The Fed Just Did Massive QE

Last night the Fed published its H.4.1 release. This is the report that provides a weekly snapshot of the Fed’s balance sheet for the week ending Wednesday. So, we have what the Fed balance sheet looks like as of March 15th and boy was it a doozy. The Fed effectively just did $318 billion of quantitative easing (QE). Yes, you read it correctly. The Fed effectively added $318 billion in reserves to the financial system. It is no wonder that risk assets responded as they did. Once again, the system is awash in liquidity. This is big news, and no doubt increases the chances that the Fed stops quantitative tightening (QT) all together because the banking system has come to depend on ample reserves.

When the Fed makes loans through the discount window, they are counted as assets on its balance sheet. In the process, the Fed effectively creates money or reserves that banks can use. The loans the Fed made were nearly equally divided between “primary credit to depository institutions” and “other credit extensions” for those that want to find the line items for themselves on the balance sheet. According to the Fed, primary credit is available to generally sound depository institutions on a very short-term basis, typically overnight, at a rate above the target rate for fed funds. This past week’s surge represents the creation of the new Bank Term Funding Program (BTFP). The other credit extension category was created during the 2008 financial crisis.

As shown in the chart below, Fed loans (i.e., primary and other credit) increased $318 billion this week to the highest level since November 2008 during the height of the financial crisis. But in weekly terms, this past week’s surge was larger than anything seen during the financial crisis. This tells us that there was (and probably still is) tremendous pressure on the financial system as firms scrambled for liquidity. Moreover, when we look at reserve balances at the Fed, they soared $440 billion, effectively offsetting three-quarters of the past year's QT in just one week.

For our regular followers, this is not a surprise. Unprecedented rate increases alongside an inverted curve foreshadowed a financial blowup of some sort. But now that we have it, will the Fed continue on the course that got us here? We will find out this coming Wednesday. Current financial stability is tenuous.
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