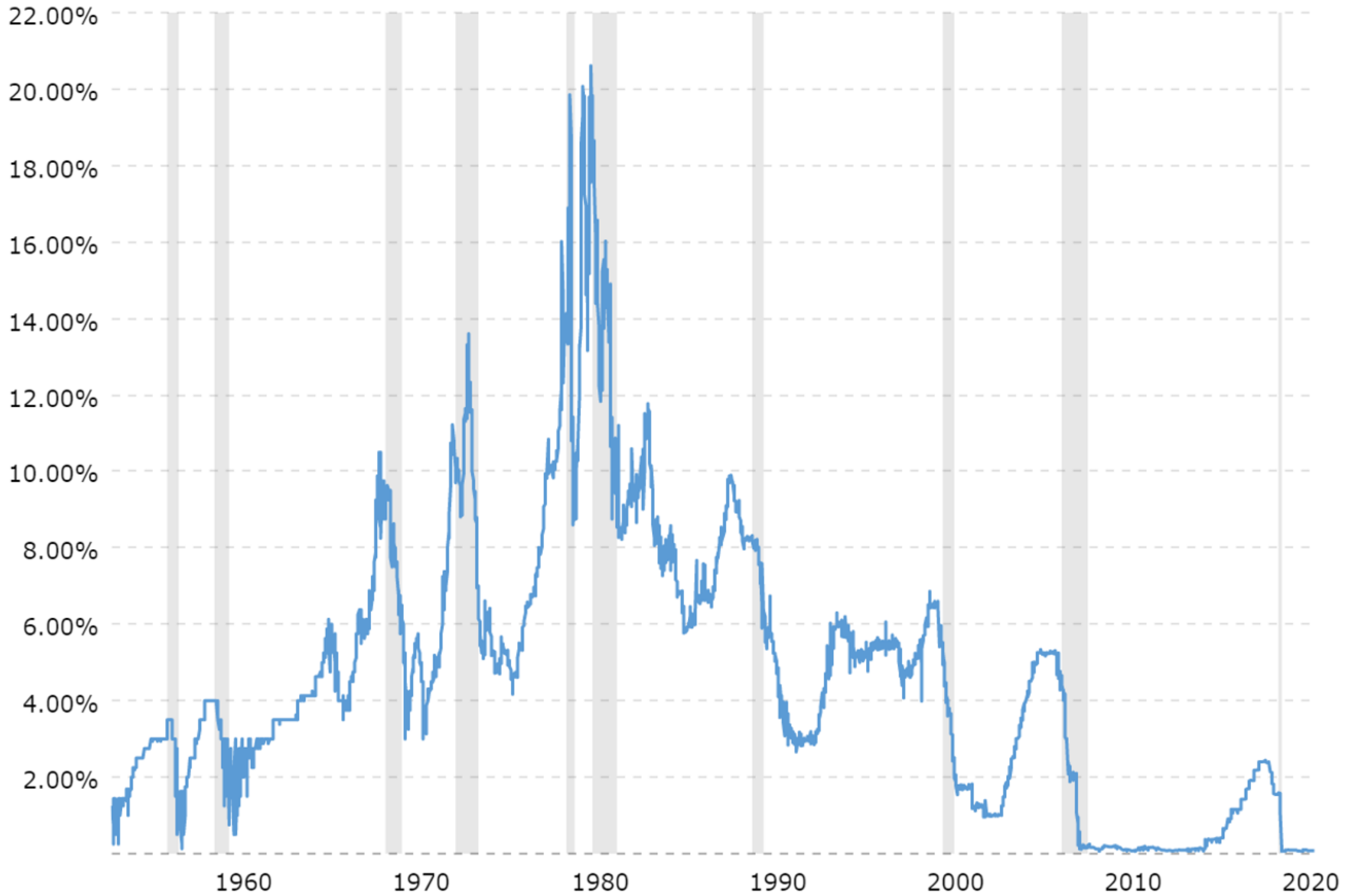
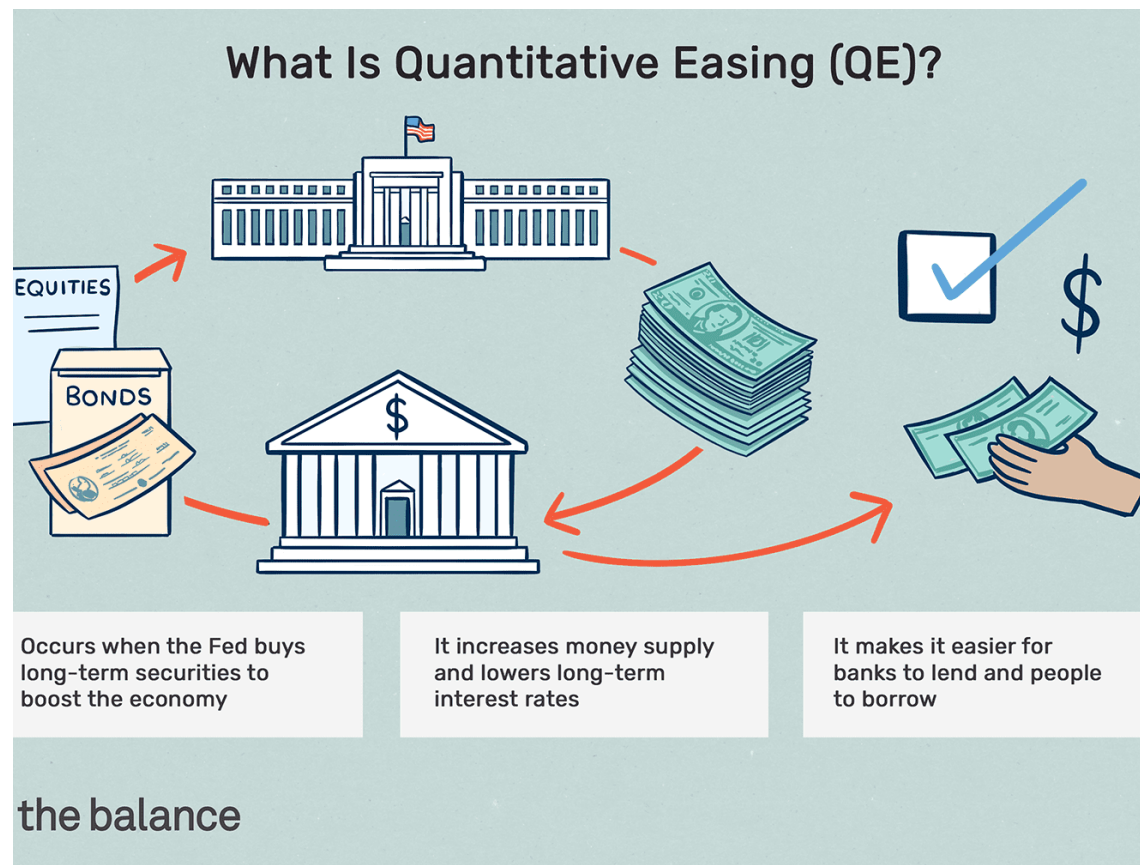


Fed Funds Rate





Thomas Hoenig



Voted NO

QE

QE was about
choosing winners and losers



Problems

Difficult to end QE
if started

Fed might compromise
its independence

unanchor inflation expectations

Going Below Zero

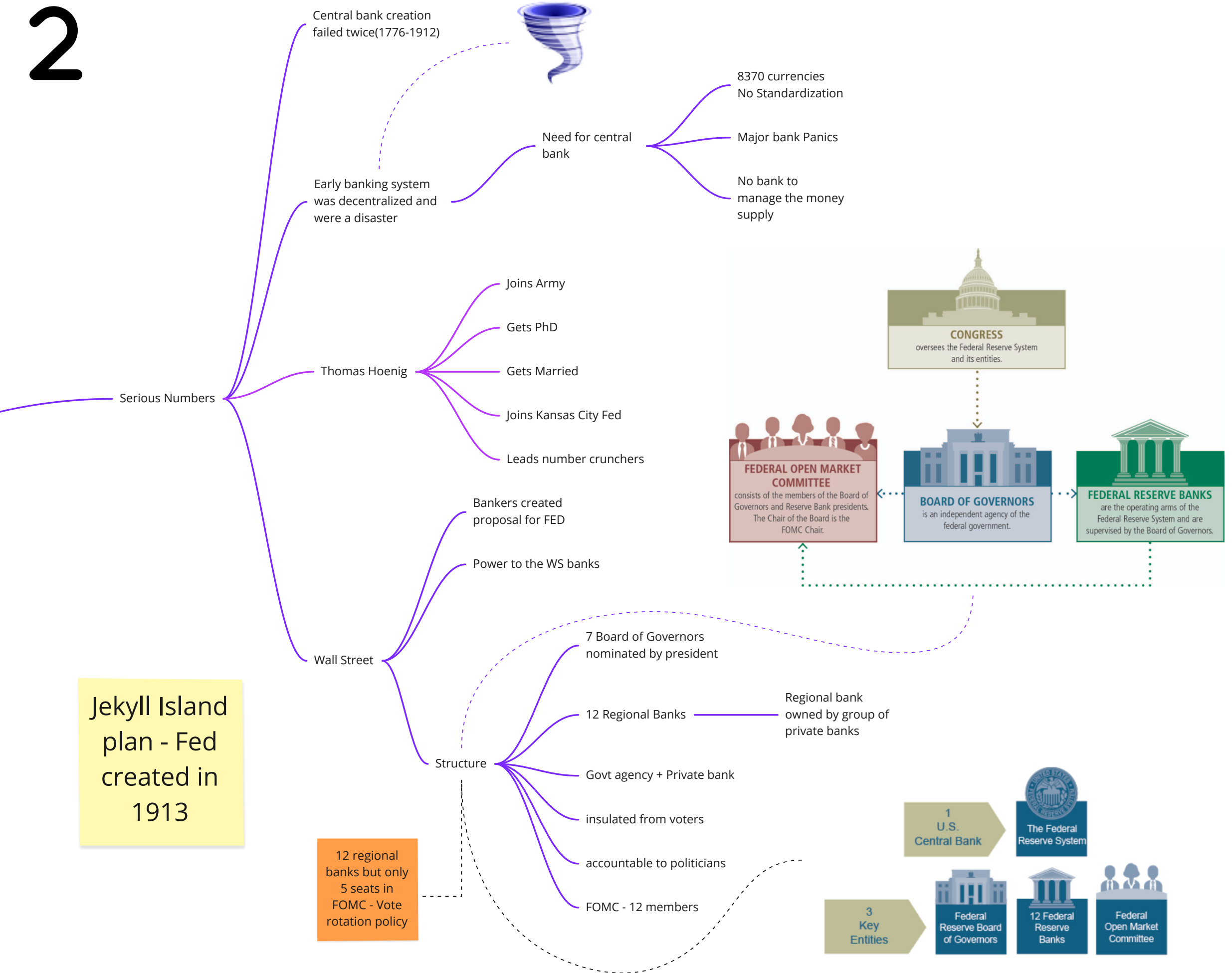
1913-2008
5B to 847B dollars debt

2008-2010
1.2 Trillion dollars additional debt

24 special banks had
the privileged of getting the
printed dollars

FOMC pushed to interest rate
to 0 during GFC

2



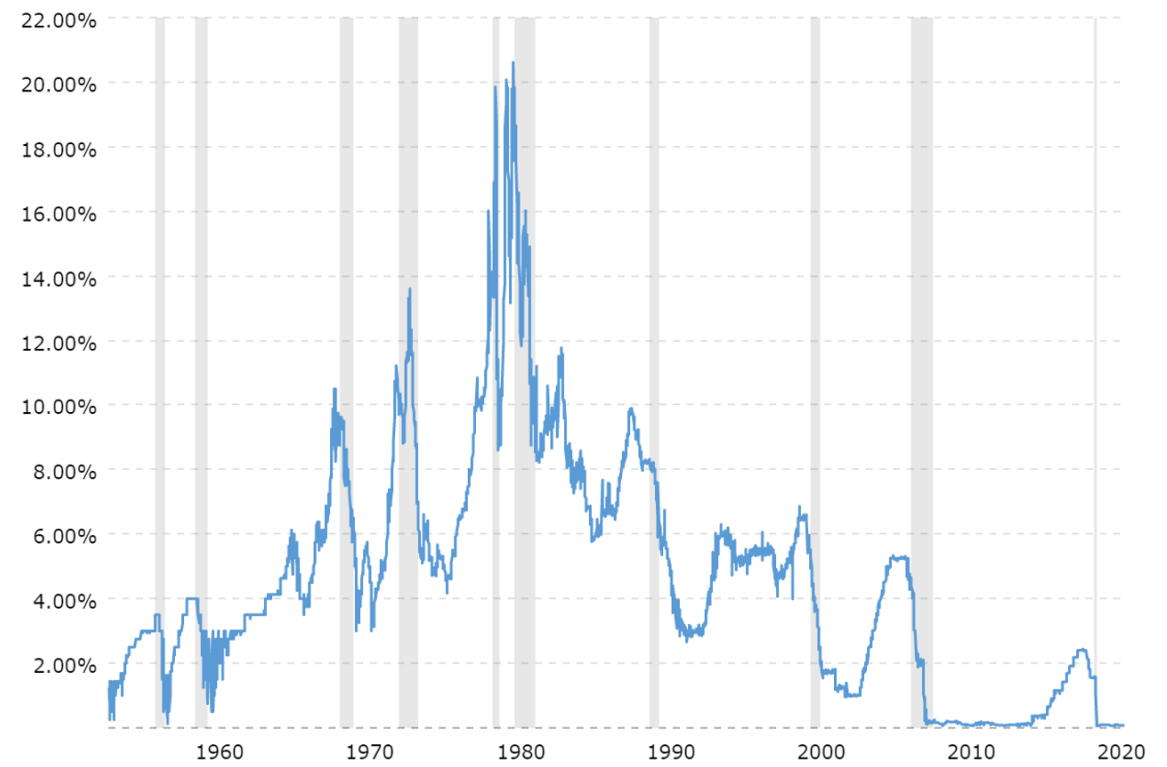
3

Interest Rates
10% (1979) to 20%(1981)

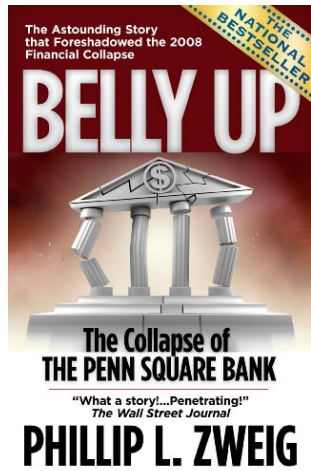
Price of farmland
fell by 27% in early 1980s

1982 Depression
100 banks collapsed

Penn Square Bank
Bankruptcy(1982)



1982 Depression



Cost push

Demand Pull

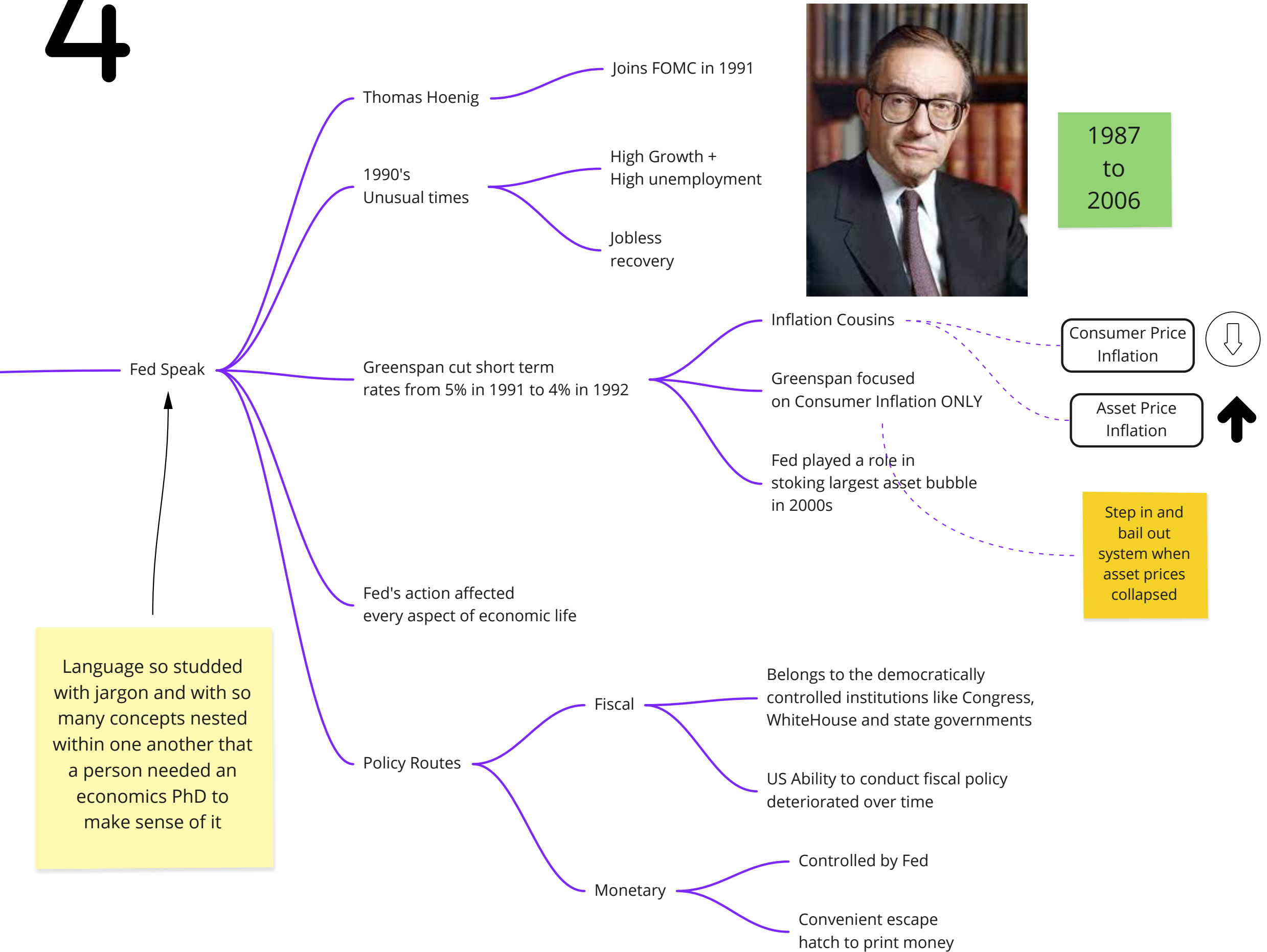
Inflation

The Great Inflation
1980-1991

Continental Bank
Bailout



4





2006-2014

Ben Bernanke

Inflation Targeter

Hoenig's approach

Law of Long and Variable lags

Focus on both types of inflation - consumer and asset

Not push interest rates too fast or too slow

Delegate Fiscal policy to the Central bank

2008 bailout
Fed printed \$875B

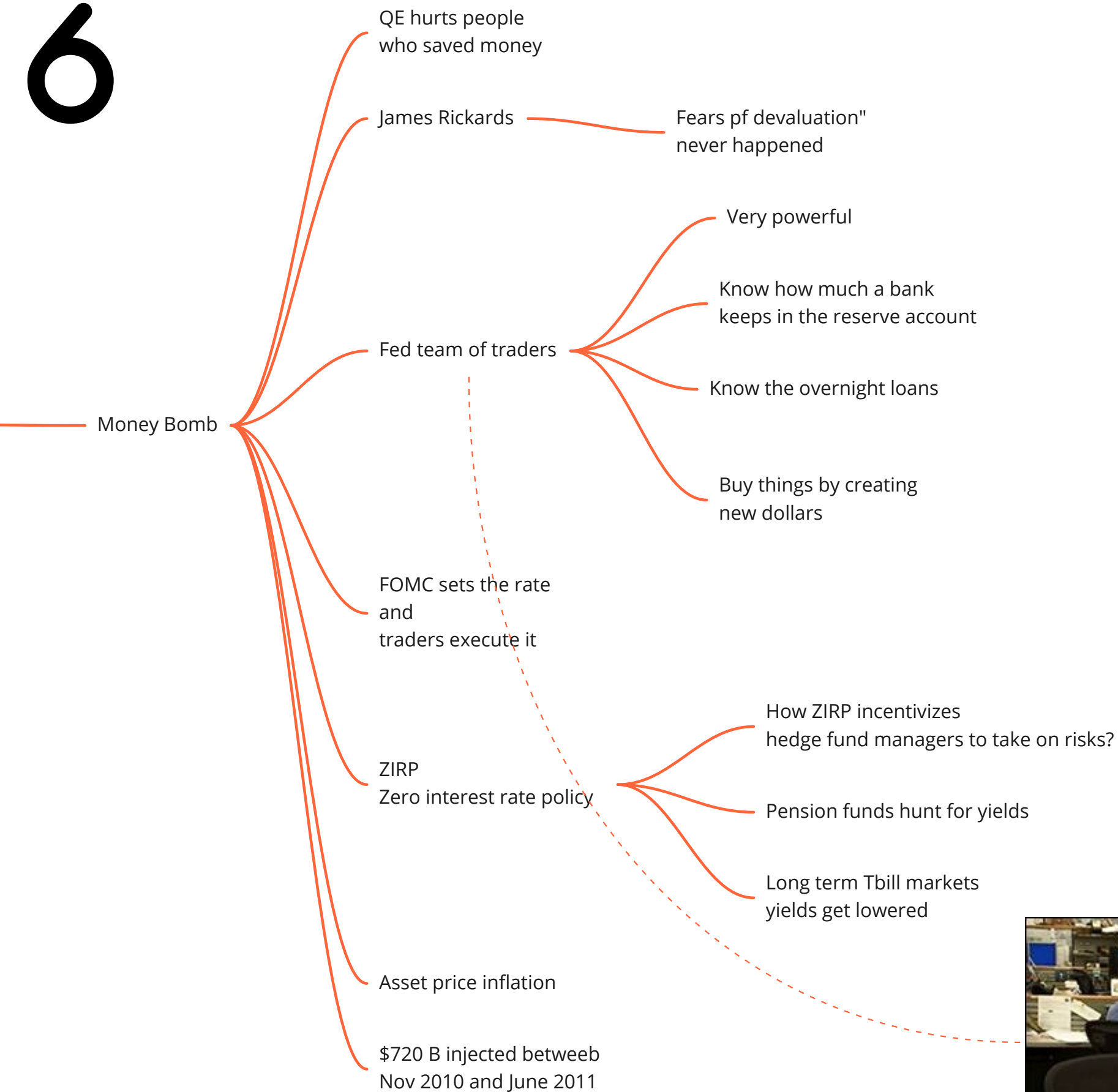
1960-2007
Fed printed \$788B

GFC
\$8T evaporated

Overmighty Citizen
(2002-2010)

5

6





7

Quantitative Quagmire
2012-2014

Powell's appointment
as governor



Concerned
about rise of
CLO in
Corporate
Debt

Fed Tools

Forward Guidance

Operation Twist
Bond buying to push
long term TBill rates

QE

Bernanke Lobbies
for Option B

Easy Money

Stock buybacks

Influence Hedgefunds
to take more risky bets

Influence Pension funds
to search for higher yields

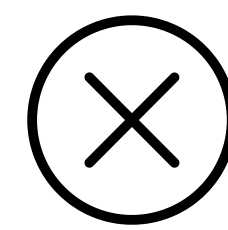
Janet Yellen

Championed the
expansive use of Fed

ZIRP building
systemic risk

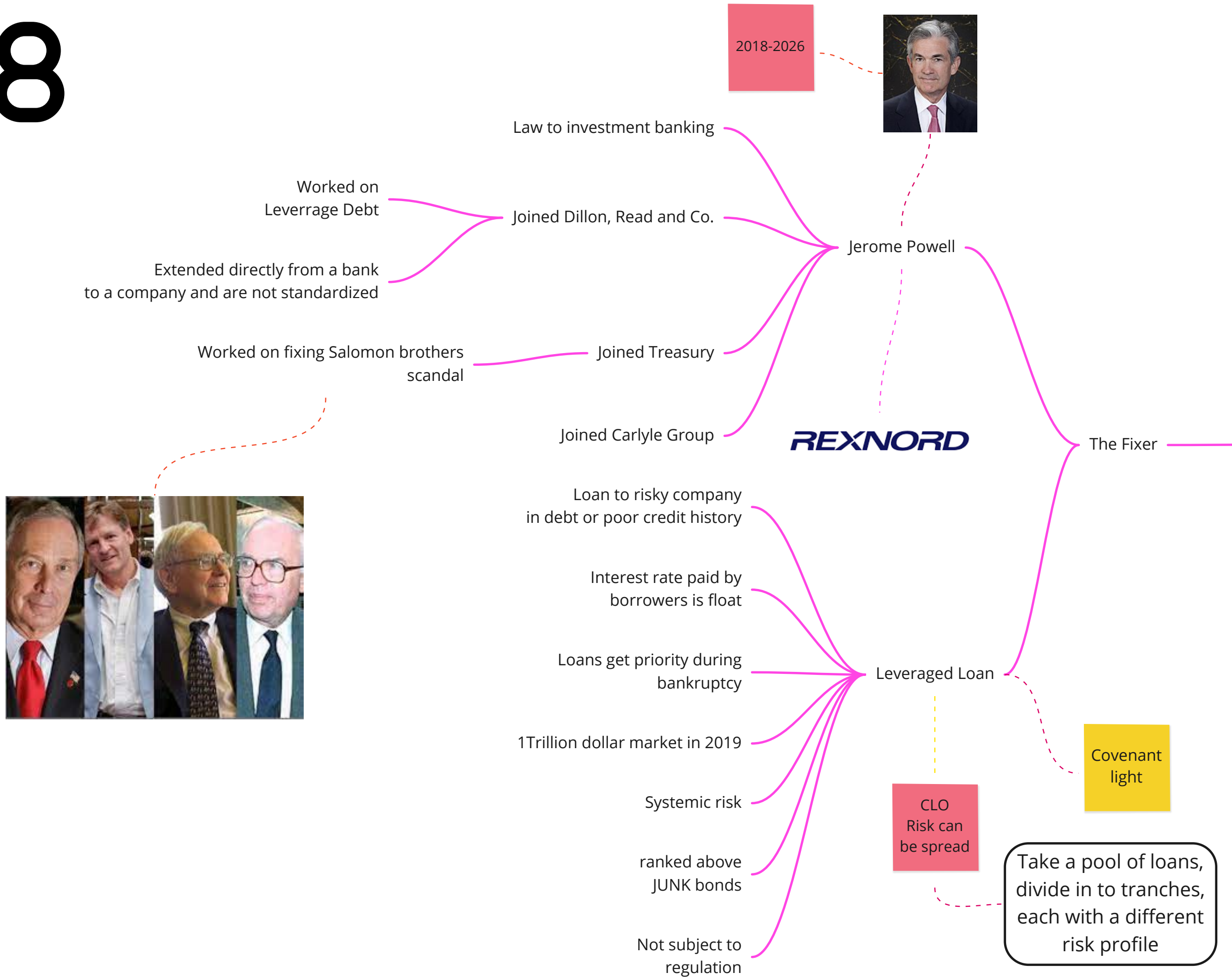
Most macro models
assume mean reversion

Taper Tantrum
Market Shock in reaction
to FED statements

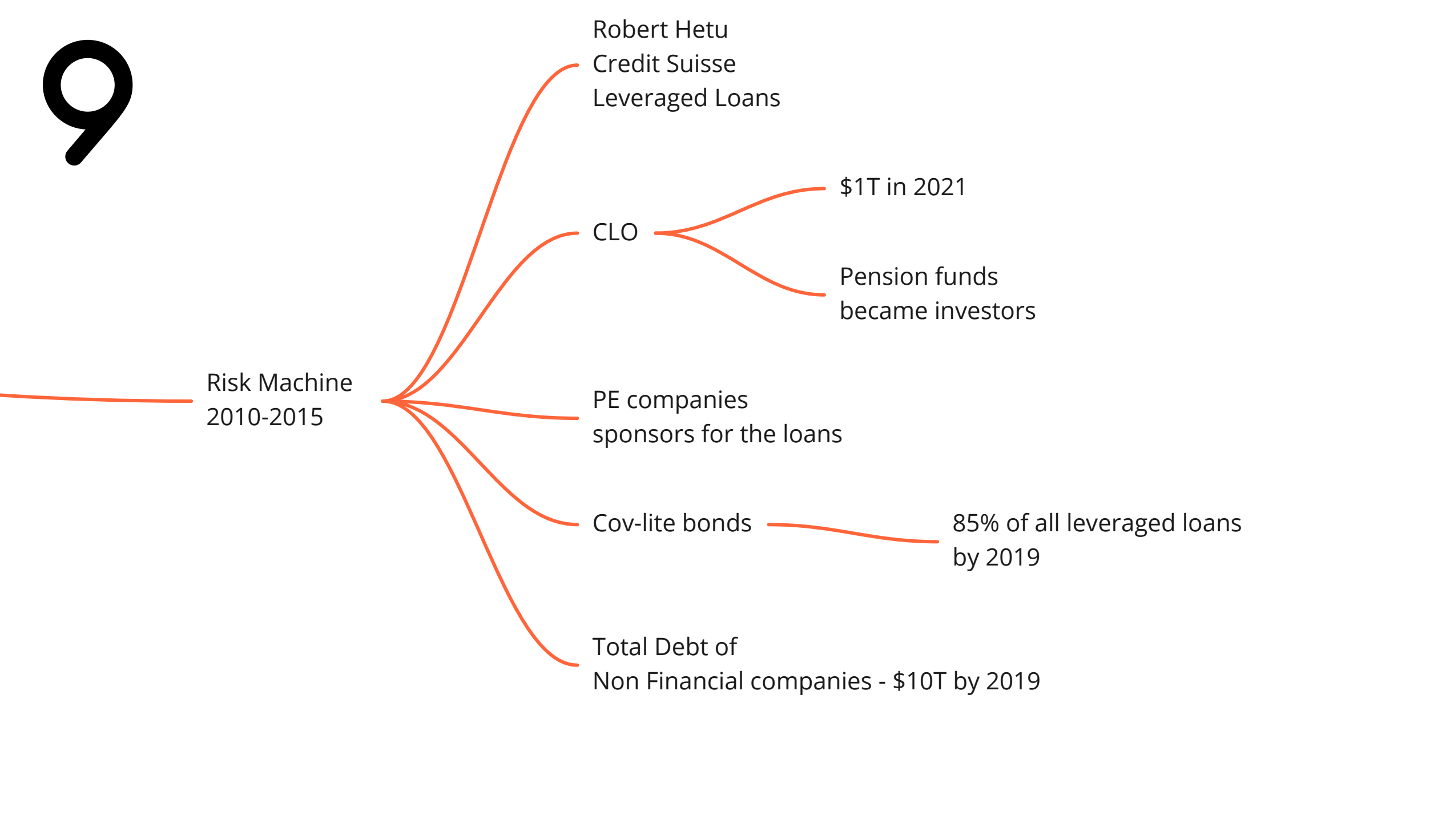


QE
ended
in 2014

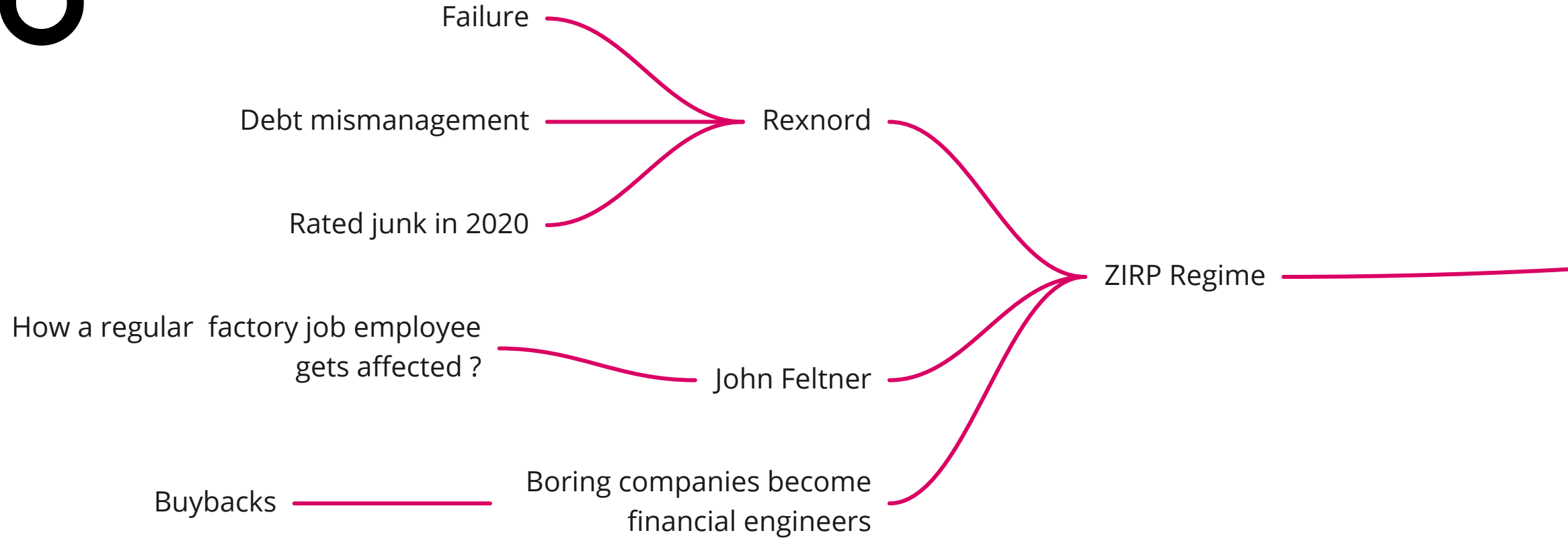
8



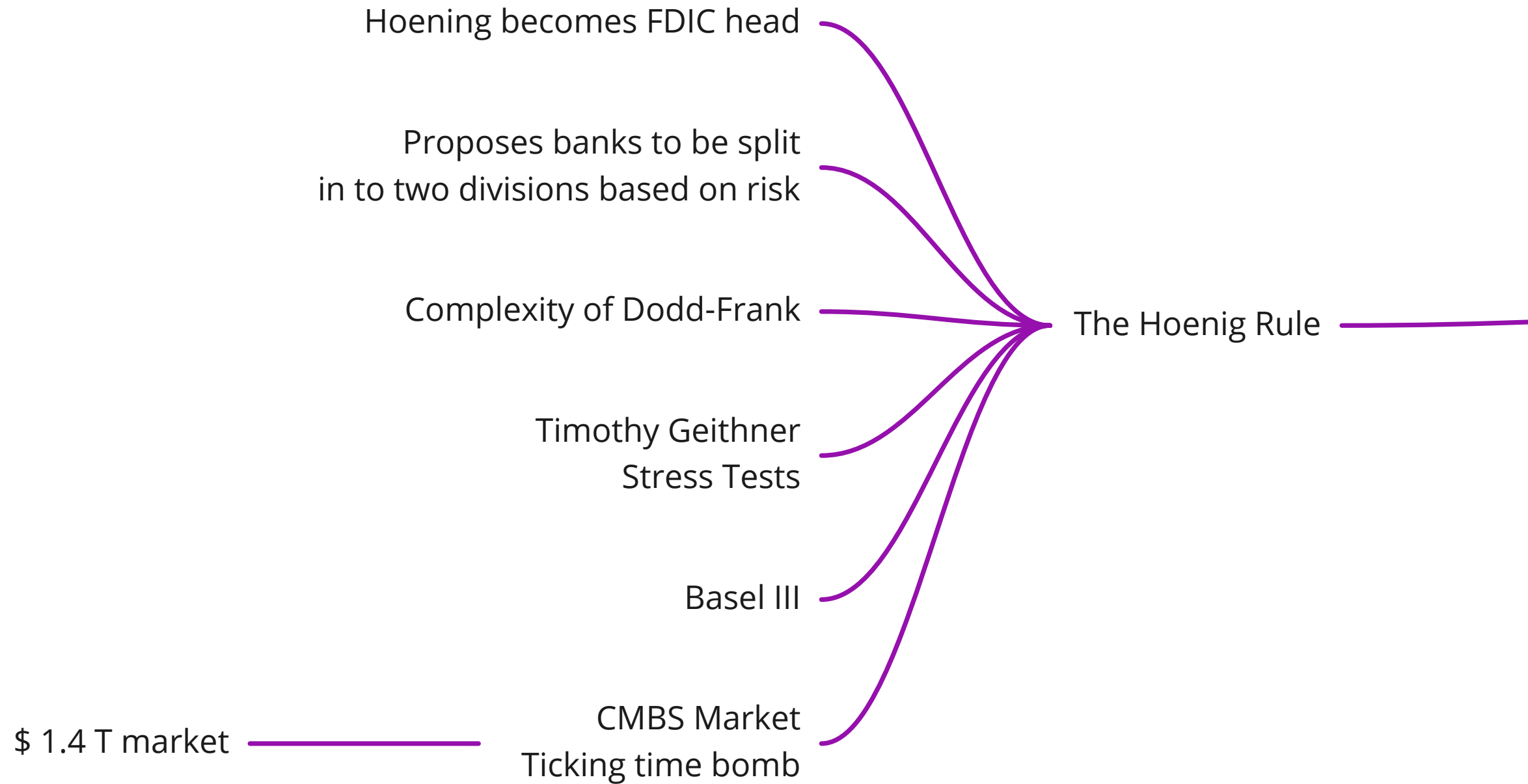
9



10



11

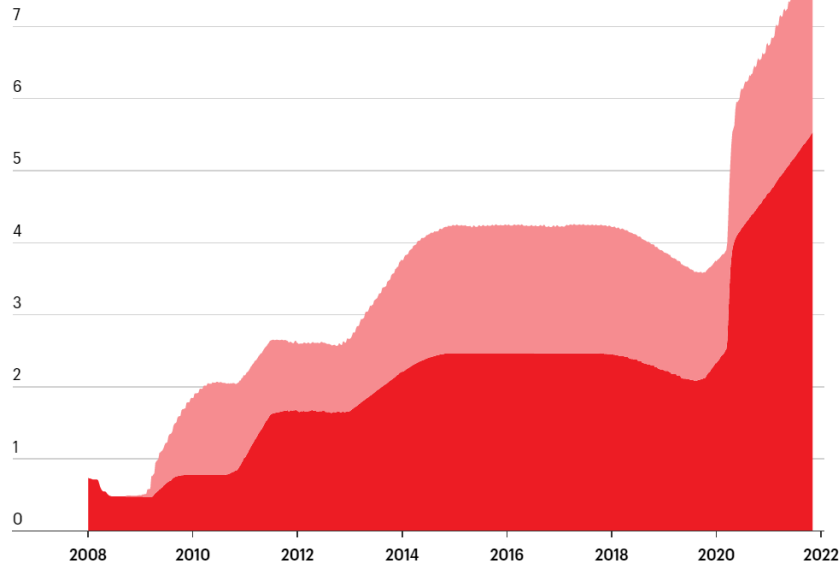


ASSETS ON THE FEDERAL RESERVE BALANCE SHEET

Expansion of the Federal Reserve asset portfolio since 2008

■ TREASURIES ■ OTHER, INCLUDING MORTGAGE-BACKED SECURITIES, FEDERAL AGENCIES, EMERGENCY LENDING

\$8 TRILLION



12

Powell softened his criticism and embraced the policies he once criticized

Fed was laying the groundwork for a market crash

Dec 2015
Fed raised rates for the first time in 9 years

Powell elected after Yellen term ends

Fed softened rules around stress tests, eased back parts of Volcker rule

Markets were rocked as soon as Powell became chairman

Public dispute between TRUMP and Powell

Fed's Normalization caused markets to collapse

Raised Rates in July 2019

Powell Pivot in 2019

Totally Normal
2014-2019

Repo rates
spiked to 5%

Fed risks
losing power on
controlling short term rates

Repo Market Turmoil
Sept 2019

\$400B bailout

Open market operations
would be a casualty of QE

Invisible Bailout

Fed controlled using IOER rate
instead of repo rate

Repo market players
were hedge funds

Fed Trapped by its own
previous actions

Repo jumped outside
the bands set by FOMC

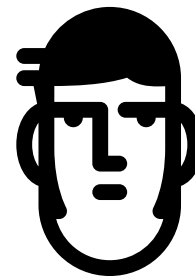
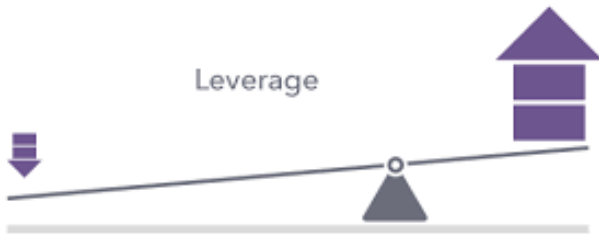
Basis trade

Repo Loans

Treasuries

Treasury futures

Leverage



14

Jan 2020 Wuhan virus

Feb 27, DJIA fell 4 %

Saudi announces oil production
increase

March 9, Treasury rates fell

\$700B QE

Fragility of Corporate debt

Mar 2020 - Fed actions weren't enough
to stem the panic

Infection

```
graph LR; A[Jan 2020 Wuhan virus] --- C(( )); B[Feb 27, DJIA fell 4 %] --- C; D[Saudi announces oil production increase] --- C; E[March 9, Treasury rates fell] --- C; F[$700B QE] --- C; G[Fragility of Corporate debt] --- C; H[Mar 2020 - Fed actions weren't enough to stem the panic] --- C; C --- I[Infection]; I --- J[ ]
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15

