it will start technical buying of Treasury bills to manage market liquidity

By Michael S. Derby

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Summary

- Fed will start reserve management bond buying on December 12
- Fed balance sheet expansion follows recent end of quantitative tightening
- Fed bond buying is technical in nature

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The restart of bond buying that will once again expand the Fed's balance sheet comes hot on the heels of its [decision to stop](#) shrinking its holdings as of the start of the month. Since 2022, the central bank had been allowing Treasury and mortgage bonds it owns to mature and not be replaced, in an effort called quantitative tightening, or QT.

The effort was aimed at draining the oceans of liquidity the Fed added during the COVID-19 pandemic to stabilize markets and provide stimulus in a time of near-zero rates. QT took the overall size of the Fed's balance sheet from \$9 trillion in 2022 to its current size of \$6.6 trillion.

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The Fed announced an end to QT in late October amid [increasing signs](#) that liquidity had tightened enough to potentially complicate the management of the central bank's federal funds rate, its main tool to achieve its inflation and employment goals.

In October, key money market rates began drifting higher as some financial firms tapped in size the Fed's Standing Repo Facility, which provides fast loans collateralized with Treasury and mortgage bonds. That portended a potential loss of control over the federal funds rate, spurring the Fed to end QT. Also, what had been fairly steady levels of reserves parked by financial firms had begun to tip lower.

Bank reserves a key driver of Fed balance sheet size

Bank appetite for liquidity determines how far Fed can shrink holdings



Note: level of reserve in trillions of dollars

• Source: Federal Reserve Bank of St. Louis

Fed restarts asset buying to bolster liquidity as reserve levels tick down

"We knew this was going to come," Powell said. "When it finally did come, it came a little quicker than expected, but we were absolutely there to take the actions that we said we would take" to ensure the market has the needed level of liquidity. As for why the initial round of purchases is so large, Powell noted the looming April 15 tax date which generally brings liquidity challenges to the market.

Powell noted that the economy's underlying needs in terms of reserve growth point to about \$20 to \$25 billion per month in purchases, suggesting that once the Fed gets past the April tax date, the buying rate could be around those numbers.