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Macro Roundup Article

Headline: Extra Capital

Article Link: https://fedguy.com/extra-capital/

Author(s)	Joseph Wang
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Tweet: Lower demand for bank loans due to higher rates is contributing to improved Treasury market liquidity as banks deploy "excess" balance sheet capacity into Treasuries and repo lending.

Summary: Commercial bank loan growth surged post-pandemic, but has stabilized at growth rates below those prevailing pre-pandemic. The large increase in interest rates has been successful in reducing demand for bank loans, where growth is even below inflation at just 2.5% year over year. The stagnation in loan growth appears to have given more room for banks to allocate capital towards their trading activities, which is likely boosting Treasury market liquidity. Bank of America has explicitly noted that they prefer to deploy excess cash into loans, but would otherwise leave them in cash or Treasuries. In line with that view, aggregate bank Treasury and Agency MBS holdings have been gradually increasing as loan growth has slowed. JP Morgan reported a 20% year-over-year increase in trading assets, which they primarily attributed to an increase in repo financing. The increased bank activity in Treasuries is likely contributing to the improvement in Treasury market liquidity.

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Primary Topic: Financial Markets

Topics: Banking, Business Cycle, Financial Markets, GDP, Op-Ed/Blog Post

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