



GORDON T LONG

Advanced Technical Analysis



Gordon T Long
Global Macro Research |
Macro-Technical Analysis



Technical Analysis
Market Road Maps | HPTZ
Methodology



SII
Global Macro Research |
Market Road Maps

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WHAT IS THE FED'S QT GOAL?



“Expect the best. Prepare for the worst. Capitalize on what comes!”

AGENDA

KEY MESSAGES

WHAT IS THE REASON FOR QT?

Inflation Control – Volcker's Secret

HOW MUCH LONGER WILL QT REMAIN?

QT Has Achieved a \$1 Trillion B/S Reduction

UNDERSTANDING THE LIABILITY SIDE

Currency, Reserves, RRP and the TGA

WHEN WILL QT END?

GOAL: Q3 2024

PROJECTING SIZE OF BALANCE SHEET

Fed B/S at 8% of GDP

WHAT ARE THE IMPLICATIONS FOR YIELDS?

0.50 Treasury Rate Premium

CONCLUSIONS

The Fiscal, Unfunded Liabilities & Structural Tsunamis

What Is the Fed's QT Goal?



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Yields – How High Is Too High?

Quantitative Tightening, also known as balance sheet normalization, is a type of monetary policy followed by central banks. It simply means that a central bank reduces the pace of reinvestment of proceeds from maturing government bonds, and is the exact opposite as the monetary stance of quantitative easing.

KEY MESSAGES

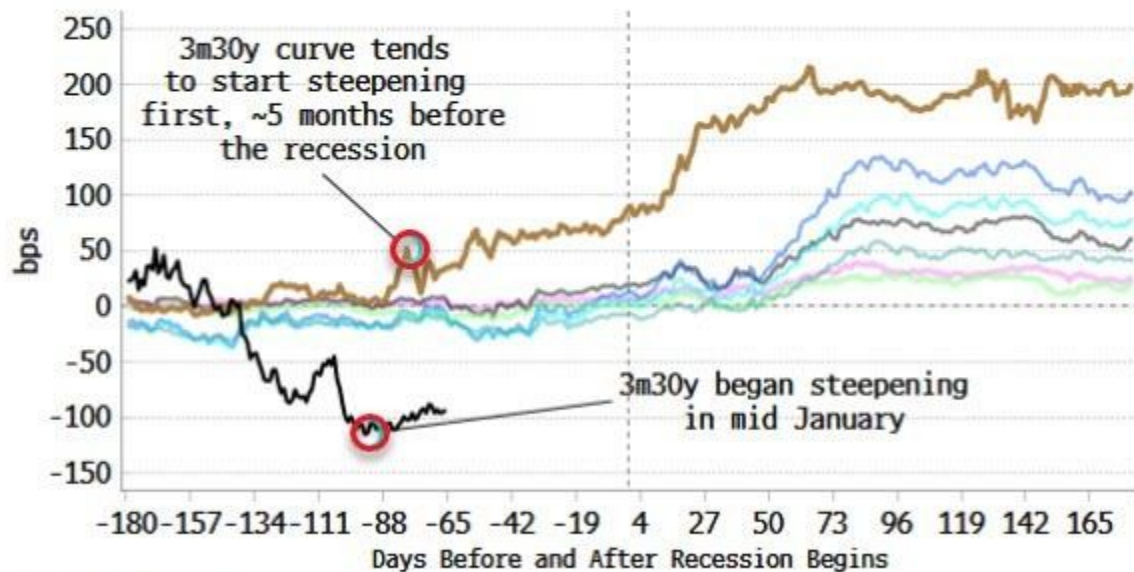
- The FOMC looks to be near, if not already at, the end of its rate hiking cycle. However, policy tightening is likely to continue in the coming months as the Fed shrinks its balance sheet, a process known as "Quantitative Tightening" (QT).
- Since the Fed stopped reinvesting securities on its balance sheet in June of last year, the central bank's assets have shrunk by roughly \$1 trillion to \$7.9 trillion at present. The lion's share of the reduction has been through lower holdings of Treasury securities (down \$841 billion), while mortgage-backed securities (MBS) have fallen by \$228 billion. Partially offsetting these declines has been a rise in lending related to the emergency programs created in response to regional bank failures in March.
- A reduction in assets must be matched by an equivalent decline in liabilities. The primary channels for shrinking liabilities via QT occur through bank reserves and reverse repurchase agreements.
- Since QT began, bank reserves have fallen by a scant \$17 billion. By far the biggest reduction on the liability side of the Fed's balance sheet has been reverse repurchase agreements (RRPs), which have plunged by \$728 billion.

KEY MESSAGES

- How much longer is QT likely to continue, and how large could the Fed's balance sheet be when it ends? The answer largely boils down to the outlook for the U.S. economy, the stickiness of RRP balances and what the Fed considers an "ample" level of reserves.
- Macro Forecast Base Case: A recession next year leads the Fed to cease QT at the start of Q3-2024. The Fed's balance sheet levels off around \$7.2 trillion.
- We see the level of bank reserves as the key driving force in determining the "equilibrium" size of the balance sheet. In light of the 2017-19 QT episode, we assume that reserves of around 8% of GDP is when the balance sheet reaches "equilibrium."
- The research literature suggests that the runoff associated with our "middle-of-the-road" scenario is roughly equivalent to a sustained 50 bps increase in the fed funds rate. All else equal, this implies a 50 bps-higher 10-year Treasury yield and adds to a variety of other factors also putting upward pressure on longer-term yields.

Recession Clock Ticking as 3m30y Steepens

— 3m30y (Last 6 Months) — Mean 3m30y — Mean 2s5s — Mean 2s10s — Mean 5s10s
— Mean 2s30s — Mean 5s30s — Mean 10s30s (Recessions back to 1969)



Source: Bloomberg

2000 DotCom Bubble
Crisis

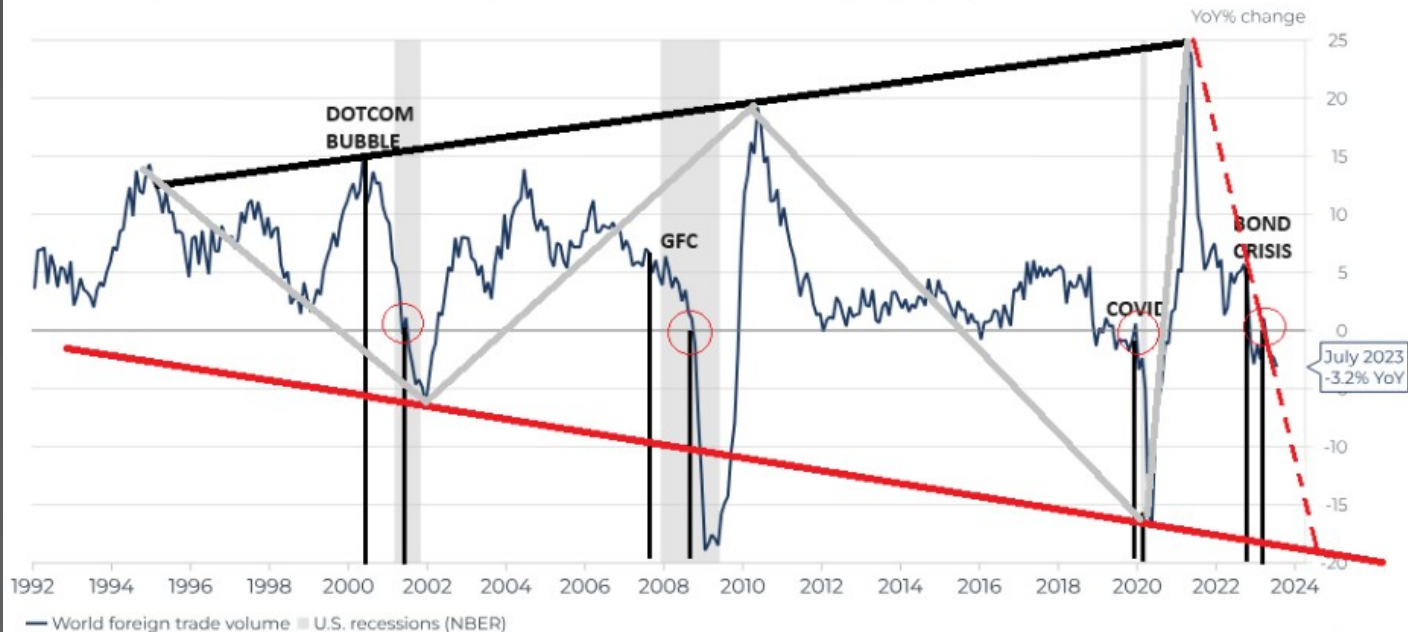
2008 Financial
Mortgage Crisis

2020 Covid-19
Pandemic

2022 Sovereign Bond
Collapse

Global trade's slowdown historically indicates recession risk

Source: NBER (National Bureau of Economic Research), Netherlands Bureau for Economic Policy Analysis (CPB)



ANNOTATIONS BY MATASII.COM

MACROBOND

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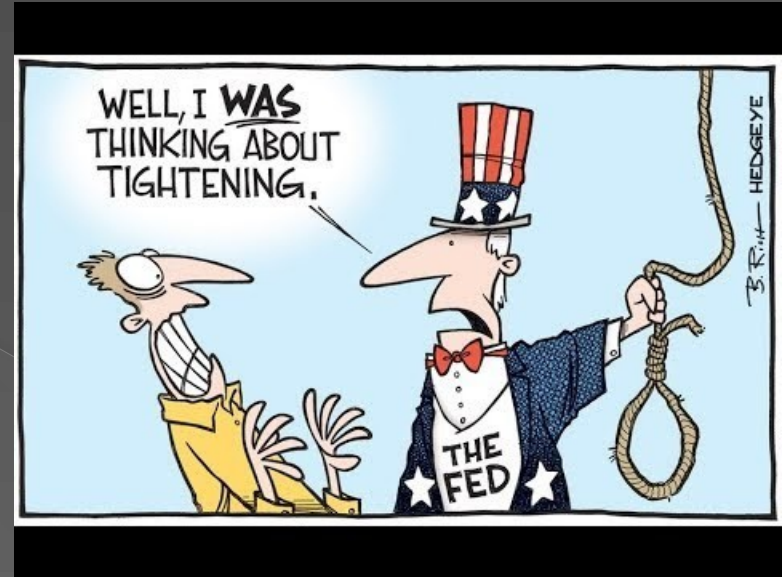
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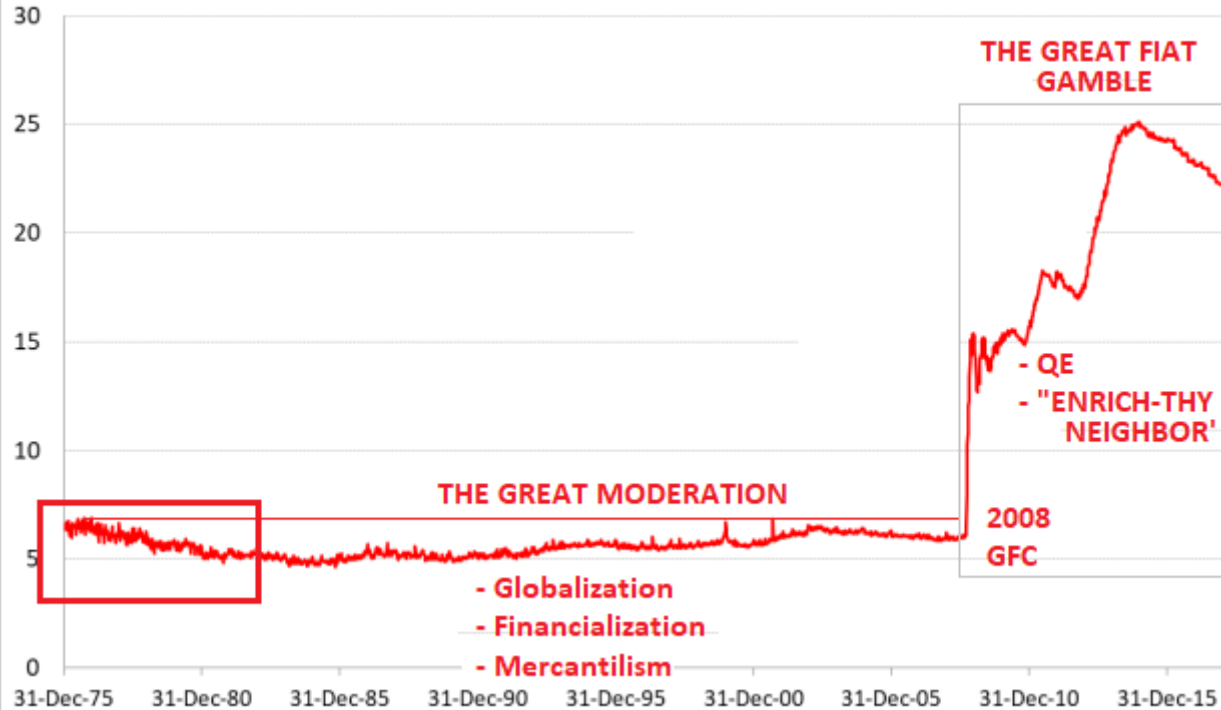
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Total Fed Assets as a Share of U.S. GNP (%)



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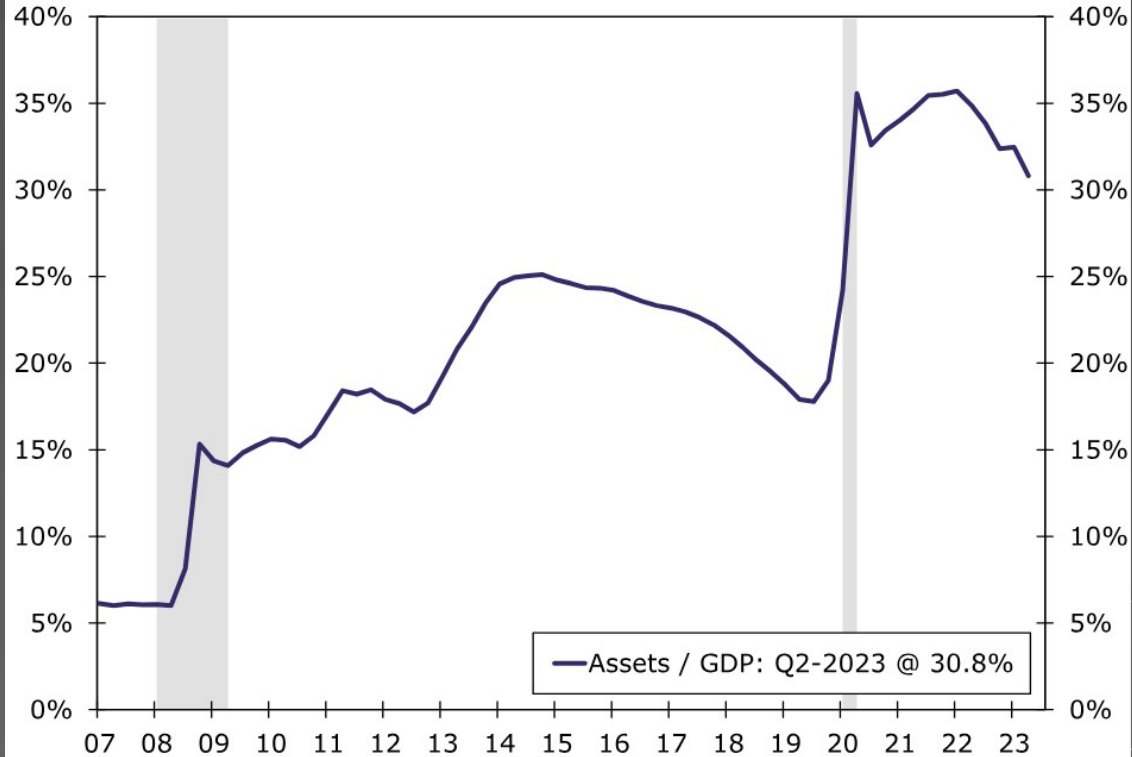
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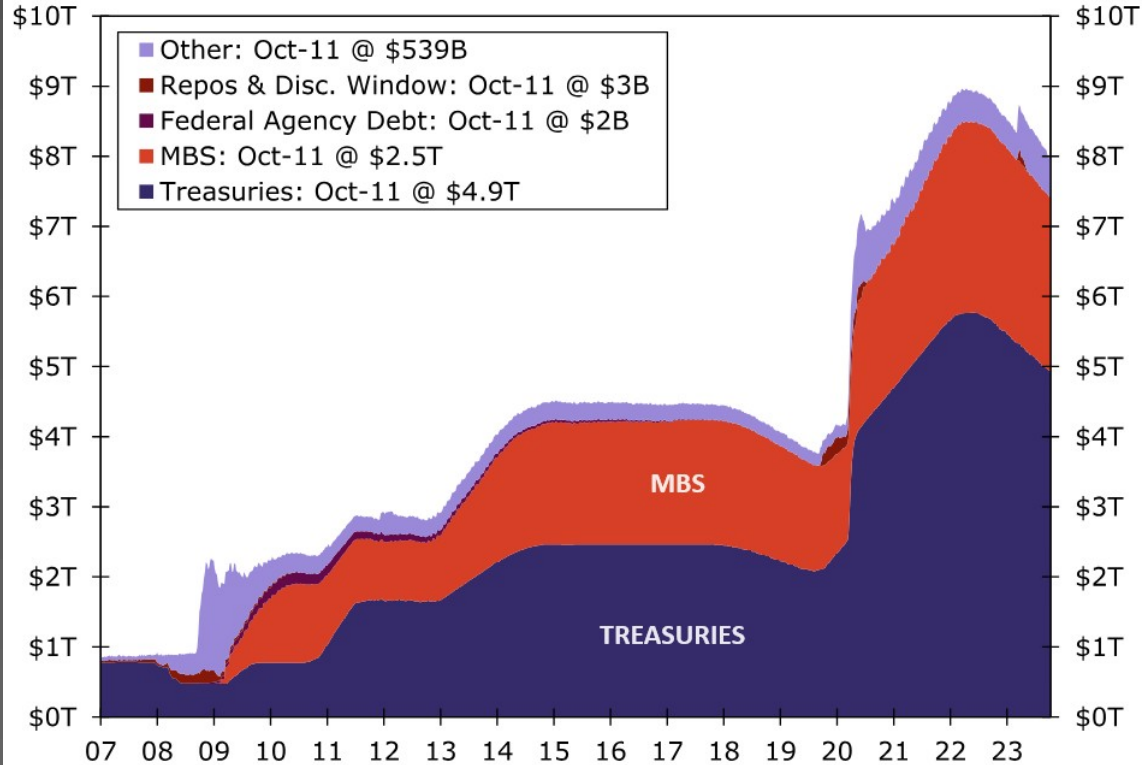
Federal Reserve Total Assets

Share of GDP



Federal Reserve Total Assets

Trillions of U.S. Dollars



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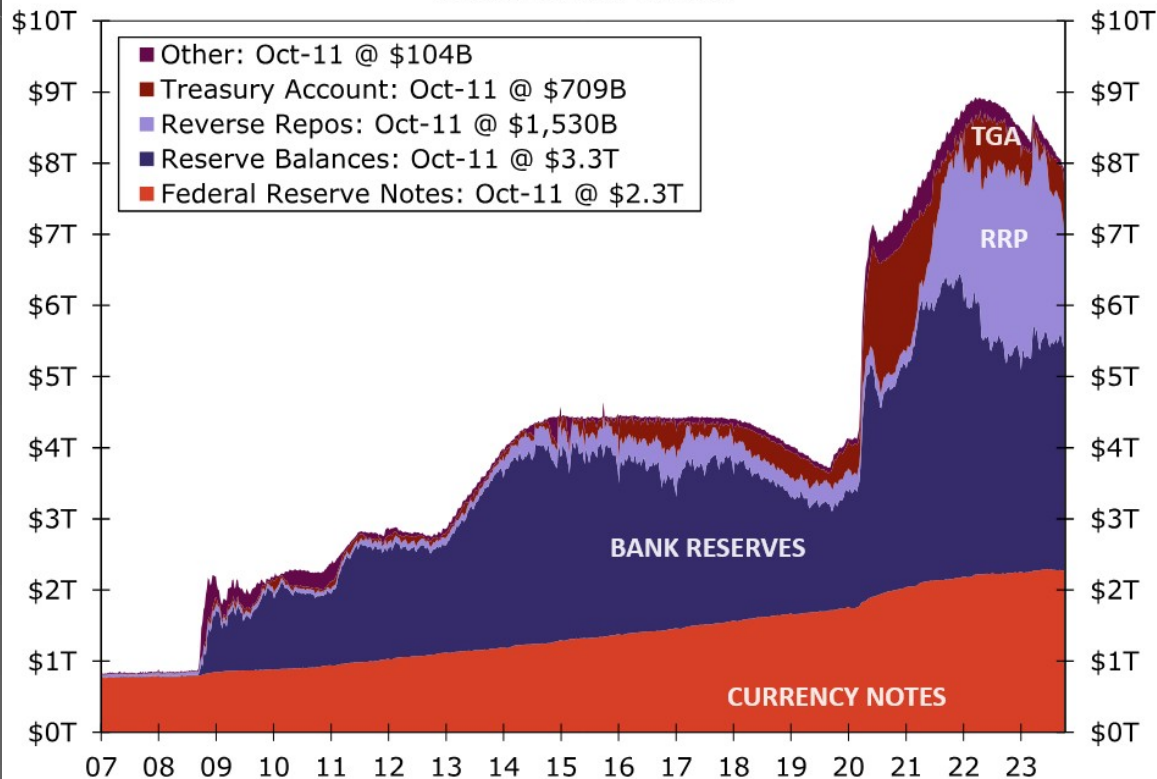
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Analytical Central Bank Balance Sheet Stanford Iran 2040 Project
iran-studies.stanford.edu/iran2040

Assets	Liabilities
Net Foreign Assets	Currency in Circulation
Net Claims on Public Sector	Bank Required Reserves
Claims on Banks	Bank Excess Reserves
Other Items Net	

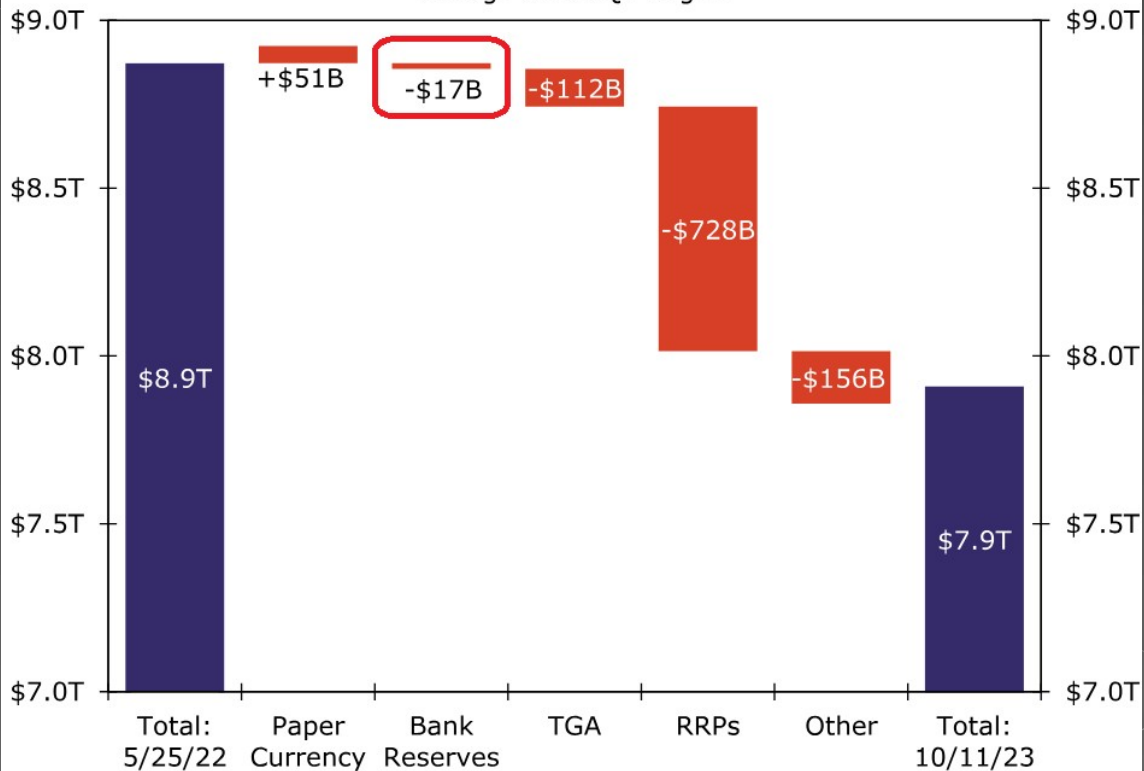
Federal Reserve Total Liabilities

Trillions of U.S. Dollars



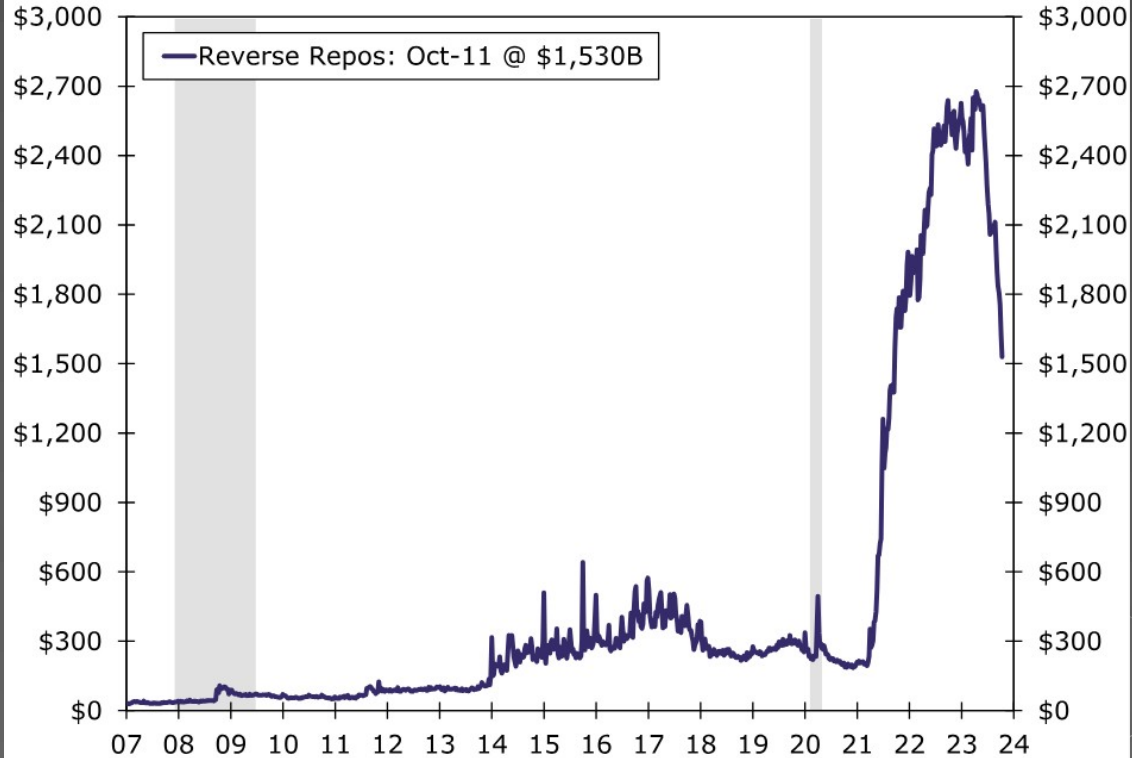
Federal Reserve Total Liabilities

Change Since QT Began



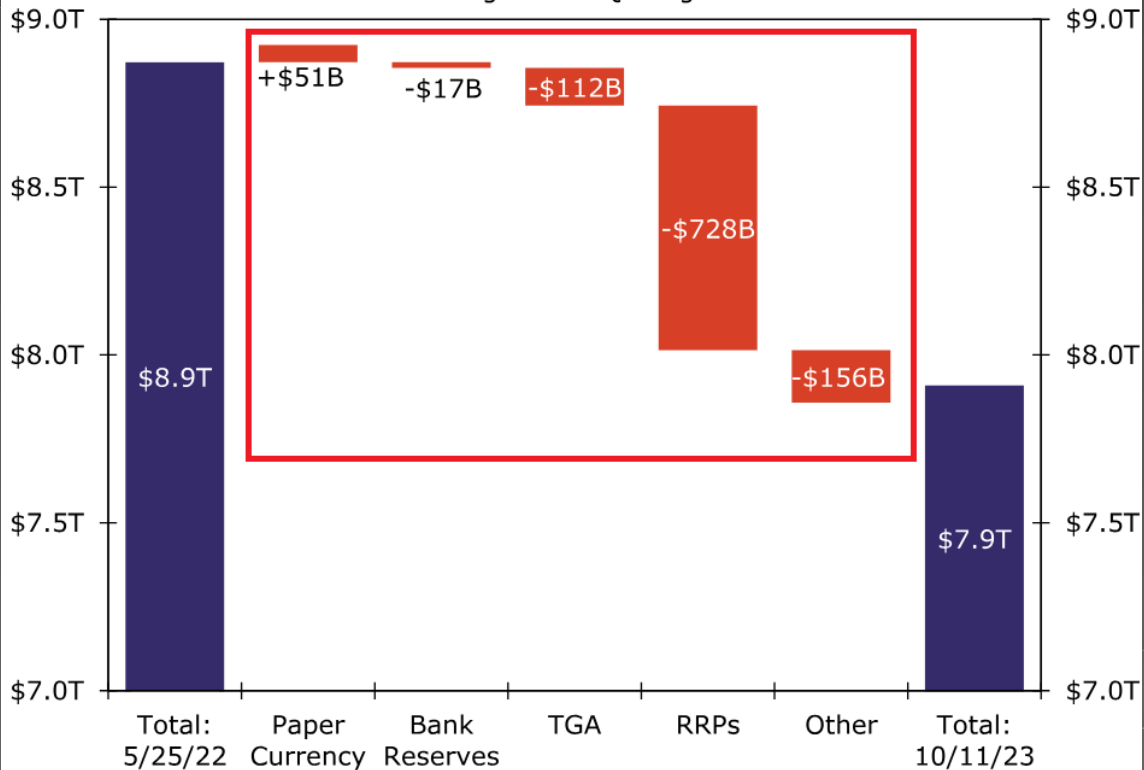
Federal Reserve Reverse Repos Outstanding

Billions



Federal Reserve Total Liabilities

Change Since QT Began



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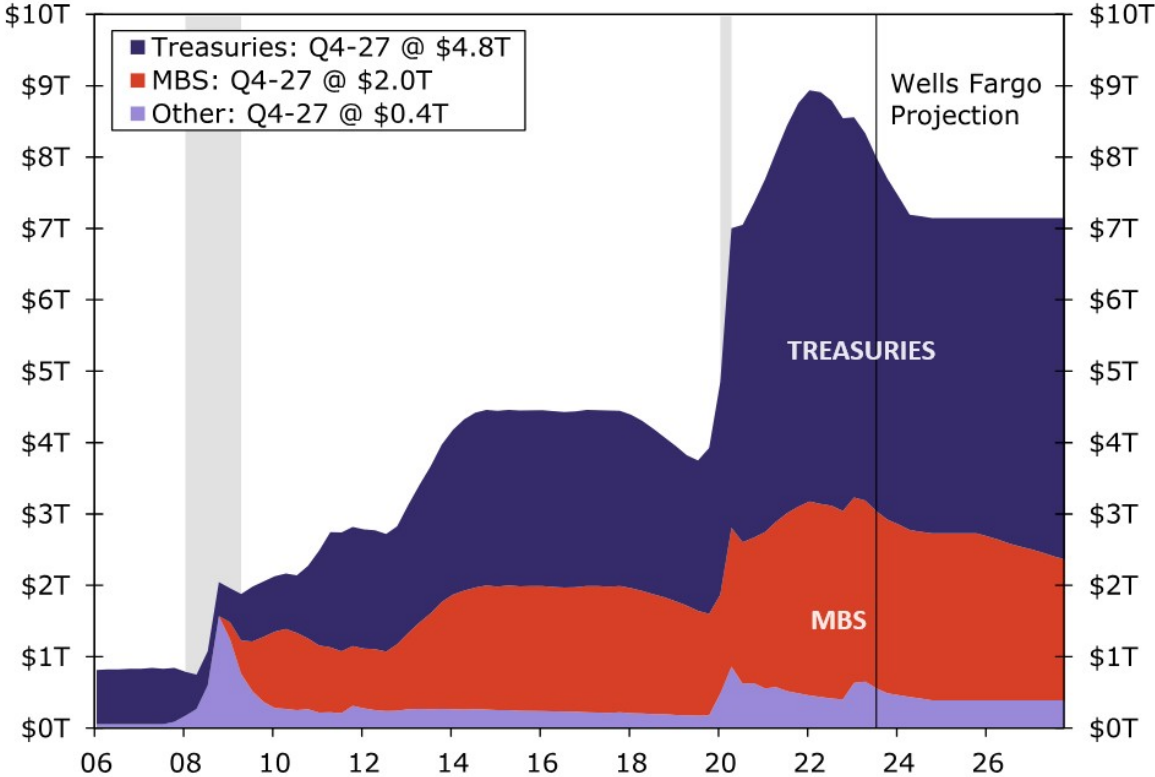
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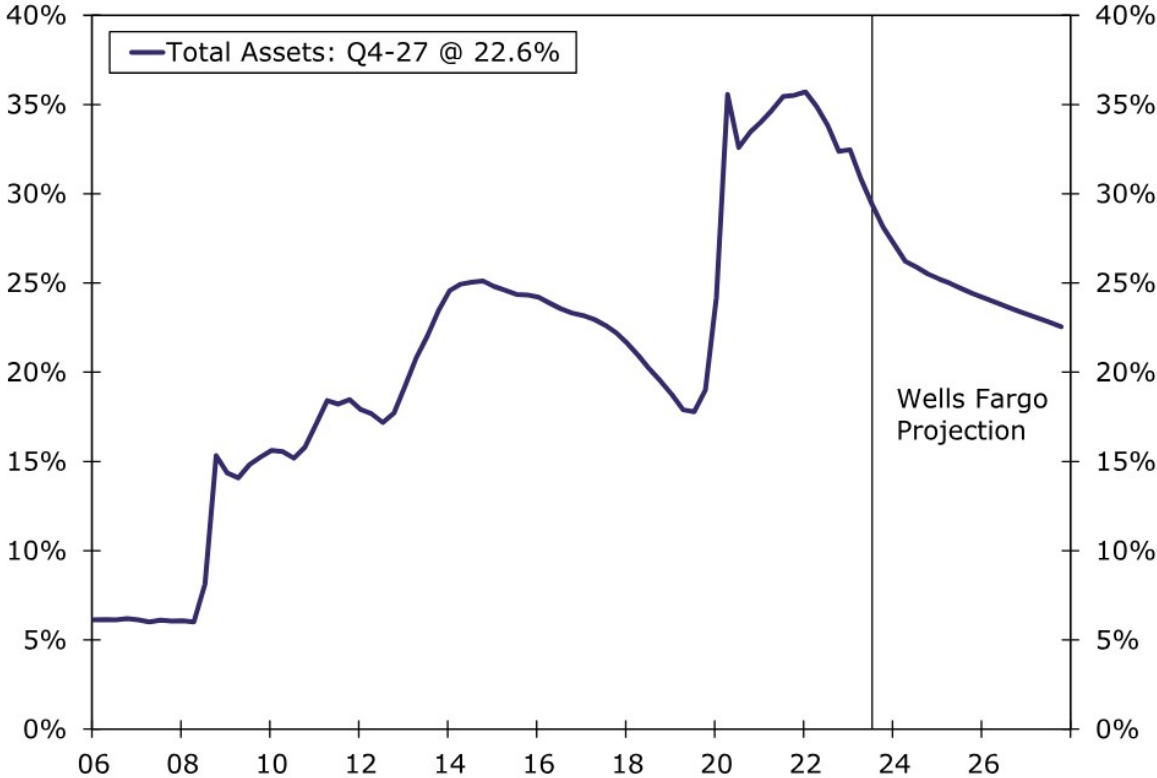
Federal Reserve Total Assets

Trillions



Federal Reserve Total Assets

Share of GDP



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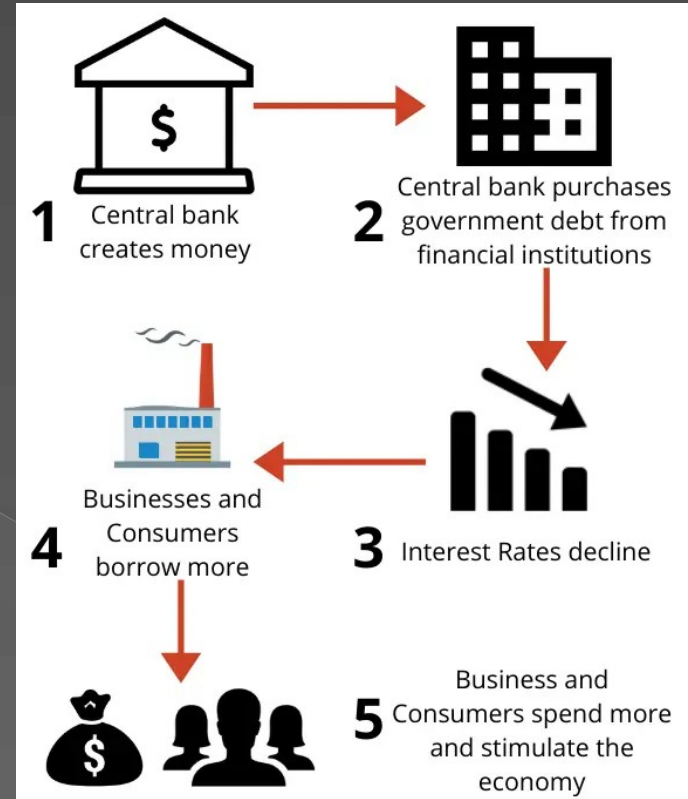
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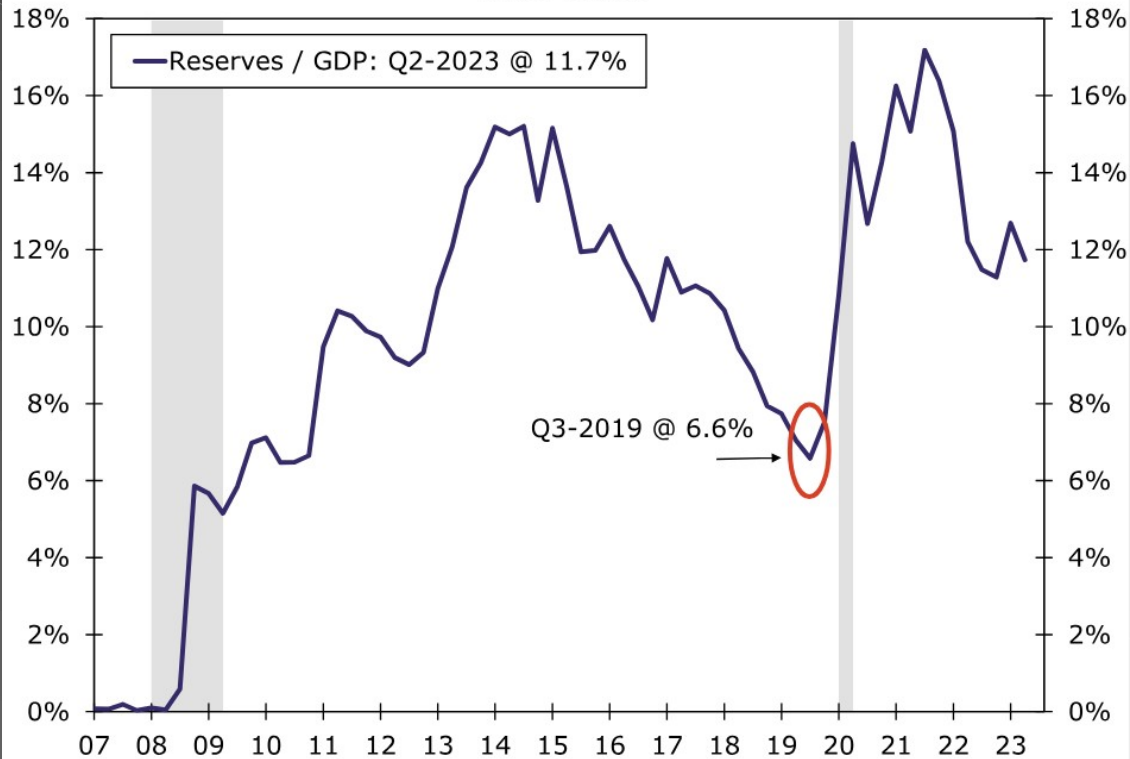
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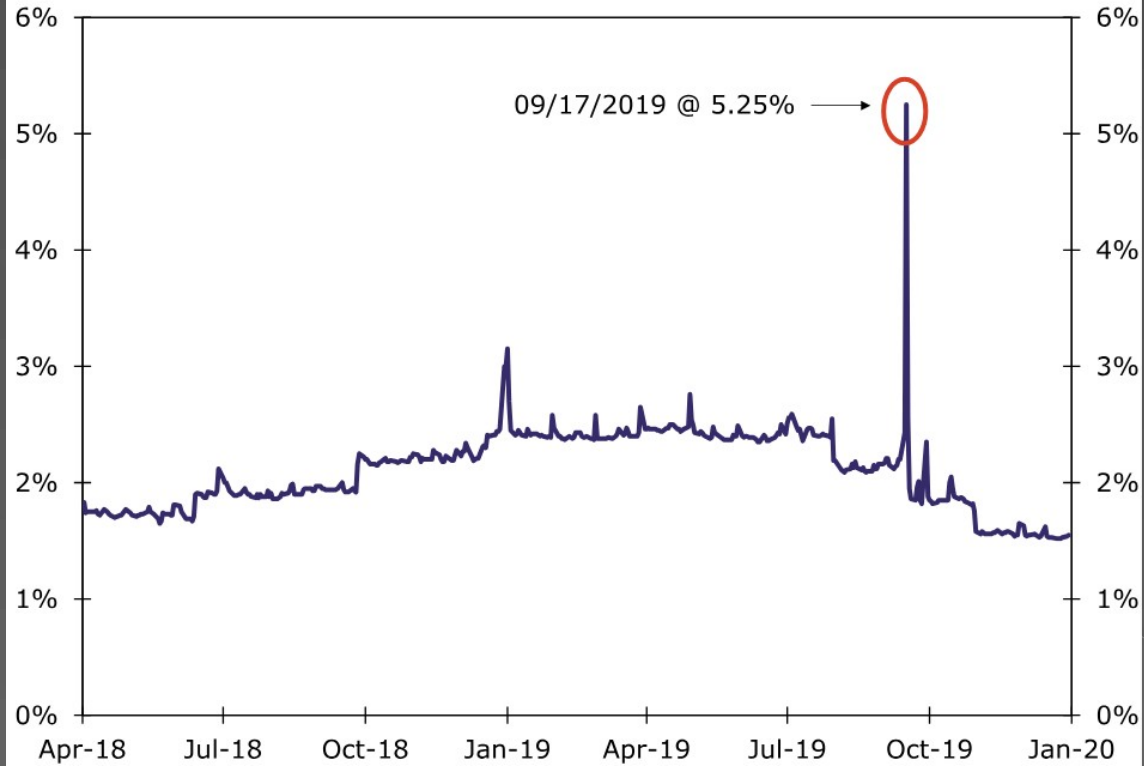


Bank Reserves

Share of GDP

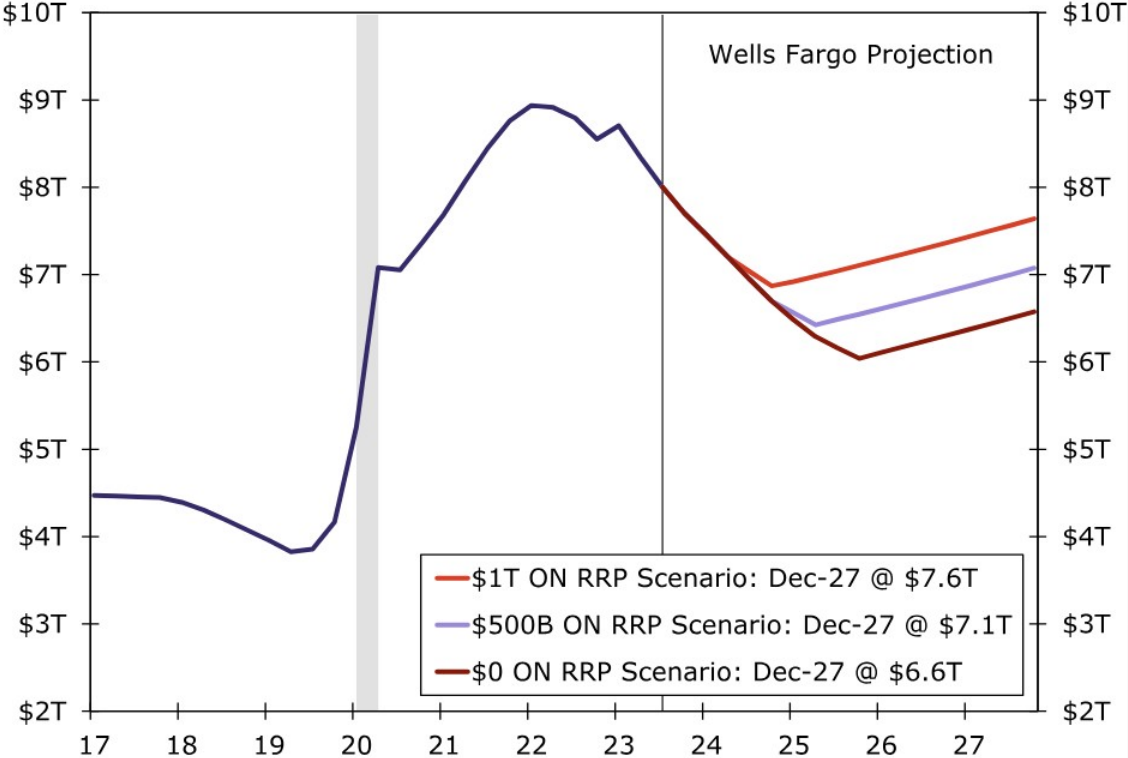


Secured Overnight Financing Rate (SOFR)



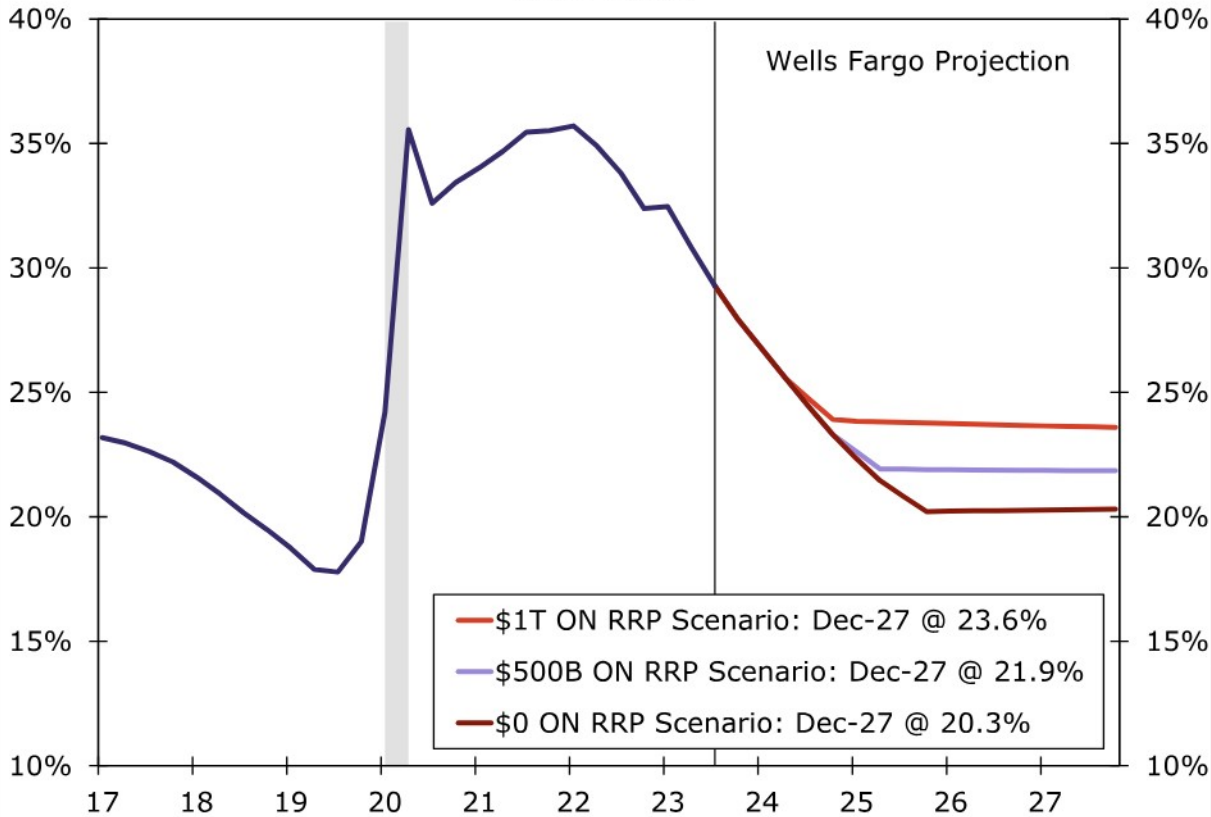
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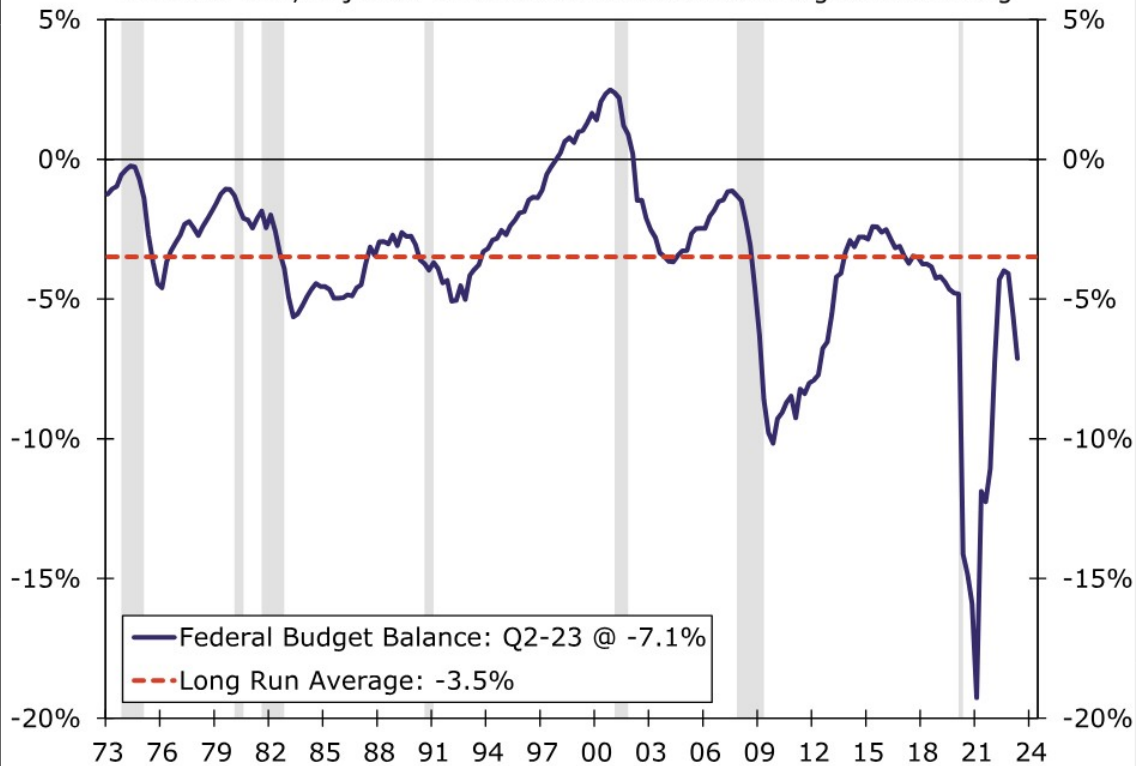
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Federal Government Budget Balance

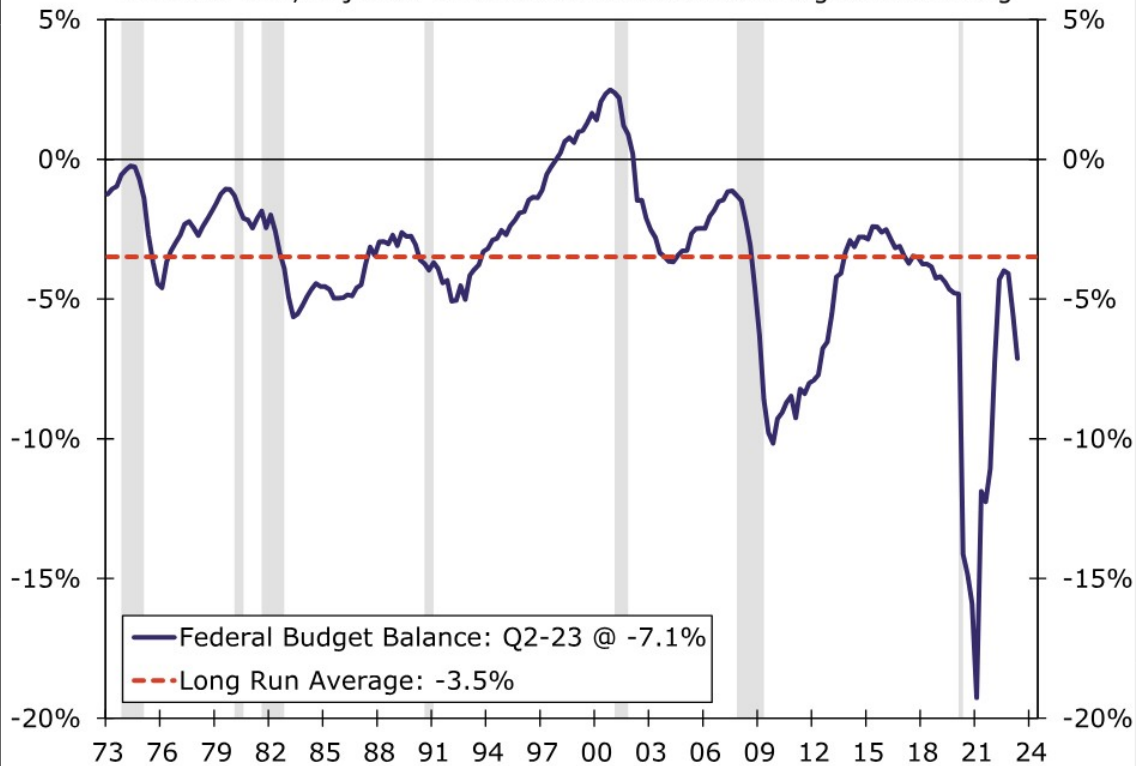
Share of GDP, Adjusted for SCOTUS Student Loan Forgiveness Ruling



If QT runs until mid-2025 and the Fed's balance sheet declines by about \$2.5 trillion from peak to trough, then we would expect the 10-year Treasury yield to be roughly 50 bps higher than it otherwise would be, all else equal.

Federal Government Budget Balance

Share of GDP, Adjusted for SCOTUS Student Loan Forgiveness Ruling



10-Year Treasury Note Yield

End of Day Yield



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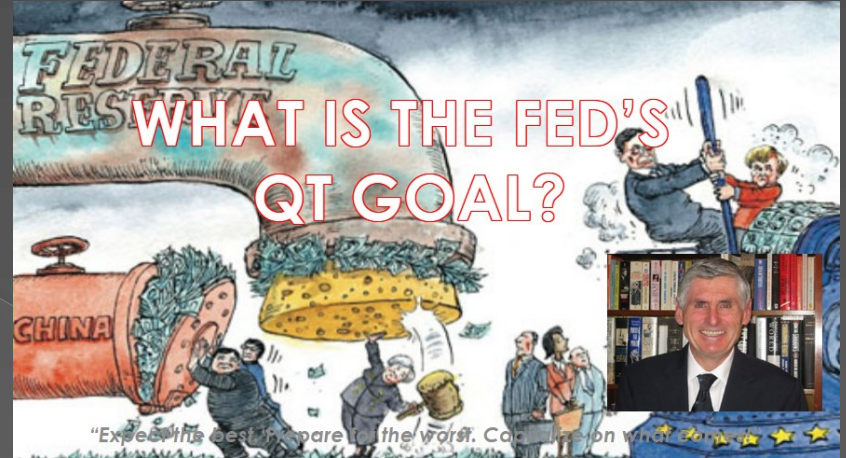
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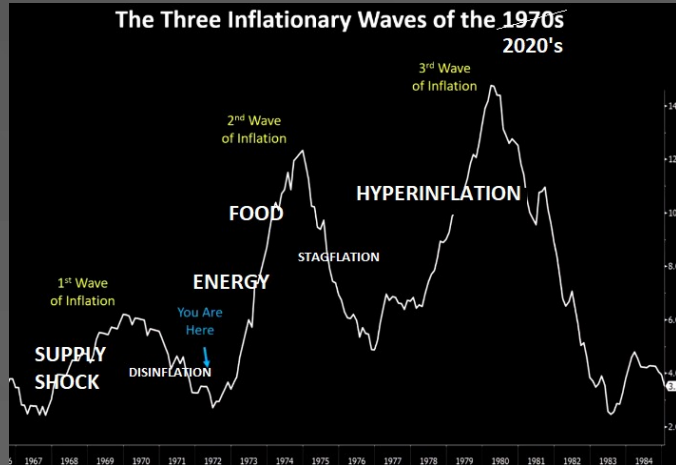
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1) FISCAL SANITY

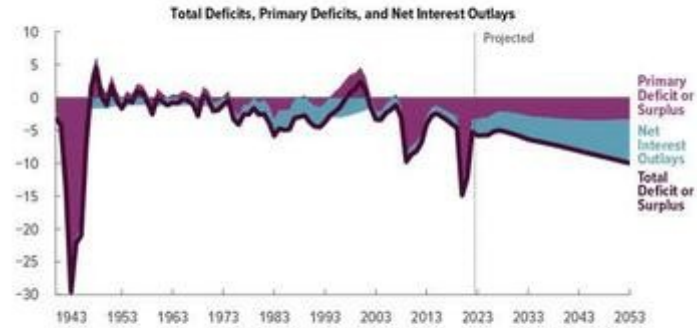
2) ENTITLEMENTS & UNFUNDED LIABILITIES

3) STRUCTURAL INFLATION PROBLEMS

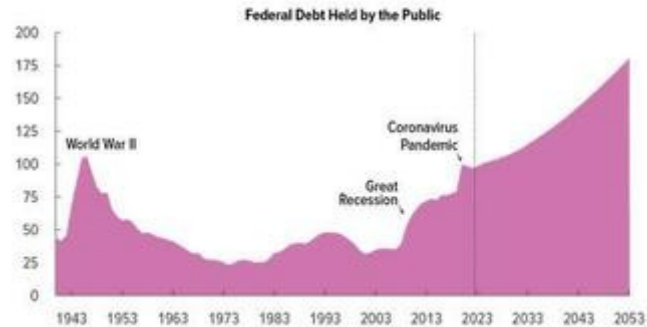


Deficits and Debt

Percentage of GDP



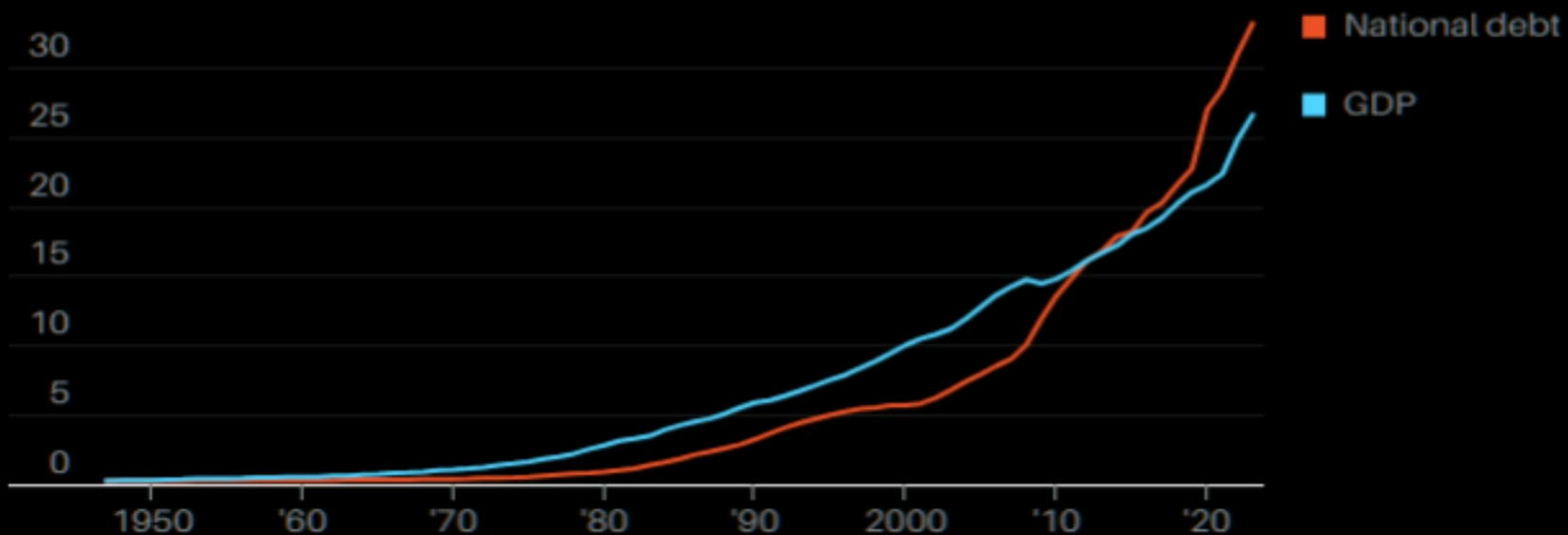
In CBO's projections, primary deficits exceed their historical 50-year average of 1.5 percent of GDP throughout the projection period. In 2053, the primary deficit equals 3.3 percent of GDP. Driven up by large and sustained primary deficits and by rising interest rates, net interest outlays reach 6.7 percent of GDP in 2053.



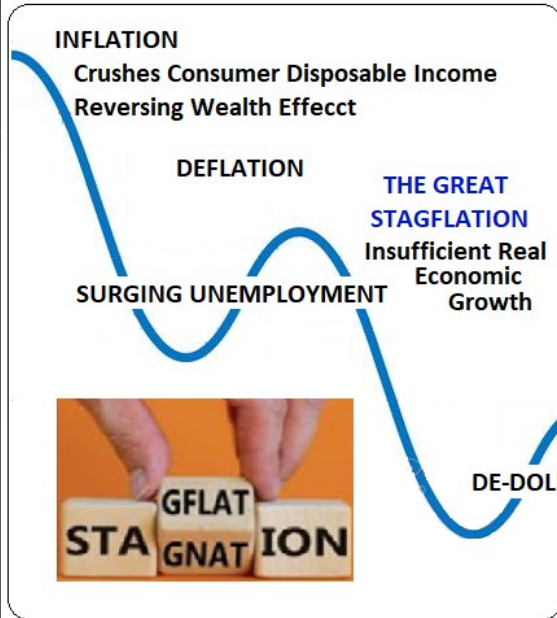
Growing deficits push federal debt held by the public, which is already high, further up throughout the 30-year period. Such debt reaches 181 percent of GDP in 2053—and would continue to rise thereafter.

The U.S.'s national debt is growing faster than the economy.

\$35 trillion

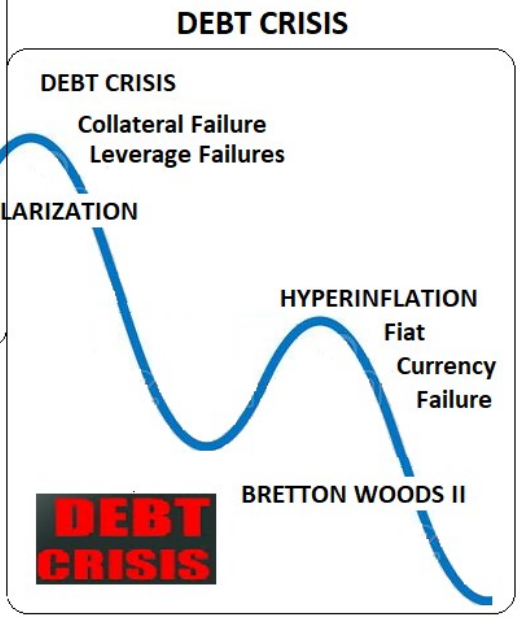


STAGNATION



2020's

THE BETA DROUGHT DECADE



**DEBT
CRISIS**

ADMINISTRATIONS CHANGE – BUT THE PRINTING NEVER DOES

DON'T WORRY, THEY WILL PRINT THE MONEY!

EVERYONE IS NOW IN PLACE & READY!!



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FEEDBACK THAT WILL IMPROVE OUR
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