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Macro Roundup Artcile

Headline: Monetary Policy Transmission and the Size of the Money Market Fund Industry: An Update

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Tweet: Between April 2022 and January 2023, the AUM of the Money market fund industry increased from $4.31T to $4.62T. Historical lags between rate increases and flows into money market funds suggest that this growth will continue. @NewYorkFed

Summary: The size of the MMF industry tracks the monetary policy cycle, albeit with a lag. The chart above shows the assets under management (AUM) of the MMF industry, along with the EFFR and the spread between the MMF yield and the three-month retail CD rate. As the chart shows, the MMF industry did indeed expand following the monetary policy tightening cycles of 2004-08, 2015-18, and 2022 onward. The expansions, however, took place with a lag of one to two years. During the current tightening cycle, MMF yields have increased by 4.13 percentage points, in line with our previous estimate of the beta on MMF shares between 2002 and 2020; in contrast, deposit rates have remained flat. Moreover, consistent with these results, the AUM of the MMF industry has increased as the Federal Reserve has tightened rates, from $4.31 trillion in April 2022 to $4.62 trillion in January 2023. The relatively small magnitude of this increase in the size of the MMF industry, against a rate hike of 4.25 percentage points, is likely due to a lag with which monetary policy affects investor flows in MMFs; the recent monetary policy tightening, in fact, could lead to a further expansion of the MMF industry in the near future.

Primary Topic: Banking

Topics: Banking, Business Cycle, Factoid, GDP, Government/NGO, Monetary Policy

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