

Macro Roundup Article

Headline: [Is the Fed Preparing to Taper Its Bond Redemptions?](#)

Article Link: <https://theovershoot.co/p/is-the-fed-preparing-to-taper-its>

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Tweet: .@M_C_Klein writes that, although the Fed would dub current reserves as "ample," the Fed may nonetheless taper its balance sheet reduction early because the distribution of reserves is tilted towards a few big banks.

Summary: Fed officials have two related but distinct objectives. First, they want the central bank to hold fewer bonds (especially mortgage bonds), because they believe that the size and composition of the Fed's portfolio affects how everyone else prices risky assets. At the same time, Fed officials also want to reduce the supply of reserves in the banking system independent of what happens to the asset side of the balance sheet. This is why they say they want reserves to be "ample" rather than "abundant". The problem is that these aggregate estimates may overstate the "ampleness" of reserves because they ignore issues of distribution. Stress could show up even when reserves levels seem "ample" if those reserves are concentrated in a few institutions and cannot easily be lent or otherwise transferred to other banks that might need them to make payments or cover deposit outflows.

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Primary Topic: Banking

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