Hit With Big Withdrawals, Fed Sells Assets, Borrows Cash

By Lee Adler – Wallstreetexaminer.com

[FF Editorial: This is a brilliant piece of Fed Watching and analysis. If there is one evidence that FED and global central banks are stuck in a quagmire and the system is unraveling, this is it!]

The Fed was hit with withdrawals of $83.3 billion last Wednesday, the largest withdrawals from its deposit accounts that were not associated with quarterly tax payments since February of 2009. $7 billion of that was the net cash transferred to the US Treasury from its note and bond sales less outlays. The Fed still had to meet the other $76 billion. These transactions were revealed in the Fed’s weekly H.4.1 report.

The Fed was apparently forced to take extraordinary measures to fund these withdrawals. These included the outright sale of nearly $24 billion in its Treasury note and bond holdings from the System Open Market Account. As a result, the Fed’s System Open Market Account (SOMA) fell to $2.611 trillion, some $43 billion below the Fed’s stated target of $2.654 trillion. Prior to this week, it had not strayed from by more than $7 billion since June. The Fed’s action was not only a direct contradiction of its stated policy, but it was done without warning or explanation. It ran counter to Bernanke’s penchant for telegraphing every important move the Fed makes so that the banking/speculating organizations can front-run it.

The Fed took another unusual and virtually unprecedented action to fund these massive withdrawals. It borrowed $43 billion from foreign central banks (FCBs) through Reverse Repurchase Agreements (revese repos, or RRPs).

The Fed's commitments of reverse repurchase agreements, where it pledges its securities holdings in return for cash loans, bulged by a record amount to a record level. The magnitude of this action is unprecedented.

These RRPs were done with FCBs. There were no open market operations with the Primary Dealers or Tri-party RRP participants reported in the NY Fed's daily postings, or in the H41.

This borrowing and the sales of the Treasuries covered all but $10 billion of the withdrawals. The Fed issued currency to cover about $7 billion, and covered the rest with minor adjustments to other accounts.

This action was such a surprise and done with such stealth, that apparently I am the only person in the in the known universe, who writes regularly about the Fed, who noticed it. I could find no coverage of it anywhere this weekend, either in the mainstream Wall Street lackey press, or in the financial wackosphere, of which, like it or not, I am a member. Since I know that I'm not that smart and the big boys at the Wall Street Urinal are, I have to assume that there's nothing going on here… (Uh… Not).

One other surprise item on this week's Fed H41 was the U-turn in foreign central bank buying, which I suspect is related to these withdrawals. After 7 weeks of record selling of their Treasury holdings, the FCBs last week did an about face and made record purchases, reversing much of their recent selling. The dollar rose sharply on Tuesday and Wednesday. I covered the details, with charts, in the Wall Street Examiner Professional Edition Treasury update (Rising Cesspool Lifts All Floaters). *** Go to their website and subscribe!

Whether there's any relationship between these gigantic FCB actions and the giant withdrawals from the Fed's deposit accounts, I can't say. Unfortunately, I'm not one of the Fed's fair haired boys to which they like to leak inside information. For that, your business card must include the magic words– Wall Street Journal, New York Times, or Washington Post.

I actually did put in phone calls to Michael Derby at the WSJ, and Greg Robb at Marketwatch, but it was late in Friday afternoon, and neither returned my call. It will be interesting to see if, and what, they report as a result of my calling this to their attention. They obviously have the inside contacts which I do not and I was hoping to glean some information from them, or to tip them to what might be a story worth pursuing. I wait with baited breath to see if anything comes of these contacts– Or maybe a press release from the horse's mouth (cue visual- horse's backside) itself.

Until then, I don't know whether this is some kind of technical adjustment, however big, or a sign that the wheels might be beginning to come off the world financial system. Given what's going on with countries and brokerages going bankrupt and internet coupon companies setting the investing world on fire, it's difficult not to suspect the latter.

We'll have to see what hits the fan this week. If no reports show up in the mainstream media, rather than concluding that there's nothing here, I would tend to suspect that there is, and that the reason there's no reporting is that the Fed does not want us to know. I'd infer from that that Dr. Bernankenstein has lost control of his monster.