

December 4, 2009

Read the fine print

[An otherwise fine article from the *Wall Street Journal*](#) starts with this headline:

"New York Fed Starts To Unwind Stimulus"

You might casually read that headline and assume that the Federal Open Market Committee was mighty impressed by [the November employment report](#)—and quick to respond with the first stages of a reversal in the stance of monetary policy. The facts lie, however, underneath the headline.

At issue are so-called "reverse repo" operations, described in the article thus:

"In a reverse repo, the Fed sells securities with an agreement to buy them back later at a higher rate...

"Reverse repos are one tool the Fed has at its disposal when the economy and financial markets have improved enough for it to drain cash from the system. The Fed uses short-term repurchase and reverse repurchase agreements to temporarily affect the size of the Federal Reserve System's portfolio and influence day-to-day trading in the federal-funds market."

On Thursday, the New York Fed conducted \$180 million worth of reverse repo transactions on, as the article points out, "the heels of a series of reverse repo *tests* that have been done by the bank over recent weeks." That word "tests" is the key:

"The Fed earlier this week said it would implement small-scale reverse repos over coming weeks but said the operations have no implication for monetary policy. Rather, the Fed said the operations are being conducted to ensure operational readiness at the Fed, tri-party repo clearing banks J.P. Morgan Chase and Bank of New York Mellon, and primary dealers, the lead group of banks that deal directly with the central bank...

" 'The idea is they want to get all their ducks in a row and be ready (to pull cash) when the time is necessary,' [RBC Capital Markets interest-rate-strategy group head Ira] Jersey said, adding that there's no point in doing large scale reverse repos as long as the Fed is still purchasing assets."

A better headline for the article would surely have been something like "New York Fed Starts to Lay Groundwork to Unwind Stimulus When Time Comes." It doesn't exactly sing, but it represents the facts.

By [David Altig](#), senior vice president and research director at the Atlanta Fed

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