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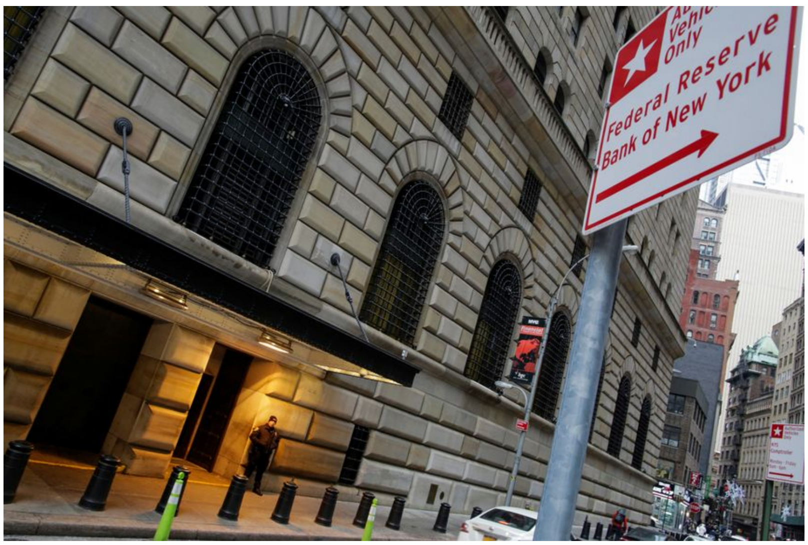
CREDIT MARKETS

Fed Adds Temporary And Permanent Liquidity To Financial System Tuesday

Conducts $64.90 billion in overnight repurchase agreements, $35 billion repo operation



Banks offered more than the New York Fed would take Tuesday for its $35 billion repo operation, which will run through Nov. 5.
PHOTO: EDUARDO MUNOZ/REUTERS

By Michael S. Derby

Updated Oct. 22, 2019 11:43 am ET

The Federal Reserve Bank of New York injected $99.9 billion in temporary liquidity and $7.5 billion in permanent reserves into financial markets Tuesday.

The short-term intervention came via $64.90 billion in overnight repurchase agreements with eligible banks, and with a $35 billion repo operation that will run through Nov. 5.

The banks didn't take all the liquidity offered by the Fed in the overnight repo operation, but they offered more than the Fed would take for the term operation, with $52.2 billion submitted to the Fed.

The Fed's purchase of Treasury bills, designed to boost the size of its nearly $4 trillion balance sheet, drew good interest from banks, which sought to sell the central bank $41.472 billion in short-dated government debt.

Tuesday's intervention is part of an effort to help tame volatility in short-term rate markets with temporary and permanent injections of liquidity.

The Fed's repo operations take in Treasury and mortgage securities from eligible banks in what is effectively a loan of central bank cash, collateralized by dealer-owned bonds. The Fed's bill buying permanently increases the size of the Fed's holdings and further ensures money markets operate smoothly.

The Fed injected $58.15 billion in overnight liquidity into financial markets on Monday.

Write to Michael S. Derby at michael.derby@wsj.com