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Macro Roundup Article

Headline: Is the Fed Broke?

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Tweet: From 2011 through early 2022, the Fed remitted $1 trillion in QE portfolio earnings to the US Treasury. Current rate mismatches mean these remittances will no longer be available, putting further stress the Treasury market. @LastBearStandng

Summary: First, remittances are a one-way street. If the Fed has positive earnings, it remits the earnings to the Treasury. But if the Fed incurs losses, the Treasury isn't required to cut a check to the Fed to cover those losses. Instead, the Fed "prints" the difference. It simply pays the excess interest expense with newly created dollars, in the same way that it prints dollars to buy bonds in QE. The Fed keeps track of its cumulative losses, and when the Fed starts earning money again in the future, it will first go to recoup those losses before remittances to the Treasury resume. In other words, the positive balances shown in the graph above are in-period (since earnings are constantly swept to the Treasury), while the losses over the past several months are cumulative, since they accrue over time.

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