

US Rates Watch

FHLB supply outlook: low & uncertain

FHLB supply update: low & uncertain, FHFA doesn't help

The FHLBs have recently been in focus with yesterday's release of the FHFA centennial review ([FHFA's bark on FHLBs louder than its bite](#)). Front end clients have also recently inquired about our outlook for FHLB supply. We expect FHLB supply will be relatively low in CY '24 at \$100-300b CY '24 but have low confidence in our estimates. Our supply estimate is informed by historical FHLB advance & issuance trends around prior hiking cycles but also take into consideration the recent issuance slowdown & FHFA guidance.

Recent FHLB issuance: surprising slowdown

Recent FHLB debt issuance has been surprisingly slow, especially in relation to issuance trends from early '22 (Exhibit 1). Over 2022, FHLB debt outstanding increased \$529b or an average of \$44/m. In 2023 YTD, debt outstanding grew more slowly at \$69b or an average of \$7b/m. The slowdown in 2023 debt growth occurred despite a \$300b surge in issuance after the March SVB failure, which has since fully reversed.

Lower FHLB supply driven by lower advance activity

FHLB debt issuance is largely driven by advance activity. Advances from FHLBs have slowed sharply and likely resulted in lower debt issuance (Exhibit 2). Over 2022, FHLB advances increased \$468b or an average of \$39b/m. In 2023, advances activity was slower & uneven: Q1 = \$225b, Q2 = -\$163b, Q3 = -\$55b. The slowdown in advance activity is surprising given the strong reliance on other commercial bank sources of wholesale funding, such as large time deposits (Exhibit 3).

Lower advances: supervisory guidance & terming out

It is unclear what has driven the slowdown in advance activity but it is likely attributable to (1) supervisory guidance to commercial banks (2) terming out of prior advances. Post SVB clients tell us supervisors have asked banks to prove an ability to demonstrate a diversity of funding sources not be overly reliant on official sector liquidity providers. The FHFA report yesterday reinforced that commercial banks should not be relying on FHLB for emergency financing; supervisory guidance likely reinforced this objective and have pushed commercial banks to find alternative liquidity sources.

Estimating FHLB supply in '24: trend & advance / assets

We estimate FHLB supply in '24 will total \$100-300b according to (1) recent trends (2) commercial bank advance / asset ratios. Based on recent trends, FHLB advance activity has averaged a \$68b/q pace since end '21 & \$8b/q pace since end '22. Annualizing these figures gives a range of \$24-\$204b per quarter. We also consider advance growth as a % of total commercial bank assets: pre-COVID advances / bank assets peaked at 3.5% & advances would need to grow \$140b to reach a similar level today (Exhibit 4). Given recent activity & the FHFA report we scale down our FHLB supply estimates to \$100-300b. FHLB paper will add to money market supply in '24 but should be relatively small.

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FHLB: Federal Home Loan Banks

FHFA: Federal Housing Finance
Agency

CY: calendar year

YTD: year-to-date

SVB: Silicon Valley Bank

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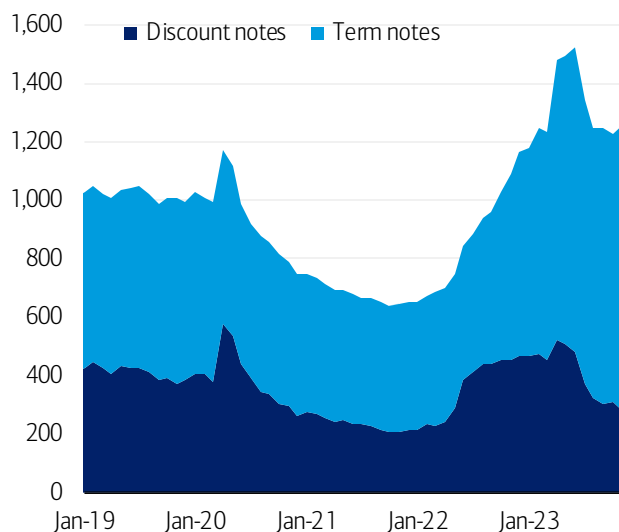
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Exhibit 1: FHLB debt outstanding (\$bn)

In '22, FHLB debt increased \$529b. In '23 YTD, debt grew \$69b

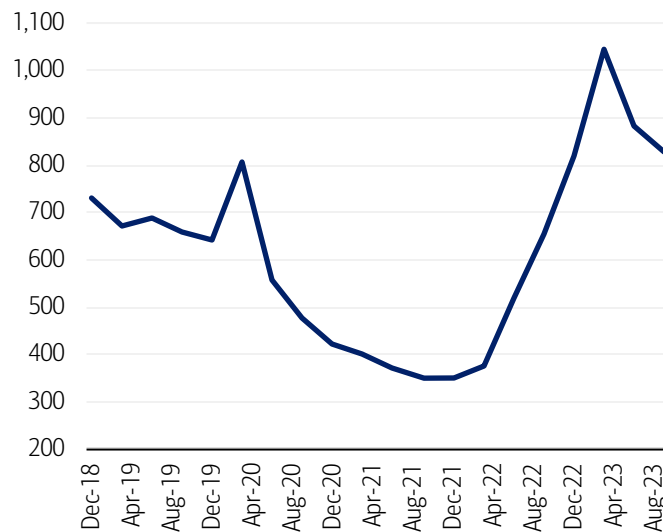


Source: Haver Analytics, FHLB Office of Finance

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Exhibit 2: Total FHLB advances (\$bn)

In '23 FHLB advances grew \$225b in Q1 but declined \$218b in Q2 & Q3

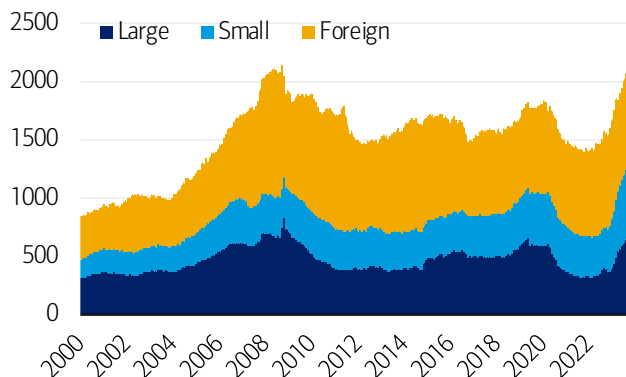


Source: FHLB Consolidated Operating Reports

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Exhibit 3: Large time deposits (\$bn)

Large time deposits are up \$574b YTD

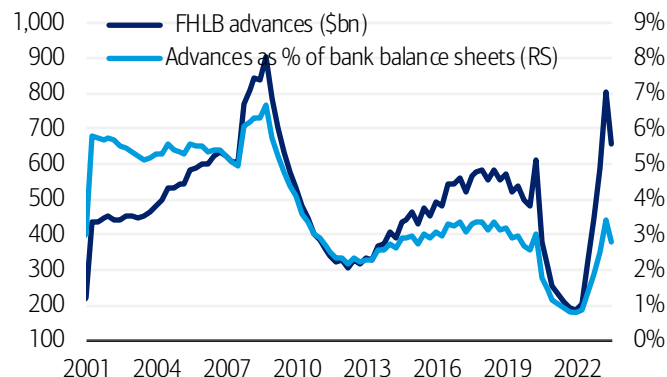


Source: Fed H.8, Bloomberg

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Exhibit 4: FDIC FHLB advances & advances as % of bank assets

Advances / bank assets peaked at 3.5% pre COVID



Source: FDIC Quarterly

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