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Macro Roundup Artcile

Headline: The NY Fed Trading Desk's Time to Shine?

Article Link: https://theovershoot.co/p/the-ny-fed-trading-desks-time-to

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Tweet: .@M_C_Klein argues that the Fed might need to follow the BOJ in controlling yield curves to manage the scale of debt issuances.

Summary: [Short-term interest rates] are not “market-determined” in any normal sense, but chosen at the discretion of the ~18 members of the FOMC. Longer-term interest rates are not explicitly set by the Fed, but Fed officials try to make those rates go up or down when they think it is necessary to achieve their policy objectives, sometimes by buying or selling bonds outright. If the point of maintaining “market functioning” is to prevent spikes in yields that could hurt borrowers in the real economy while facilitating transactions of bonds for cash, central banks are already better-positioned to do those trades directly than anyone else. What would be the point of involving intermediaries, except to pay them for a service that could be provided in-house? This is effectively what the BOJ has been doing for years, laying out target ranges for yields at points on the curve, adjusting those ranges as needed, sometimes buying oodles of Japanese Government Bonds (JGBs), and often doing nothing. Related: Resilience Redux in the US Treasury Market and Living with High Public Debt and The Fed and the Secular Decline in Interest Rates

Primary Topic: Banking

Topics: Banking, Financial Markets, GDP, Monetary Policy, Op-Ed/Blog Post

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