



FedFin Daily Briefing

Friday, March 18, 2022

Commodity-Market Backstop Prospects, Impact

In this alert, we update clients on our assessment of policy consequences related to commodity-market [strains](#). Notably, a letter from European energy traders to the ECB has been made [public](#) indicating stress in this sector is so severe that traders are seeking emergency liquidity support. While directed to the ECB, the letter calls upon all central banks to provide this support, making it likely that a similar plea has been sent to the Federal Reserve. We cannot speak to the ECB's response, although it has been silent so far, but we do not expect the Fed to provide any emergency-liquidity facility for energy traders unless it becomes clear that variation-margin calls are posing systemic risk or a threat to the smooth delivery of oil and gas to end-users. Fed intervention is unlikely absent acute market risk in part because a facility for fossil-fuel traders would draw considerable political push-back. However, other commodity sectors -- most notably grain -- are also experiencing the price volatility cited by the energy traders. This is a much larger U.S. market in terms of financial-system exposure at CCPs and counterparties as well as a sector where financial-market stress could create severe public-welfare hardship. It is thus possible that the FRB will intervene in the event of market distress.

Still, the most likely near-term action if the crisis ebbs will be renewed and accelerated work by global regulators on CCP margin rules along lines sketched out in early 2021 ([see Client Report NBF1](#)). Clients are reminded that any large losses at U.S. banks are likely also to spark demands from Senate Democrats to finalize FRB restrictions on commodity investments ([see FSM Report COMTRADE8](#)).

Congress Wants More, Tougher Sanctions

Although witnesses at yesterday's Senate Banking Committee sought to assure Congress that digital currency does not promote sanctions evasion ([see Client Report SANCTION17](#)), legislation continues to advance to curtail any form of sanctions evasion. As we noted yesterday, senior Senate Democrats have introduced a bill expressly targeting digital assets and exchanges while HFSC [marked up](#) numerous bills tightening more conventional financial-transmission and policy channels. New bills to address other concerns include a measure (S. 3877) from Sen. Rubio (R-FL) to expressly sanction China for any financial interaction with Russia and one (H.R. 7113) from Rep. Budd (R-NC) to use tariffs on Chinese imports to do the same. In the current environment, one or both measures could advance. In addition, a new bill (S. 3876) from Sen. Warner (D-VA) would give Treasury express sanctions authority over a broader range of financial transactions regardless of the nation in which they occur in relation to money laundering, provisions which would also reach to sanctions violations in both fiat and crypto currency as well as numerous physical-asset and securities transactions. We will continue to monitor action on all of these measures, most of which we expect to be included in revised form in omnibus sanctions legislation working its way through numerous Congressional committees for House and Senate floor finalization the week of March 28.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [SANCTION17](#): The Senate Banking Committee's hearing today on illicit finance focused as expected on cryptocurrency and suggests that targeted legislation addressing specific jurisdiction or compliance issues might advance on a bipartisan basis.

- **GSE-031522:** Although we have done extensive analysis of a U.S. central-bank digital currency (CBDC) in our sister analytical service, we have not viewed as it as an imminent strategic consideration for housing-finance agencies and financial institutions.
- **CRYPTO26:** We follow our initial client alert here with an in-depth analysis of President Biden's long-awaited [executive order](#) laying down steps intended quickly to construct a U.S. digital-asset policy construct.
- **GSE-030722:** A new Urban Institute study suggests that banks are more likely to discriminate when it comes to minority borrowers, heightening concerns at a time with increased political risk related to racial equity and mortgage finance.
- **GSE-030122:** As we noted late [last week](#), FHFA has finalized revisions to its [2020 capital rule](#) that most importantly lighten the GSEs' capital load and reinvigorate credit risk transfer.
- **GSE-022822:** Responding to continuing FSOC complaints about [nonbank servicers](#), FHFA has proposed [new seller-servicer eligibility standards](#) that crack down hard on any nonbank servicer whose size evokes systemic qualms.
- **SANCTION16:** In this report, we address many of the questions we've received about U.S. policy in the wake of Russia's invasion into Ukraine.
- **GSE-022422:** As noted late [yesterday](#), the CFPB has gotten a jump on FHFA and the banking agencies with the first step towards a long-delayed AVM rule demanded in the [Dodd-Frank Act](#).
- **CRYPTO25:** Despite fierce partisan fighting over pending Fed nominations, today's Senate Banking hearing on stablecoin regulation was considerably more bipartisan than last week's HFSC session ([see Client Report CRYPTO24](#)).
- **GSE-021022:** Moving far ahead of the banking agencies [AI](#), FHFA [today](#) released a series of supervisory AI/ML standards for Fannie, Freddie, and CSS, perhaps leaving the FHLBs alone because none so far does much within this arena or nobody cared.
- **GSE-020922:** Continuing her very different vision of Fannie and Freddie, FHFA Acting Director Thompson [today](#) has released a new strategic plan for the agency emphasizing the importance of both equitable and sustainable housing finance.
- **CRYPTO24:** Today's HFSC hearing on stablecoins makes it clear that the bipartisan legislation Chairwoman Waters (D-CA) prefers is at best a long way off.
- **FEDERALRESERVE69:** As this report details, all three Fed nominees before the Senate Banking Committee today emphasized the vital importance of Fed independence and their anti-inflation zeal to quell GOP opposition and cement it among moderate Democrats.
- **CONSUMER38:** Taking action to advance President Biden's competition order, the CFPB is seeking views on fees which it believes exploit consumers by virtue of unfair competition.
- **GSE-020122:** Nothing could do as much damage to a business based on fee revenue as a determined CFPB inquiry into fee revenue.