



Weekly Review—August 21, 2020

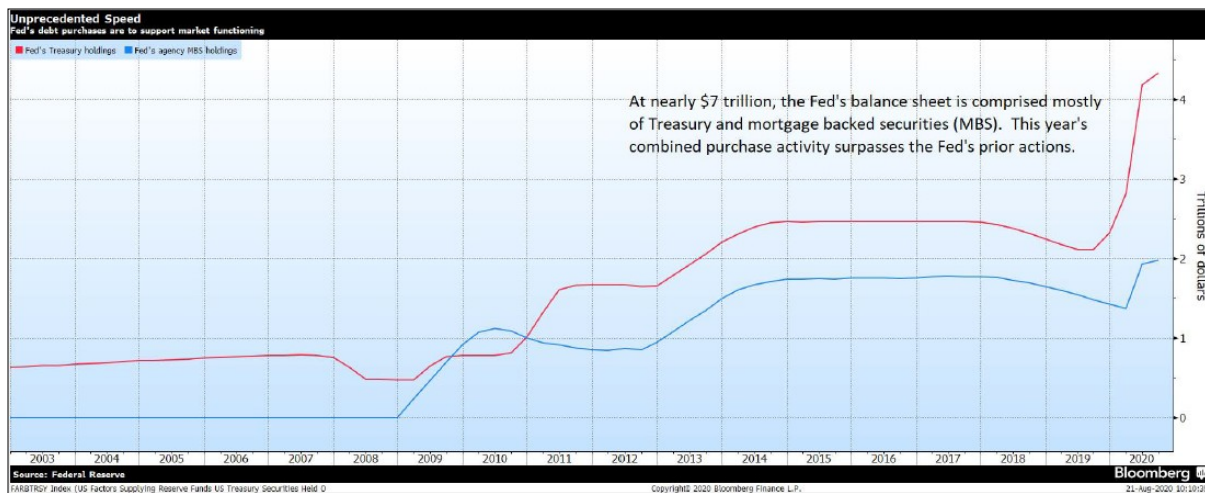
In an effort to mitigate the impact of a looming economic recession, the Fed dropped benchmark rates to near zero in March and announced a series of large-scale asset purchases. The centerpiece of these purchases – also known as quantitative easing – was their Treasury and MBS purchase program as bond market liquidity dropped to its lowest level since the Great Recession. In response, the Fed began the process of purchasing Treasuries and mortgage-related securities that peaked at more than \$100 billion a day in total. As such, the graph below shows the Fed’s balance sheet has grown to nearly \$4.4 trillion in Treasuries and \$1.9 trillion in MBS holding – materially higher than pre-Great Recession levels. Since its peak, current treasury/MBS purchases have declined to a combined \$120 billion a month as the Fed continues to add support to the market.

According to the Federal Reserve Bank of New York, the Fed has previously used large-scale asset purchase programs to support liquidity and the ability to trade in the Treasury market. In addition to using such programs in response to the more recent Great Recession, the Fed also used them in 1939 at the start of WWII, in 1958 as part of a treasury financing deal and again in 1970. “These three episodes, together with the more recent interventions, demonstrate the Fed’s long-standing and continuing commitment to the maintenance of orderly market functioning in markets where it conducts monetary policy operations – formerly limited to the Treasury market, but now also including the agency MBS market,” – as stated in the NY Fed’s report.

Although the minutes from their July FOMC meeting revealed that policy makers have all but ruled out using yield curve control (YCC) over the near term as a means of providing additional stimulus, the Fed’s balance sheet continues to grow. The Fed’s implementation of YCC as a policy tool would increase the speed of growth in terms of the size of its bond portfolio holdings. Hopefully Chairman Powell will provide insight into future balance-sheet adjustments, and how the FOMC views future asset purchases as part of next week’s annual Jackson Hole symposium. This year’s Fed symposium theme is “Navigating the Decade Ahead: Implications for Monetary Policy.”

Oh, the excitement!

Dennis Zimmerman Jr. | Senior Vice President | Manager – Asset/Liability Services | Commerce Bank – Capital Markets Group (CMG)



NEW ISSUE MUNICIPAL CALENDAR

| Date | Amount (\$) | Description | Maturity |
|-----------|--------------|---|-----------|
| 8/24/2020 | \$9,090,000 | PECULIAR MO WTR SEW REVS BQ A | 2021-2050 |
| 8/25/2020 | \$2,975,000 | COFFEYVILLE KS UT GO BQ A | 2021-2031 |
| 8/25/2020 | \$42,385,000 | COFFEYVILLE KS UT GO TAXABLE A | 2026-2042 |
| 8/25/2020 | \$1,045,000 | RILEY KS UT GO BQ NR | 2021-2031 |
| 8/26/2020 | \$9,000,000 | SOUTH MET FIRE PROT DIST CASS CO MO BQ AA | 2021-2040 |

ECONOMIC CALENDAR

| Monday 8/24 | Tuesday 8/25 | Wednesday 8/26 | Thursday 8/27 | Friday 8/28 |
|-------------------------------|---------------------------------------|---|---|---|
| Chicago Fed National Activity | Consumer Confidence New Home Sales | Mortgage Applications Durable Goods Orders | Initial Jobless Claims Personal Consumption GDP Price Index | Personal Income Chicago PMI Wholesale Inventories |

| KEY INDICES | | | | MUNI AA—BQ | |
|----------------|-----------|------------|--------------|------------|------|
| | Current | Last Month | One Year Ago | | |
| Prime Rate | 3.25 | 3.25 | 5.50 | 3 Mo. | 0.06 |
| Discount Rate | 0.25 | 0.25 | 3.00 | 6 Mo. | 0.15 |
| Fed Funds Rate | 0.05 | 0.05 | 2.39 | 1-Year | 0.18 |
| IOER | 0.10 | 0.10 | 2.10 | 2-Year | 0.20 |
| 1-Month Libor | 0.18 | 0.18 | 2.14 | 3-Year | 0.22 |
| 11th Dist COFI | 0.68 | 0.76 | 1.14 | 5-Year | 0.33 |
| 1-Yr. CMT | 0.12 | 0.15 | 1.77 | 7-Year | 0.56 |
| Dow | 27,930.33 | 26,840.40 | 26,202.73 | 10-Year | 0.88 |
| NASDAQ | 11,311.80 | 10,680.36 | 8,020.21 | 30-Year | 1.67 |
| S&P 500 | 3,397.16 | 3,257.30 | 2,924.43 | | |
| Bond Buyer | 2.15 | 2.12 | 3.07 | | |

| Treasuries & New Issue Agencies (<i>Spread to Treasuries</i>) | | | | | | CMO Spreads to Treasuries | | |
|---|------------|---------|----------|-----------|-----------|---------------------------|-----|---------|
| | Treasuries | Bullets | NC-6 Mo. | NC-1 Year | NC-2 Year | | PAC | Vanilla |
| 3 Mo. Bill | 0.09 | | | | | 1-Year | N/A | +50 |
| 6 Mo. Bill | 0.11 | | | | | 2-Year | 55 | 65 |
| 1-Year Bill | 0.12 | | | | | 3-Year | 60 | 68 |
| 2-Year Note | 0.15 | 5 | 10 | 9 | | 5-Year | 68 | 80 |
| 3-Year Note | 0.16 | 8 | 22 | 21 | 16 | | | |
| 5-Year Note | 0.27 | 11 | 40 | 39 | 32 | | | |
| 7-Year Note | 0.45 | 24 | 50 | 47 | 38 | | | |
| 10-Year Note | 0.64 | 37 | 68 | 64 | 54 | | | |
| 20-Year Bond | 1.13 | | | | | | | |
| 30-Year Bond | 1.35 | | | | | | | |

| MBS Current Coupon Yields | | |
|---------------------------|--|-------|
| GNMA 30 Yr. | | 1.40% |
| FNMA 30 Yr. | | 1.35% |
| GNMA 15 Yr. | | 0.26% |
| FNMA 15 Yr. | | 0.91% |

About the Author, Dennis Zimmerman



In 2015, Dennis joined Commerce Bank's Capital Markets Group as Manager of Asset/Liability Services. With his leadership, the Capital Market's ALM team provides asset/liability management consulting services to community banks.

Prior to joining Commerce, he was employed for nearly 26 years at one of the largest privately-held banks in Kansas. In addition to managing a \$775 million bond portfolio, his Asset/Liability Chairman responsibilities included managing margin, interest rate risk, liquidity and capital. Prior to becoming the bank's Finance Treasury Officer, he was a Registered Investment Representative and Supervising Principal in the bank's Capital Markets division.

As a seasoned professional, Mr. Zimmerman offers a comprehensive understanding of bank finance treasury, fixed income, complex financial analysis as well as regulatory and operational awareness. As a banker, he understands the challenge of balancing shareholder expectations within appropriate levels of risk.

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