Rodney's Take

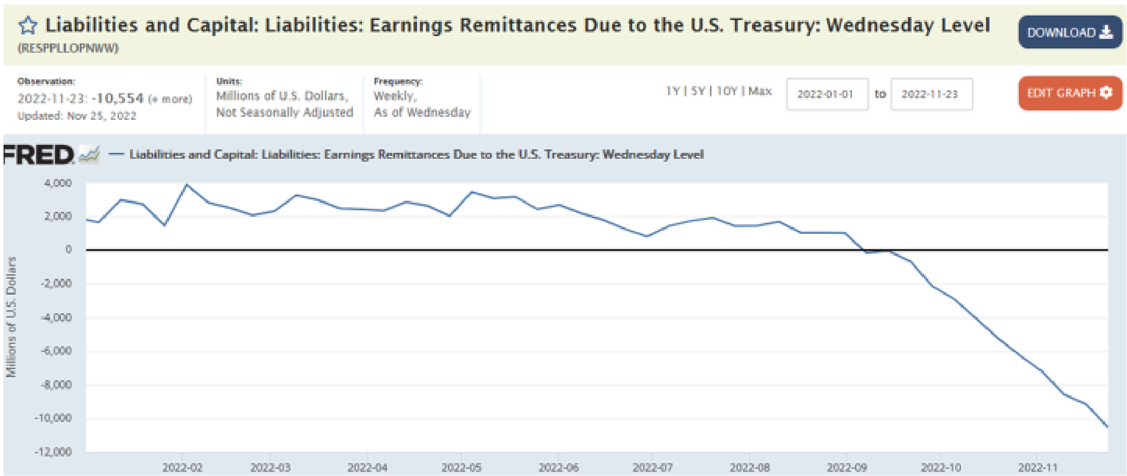
November 28, 2022

The Federal Reserve Balance Goes Negative

Imagine that you have a rich uncle who sends you a little (or a lot of) cash every year for decades. It's not enough to pay the mortgage, but it definitely makes the holidays a little nicer, and for the last ten years he has been very generous. Now, imagine that the uncle not only stops sending the money, but also creates a deficiency account in your name. He's not expecting you to send any cash back, but until his accounts are back in the black, generating profits and recouping recent losses, you won't be receiving a cent.

Welcome to the Fed and the Treasury.

Every Wednesday, the Fed calculates the weekly amount of cash it created through operations that it owes to the Treasury. As interest rates have fluctuated, the amount has waxed and waned from near zero to $4 billion, with the annual number swinging between around $50 billion and just over $100 billion since 2010. But all good things must come to an end. With the Fed raising rates by 3.75% since March, the central bank owes huge amounts of interest to banks and institutions on overnight borrowing while it's making a pittance in interest on the bonds that it owes. The difference shows as a loss at the Fed, which is growing at a fast clip. While the Fed's largest weekly remittance to the Treasury topped out at $4.667 billion in November 2020, the largest loss was last week, at -$10.554 billion, and it's still growing.



Source: St. Louis Federal Reserve

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From January 1 to August 31, the Fed sent the Treasury about $77 billion. From the first week of September through November 23, the Fed reported $57 billion in losses. With the central bank all but certain to raise rates in the middle of December and likely again at the end of January 2023, it's likely the Treasury won't be receiving financial love from the Fed anytime soon. While $100 billion in extra debt for the U.S. Treasury won't break the bank, it will add just that much more interest that we must pay. And as the Fed lets bonds roll off of its balance sheet while holding short-term rates higher for longer, the situation will get worse, not better.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.