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ANALYSIS: Fed Need Not Rush into Balance Sheet Normalization
10:58 EST / Jan 30
By: Jean Yung

- Despite Recent Talk, Beneficial for Fed to Wait to Reduce Bond Holdings
-- Fed Could Prioritize MBS Runoff

WASHINGTON (MNI) - As the Federal Open Market Committee meeting gets underway this week, the topic of shrinking the Federal Reserve's $4.5 billion arsenal of bond holdings will likely get more airtime than it has in a long time.

But analysts say there is little pressure on the Fed to hasten the process, and the initial stages of reducing the size of the balance sheet will likely not have a major impact in the near term.

Since the new year, several senior Fed officials have called for a discussion of the future of its balance sheet as the Fed prepares to lift short-term interest rates a few times this year and next. Inflationary policies out of the Trump administration may also mean the Fed's phasing out the reinvestment of existing securities as they mature -- a first step in reducing the balance sheet -- may take place sooner than investors expect.