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Central Banks Band Together for U.S. Dollar Liquidity

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The Federal Reserve Board ("FRB") announced last Sunday that it was coordinating with the Bank of Canada, Bank of England, Bank of Japan, the European Union Central Bank, and the Swiss National Bank to "enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements." The coordinated actions will mostly be through daily operations of the various swap lines instead of the weekly frequency before this announcement.

Since 2013, the central banks noted above have engaged in coordinated standing swap line arrangements. Before that, central banks would have individual bilateral agreements. The announcement stated that "[t]he network of swap lines among these central banks is a set of available standing facilities and serve as an important liquidity backstop to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses."

Banks in the United States have seen tangible liquidity challenges for at least the last two weeks. Some of that stress (for apparently different reasons) has reared its head in Europe. As the U.S. Dollar is generally viewed as the reserve currency of the world, this coordinated action by these central banks is a concerted effort to mitigate any U.S. Dollar liquidity challenges across the globe.
