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Headline: A Beautiful Replenishment

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Tweet: Money market funds are once again the marginal buyer of Treasuries. The replenishment of the Treasury General Account allows further quantitative tightening. @FedGuy12

Summary: The return of money funds as major investors in bills provides a mechanism where banking system reserves can be replenished and removes a significant obstacle to QT. While the recent bout of bill issuance was largely used to replenish the Treasury General Account (TGA), future bill issuance will be used to finance ongoing government spending. This means that money will flow out of the RRP, into the TGA, and then be spent into the banking system through fiscal spending. Bank reserves can remain abundant for an extended period of time, and net deposit outflows will be smaller than expected. QT can continue for the expected two more years given that bank reserves are likely to remain abundant. Related: Probing LCLoR and How Was the U.S. Current Account Deficit Financed In 2022?

Primary Topic: Banking

Topics: Banking, Monetary Policy, Op-Ed/Blog Post, Weekly

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