

# END OF QT: HEADWIND TO TAILWIND

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# 01 / Key Takeaways

**1. The Fed's "Forced Pivot":** At the October 2025 FOMC meeting, the Fed cut rates by 25 basis points and announced it would end balance sheet runoff (QT) on December 1. This marks the clear end of the hawkish tightening cycle that began in 2022. The pivot was not due to inflation being under control, but forced by acute liquidity stress in the financial system.

**2. Liquidity Crisis Root Causes: TGA and Government Shutdown.** Signs of systemic stress include a spike in the SOFR-IORB spread and record use of the emergency liquidity facility (SRF). The immediate trigger was the U.S. government shutdown, which pushed the Treasury General Account (TGA) above \$1 trillion. This drained about \$700 billion in liquidity, tightening conditions similar to multiple rate hikes. Markets face a sharp contrast between the Fed's hawkish talk and tightening liquidity realities, which makes stopping QT became necessary.

**3. Strengthening the Crypto Narrative:** For crypto, this is a key turning point. The largest macro liquidity drain (QT) has ended, and the Fed's forced pivot due to traditional finance vulnerabilities strengthens Bitcoin's narrative as an "anti-fragile" asset.

**4. Outlook: Liquidity Turning Point and New Cycle.** Market focus will shift from hawkish rhetoric to dovish actions (ending QT and resuming balance sheet growth). The end of the government shutdown and TGA fund release could trigger a "liquidity slingshot," benefiting risk assets. Medium to long term, the Fed may start a "QE-lite" next year, potentially kicking off a new crypto cycle.

## 02 / Introduction

At its late October 2025 FOMC meeting, the Federal Reserve announced a 25 basis point (bp) rate cut and the cessation of its balance sheet reduction (Quantitative Tightening, or QT) effective December 1st. This move marks a definitive end to the hawkish tightening cycle that began in 2022.

Our core thesis is that this pivot was not driven by a victory over inflation, but was forced by acute liquidity pressures within the financial system. Evidence of this stress includes a surging SOFR-IORB spread in the repo market and record-high usage of the Standing Repo Facility (SRF).

The immediate trigger for this stress was the U.S. government shutdown, which caused the Treasury General Account (TGA) balance to **surge past US\$1 trillion**. This effectively **drained approximately US\$700 billion in liquidity from the system—a tightening effect comparable to multiple rate hikes**.

This "forced dovish pivot" has significant market implications:

**For Traditional Markets:** A stark contrast exists between Chairman Powell's hawkish rhetoric (e.g., a December cut is not guaranteed) and the market's reality of a liquidity crunch. Halting QT provides a necessary backstop, but the market's immediate focus has shifted to when the government shutdown will end.

**For Crypto Markets:** This marks a critical inflection point. The cessation of QT means the largest macro-level "liquidity vacuum" has been turned off. More profoundly, the reason for the pivot—the fragility of the traditional financial system—reinforces Bitcoin's core narrative as an alternative, anti-fragile asset.

We anticipate the market's focus will gradually shift from the Fed's hawkish rhetoric to its dovish actions (ending QT and, eventually, resuming balance sheet expansion). In the short term, the end of the government shutdown and the subsequent release of TGA funds are poised to trigger a "liquidity slingshot," benefiting risk assets. In the medium-to-long term, this confirmed liquidity inflection point suggests that crypto assets may be at the beginning of a new cycle.

# 03 / Policy Background: A Forced Pivot

The policy combination from this FOMC meeting—a 25bp rate cut and the announced halt to QT—must be analyzed separately. The 25bp cut was largely priced in by the market, reflecting a cooling economy.

However, the pivotal event was the cessation of QT, a move driven by an imminent liquidity crisis.

## 3.1 "Red Alert" in Funding Markets: Historic Stress Indicators

The primary driver behind the Fed's decision to halt QT was severe stress in the money markets, which, far from abating, peaked in late October and early November. To understand this pressure, two key technical indicators are essential:

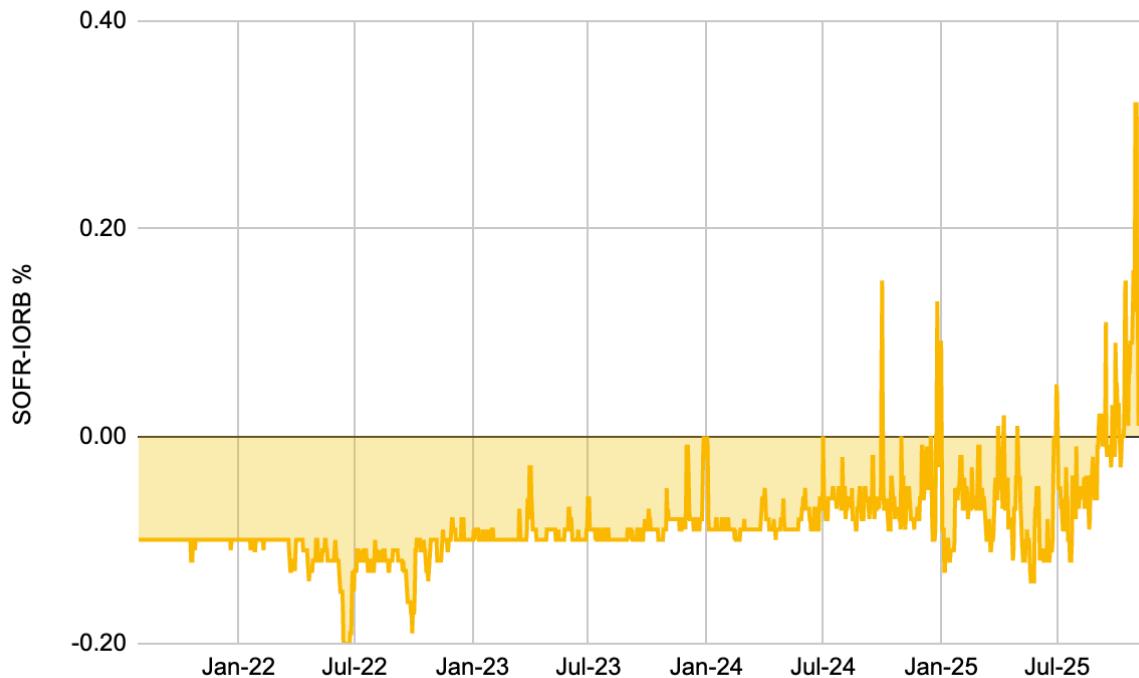
- **Indicator 1: Surging SOFR-IORB Spread (The Critical Alarm)**

**Background:** IORB (Interest on Reserve Balances) is the "risk-free" rate the Fed pays commercial banks on their reserve deposits. SOFR (Secured Overnight Financing Rate) is the borrowing rate for overnight loans collateralized by U.S. Treasuries, used by a wide range of market participants, including non-banks ineligible for IORB. In a system with "ample" reserves, banks can borrow from non-banks at SOFR and deposit the funds at the Fed to earn the higher IORB, an arbitrage that should keep SOFR below IORB.

**The Situation:** On October 31, 2025, SOFR surged by 22 bps, causing the SOFR-IORB spread to widen to +32 bps. This indicates that banks were severely short of cash. Instead of arbitraging the spread, they were forced to borrow urgently in the open market at a rate significantly higher than what they could earn on deposits at the Fed.

**Historical Context:** This is a dangerous signal, echoing the market dysfunction seen during the September 2019 repo crisis and the March 2020 COVID-19 crash. It signals that bank reserves have transitioned from "ample" to "scarce."

**Figure 1: Surge in the SOFR-IORB Spread Since October**



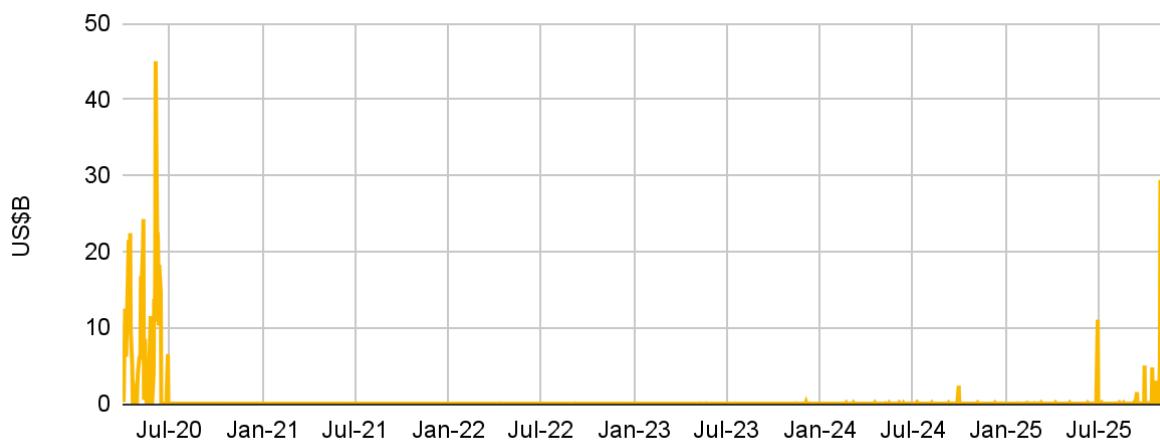
Source: Fred, Tradingview, Binance Research as of November 10, 2025

- **Indicator 2: Spike in SRF Usage (Activation of the Emergency Backstop)**

**Background:** The Standing Repo Facility (SRF) serves as the Fed's emergency liquidity window and the market's ultimate "lender of last resort." When commercial banks cannot secure funding in private markets, they can tap the SRF by pledging Treasury securities to the Fed in exchange for cash. In contrast, the Overnight Reverse Repo Facility (RRP) serves the opposite function, allowing institutions to park excess cash with the Fed.

**The Situation:** The RRP facility, once a vast "liquidity reservoir" peaking at US\$2.5 trillion, has been almost entirely drained, with its balance falling to just US\$51 billion. Concurrently, banks have been forced to turn to the emergency backstop. SRF usage hit a record US\$50.35 billion on October 31 and remained elevated at US\$14.75 billion on November 3. This indicates that private funding markets are failing to meet the system's demand for liquidity.

**Figure 2: Record Usage of Standing Repo Facility (SRF) Indicates Market Stress**



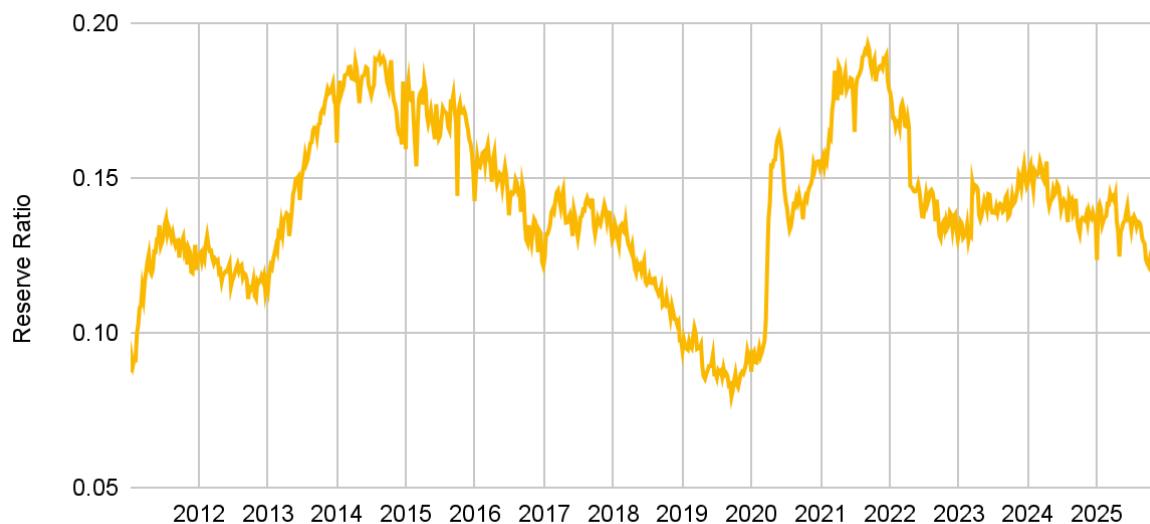
Source: Fred, Tradingview, Binance Research as of November 10, 2025

- **Indicator 3: Bank Reserve Levels Breach a Critical Threshold**

**Quantitative Analysis:** These stress signals are a direct result of dwindling reserves. As of early November, total bank reserves had fallen to US\$2.83 trillion, representing just 11.5% of total bank assets.

**The Key Threshold:** This level is now below the 12-13% threshold widely considered by both the Fed and the market to be the lower bound for an "Ample" reserve regime. While still above the ~7.9% "Scarce" level seen during the 2019 funding crisis, the system has entered a precarious transitional zone, causing "clogs" in the financial plumbing.

**Figure 3: Bank Reserves of Total Assets Fall to a Post-2020 Low**



Source: Fred, Tradingview, Binance Research as of November 10, 2025

## 3.2 The Root of the Crisis: The Trillion-Dollar TGA and "Shadow Tightening"

The direct culprit behind the liquidity crisis is the record-breaking, prolonged U.S. government shutdown, compounded by month-end regulatory pressures.

**What is the TGA?** The Treasury General Account (TGA) is effectively the U.S. Treasury's checking account at the Federal Reserve. Its balance rises when the Treasury issues debt to the public and falls when it disburses funds for government expenses (e.g., salaries, infrastructure projects).

**How the TGA Impacts Liquidity:** The TGA acts as a second "liquidity drain," operating independently of the Fed's QT program. A rising TGA balance signifies that the Treasury is pulling liquidity (bank reserves) out of the financial system and depositing it at the Fed, creating a market-wide cash shortage. Conversely, a falling TGA balance injects liquidity back into the market.

**The Current Situation:** Due to the government shutdown, Treasury outlays have been frozen, yet it has continued issuing debt to build up its cash reserves. As a result, the TGA balance has surged from around **US\$300 billion in July to over US\$1 trillion.**

**"Invisible Tightening":** The TGA has drained approximately US\$700 billion in liquidity from the market in just three months. This is equivalent to a massive "shadow tightening," with an impact even greater in scale than the Fed's own QT program.

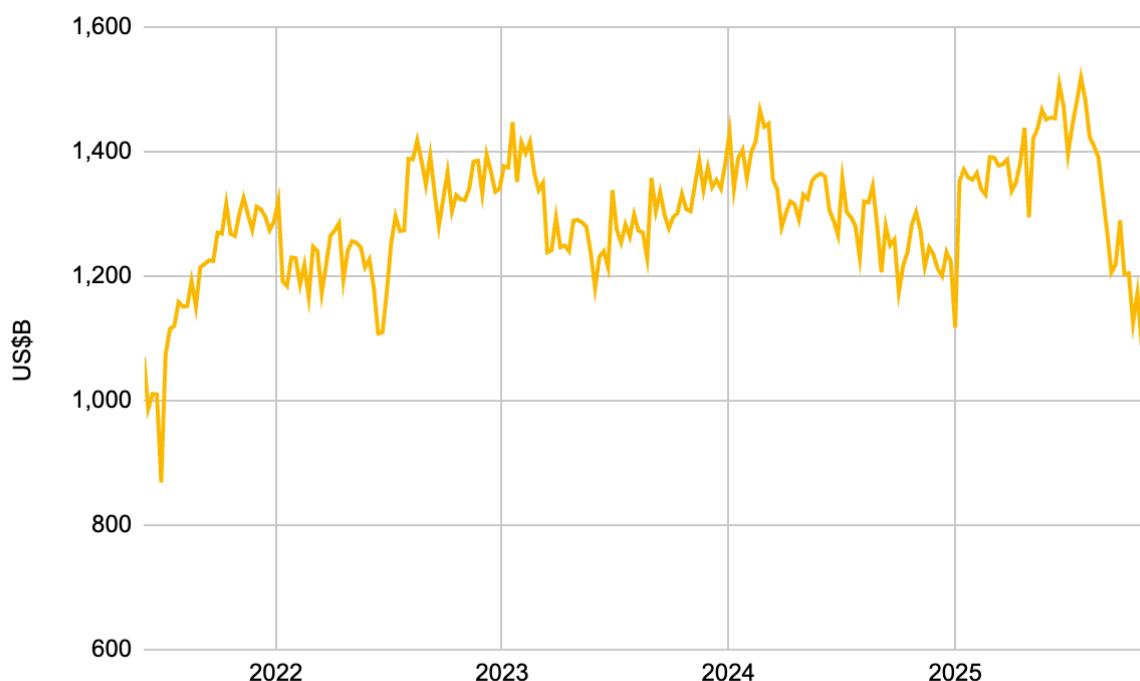
**Depletion of Reserves:** This TGA-driven drain is the direct cause of total bank reserves falling below the "Ample" threshold. Cash assets held by foreign banking organizations have been hit the hardest, plummeting by over US\$300 billion in four months.

**Figure 4: U.S. Treasury General Account Balance Surges to Highest Level Since 2021**



Source: Fred, Tradingview, Binance Research as of November 10, 2025

**Figure 5: Cash Assets Held by Foreign Banks Fall to Lowest Level Since 2021**



Source: Fred, Tradingview, Binance Research as of November 10, 2025

In summary, the Fed did not proactively end its tightening cycle; it was forced to halt by blockages in the financial system's own "plumbing" (the TGA drain, the depletion of the RRP, and the spike in repo rates). This explains why the market did not rally on the announcement and instead saw a pullback. The Fed's decision to delay the cessation of QT until December 1st may itself constitute a policy error, as it could potentially underestimate the impact of continued balance sheet runoff through November on an already fragile market.

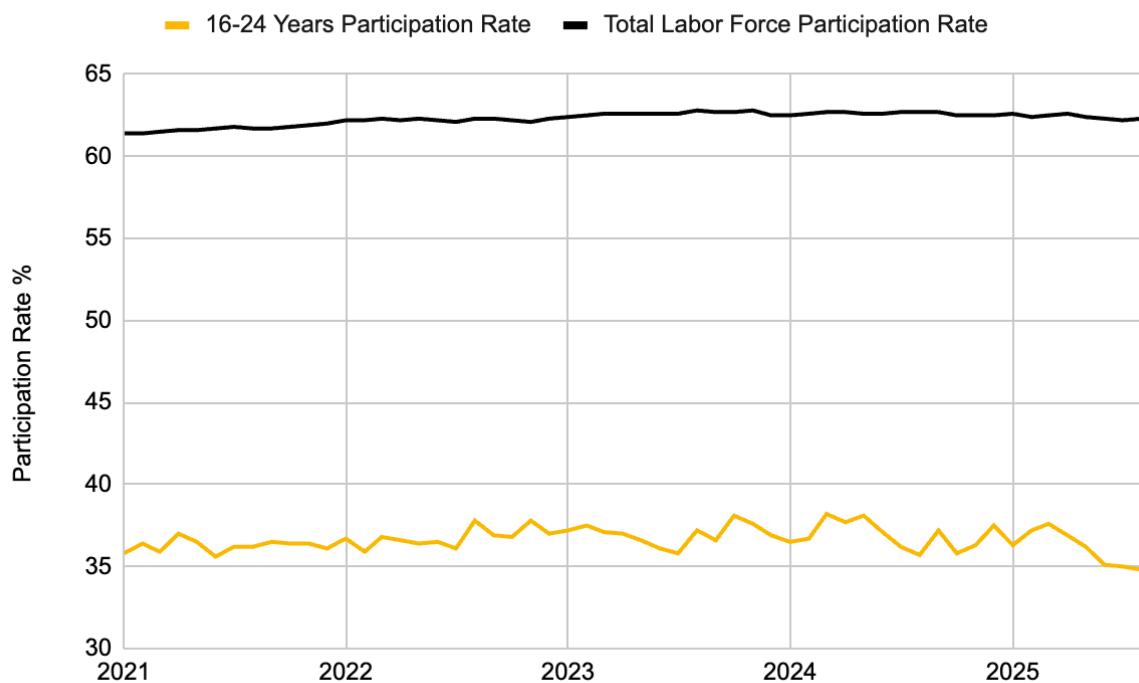
### **3.3 Cracks in the Foundation: Stress in the Real Economy**

Beyond the immediate liquidity crisis, deeper and more far-reaching cracks are appearing in the foundation of the real economy, particularly within the labor and debt markets.

The superficial stability of the headline employment figures masks a significant structural deterioration:

- The official unemployment rate remained at a seemingly healthy 3.8% in September. However, the ADP private employment report, a more timely indicator of market conditions, revealed a surprising decrease of 32k jobs—the largest decline since May 2024. The 0.5 percentage point divergence between these two reports is the second-largest since 2010, signaling a disconnect between headline data and underlying health.
- This discrepancy is primarily explained by the outsized role of government hiring. The public sector added 45k jobs in September (mainly in education and public health), accounting for 120% of total job creation and completely masking the contraction in the private sector. In essence, taxpayer-funded positions are obscuring the loss of market-driven jobs.
- While the overall labor force participation rate appears stable at 62.3%, the demographic breakdown is concerning. The participation rate for the 16-24 age group has fallen by 1.5% this year. This suggests a troubling picture of diminished enthusiasm for employment among younger workers, potentially due to increasing difficulty in finding jobs or a preference for continued education.

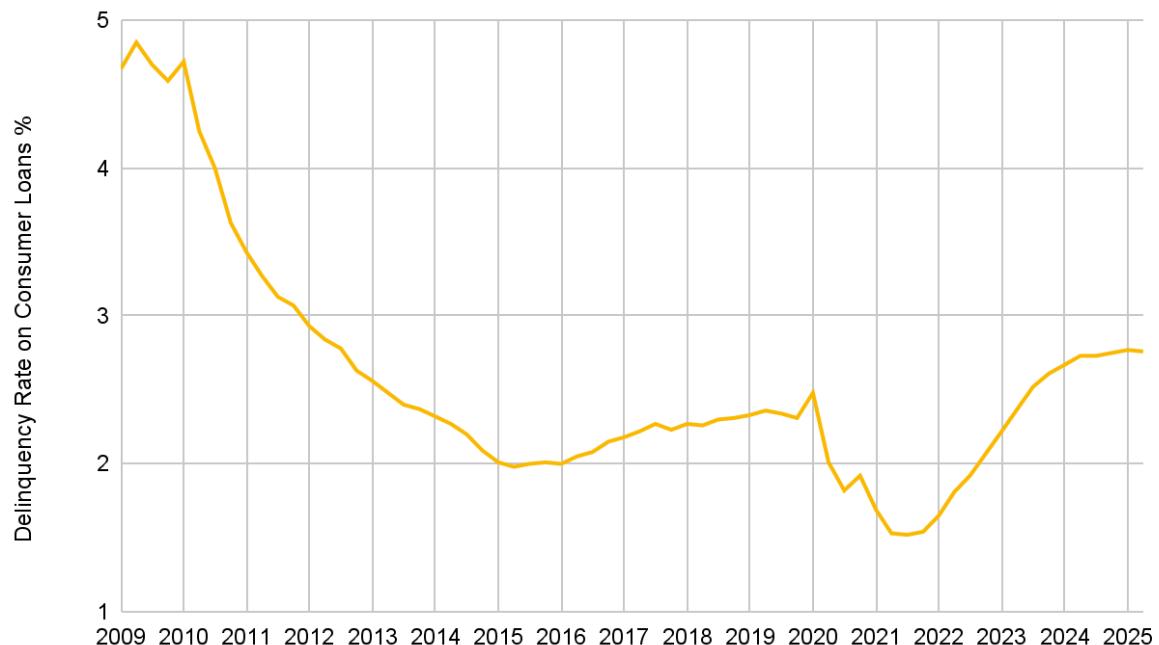
**Figure 6: Youth Labor Force Participation Rate Has Dropped Significantly This Year**



Source: Fred, Tradingview, Binance Research as of November 10, 2025

This labor market weakness is directly translating into stress on household balance sheets:

**Figure 7: U.S. Commercial Bank Consumer Loan Delinquency Rate Rises to a Decade High**



Source: Fred, Tradingview, Binance Research as of November 10, 2025

Record Debt Levels: As of Q2 2025, total household debt reached a new high of US\$18.7 trillion. Credit card debt grew 10.2% year-over-year, its fastest pace since 2007.

Delinquency Rates Surpass Critical Thresholds:

- The consumer loan delinquency rate at U.S. commercial banks rose to 2.76%, the highest since 2012.
- The 90+ day delinquency rate on auto loans reached 4.99%, surpassing the previous historical high of 4.98% from Q2 2009.
- Credit card delinquency rates climbed to 5.2%, the highest since Q3 2010.
- The delinquency rate for newly originated student loans exceeded 11%, a 2.3 percentage point increase from the same period in 2024.
- **A Structural Divide in Debt Burdens:** The top 10% of households, holding 73.7% of total wealth, have a manageable debt-to-income ratio of just 85% and save an average of 35% of their income monthly. In stark contrast, the bottom 50% of households face a debt-to-income ratio of 180%. Within this group, 19% spend more than they earn each month, and another 30% break even, leaving only half with any savings.

The Fed's pivot, therefore, is not merely a response to the risk of a financial system "shock" from a lack of liquidity. It is also a reaction to the growing evidence that the private sector of the real economy is already tipping into a de facto recession.

# 04 / Macro and Traditional Market Implications

## 4.1 A "Cash Flow" Crisis, Not a "Balance Sheet" Crisis

The market action in late October and early November—a synchronized sell-off in global risk assets (equities, gold, crypto) alongside a strengthening U.S. dollar—was a classic symptom of a liquidity squeeze. However, a precise diagnosis of this crisis is crucial:

- **Localized Stress, Not Systemic Collapse:** While pressure in the repo market has been immense, other key financial stress indicators—such as financial commercial paper spreads, high-yield (junk bond) credit spreads, the VIX (equity volatility), and the MOVE (bond volatility) indices—have not yet shown signs of extreme duress.
- A "Cash Flow" Problem vs. a "Balance Sheet" Problem:
  - **2008 (Balance Sheet Crisis):** Banks' asset sides were crippled by massive losses on toxic assets (e.g., MBS), leading to widespread insolvency. Central bank liquidity injections could not solve this fundamental solvency problem.
  - **2025 (Cash Flow Crisis):** Bank balance sheets remain healthy. However, the dual liquidity drain from the TGA and QT has left the interbank system short of the cash needed for payments and settlement.
- **A "cash flow" problem is one the Fed can readily solve**—for instance, by halting QT or injecting liquidity. Consequently, market shocks historically driven by liquidity shortages (rather than systemic recessions) have proven to be brief but sharp, ultimately offering good "buy the dip" opportunities. Examples include the 2019 repo crisis, the 2022 UK pension crisis, and the Silicon Valley Bank rescue in 2023 (via the BTFP).

## 4.2 Lessons from the 2019 QT Halt: A Historical Comparison

Since Bitcoin's inception, the only relevant precedent for the Fed halting Quantitative Tightening (QT) is the event of 2019. However, there are significant differences between then and now in terms of the underlying triggers, the policy response, and the potential market impact.

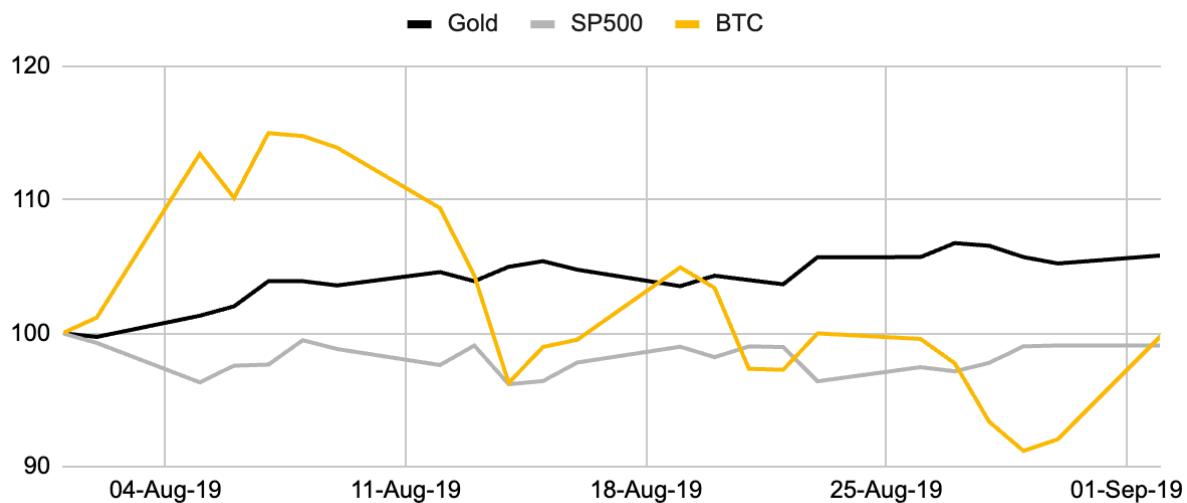
**Figure 8: Comparison between 2019 & 2025 QT**

	2019 QT Halt	2025 QT End
<b>Trigger</b>	Repo rate spiked to 5.25% (system-wide stress)	SOFR breached 4.2% (structural scarcity)
<b>Reserve Scale</b>	US\$1.4T (6.5% of GDP)	US\$2.83T (10.5% of GDP)
<b>Policy Tools</b>	Overnight repo operations only	Fine-tuning of rates + targeted repo + redirecting MBS reinvestments into short-dated Treasuries
<b>Debt Backdrop</b>	Elevated corporate leverage (household debt stable)	Dual pressures from household and corporate debt
<b>Market Reaction (1 M)</b>	S&P 500 and Bitcoin largely unchanged; gold +5%	TBD

Source: Binance Research as of November 10, 2025

The 2019 halt was a response to an overall reserve shortage, prompting a "flood the system" policy response. In contrast, the 2025 halt addresses a structural shortage, allowing for a more targeted policy toolkit. Given the crypto market's heightened sensitivity to macro factors today, the reaction to this liquidity pivot can be expected to be more significant and positive than in 2019.

**Figure 9: Following the end of QT in August 2019, Bitcoin experienced significant short-term volatility but ultimately closed the month flat**



Source: Tradingview, Binance Research as of November 10, 2025

## 4.3 Future Outlook: From TGA Release to Active Balance Sheet Expansion

After digesting the news of the QT halt, the market is now facing a two-stage liquidity transition:

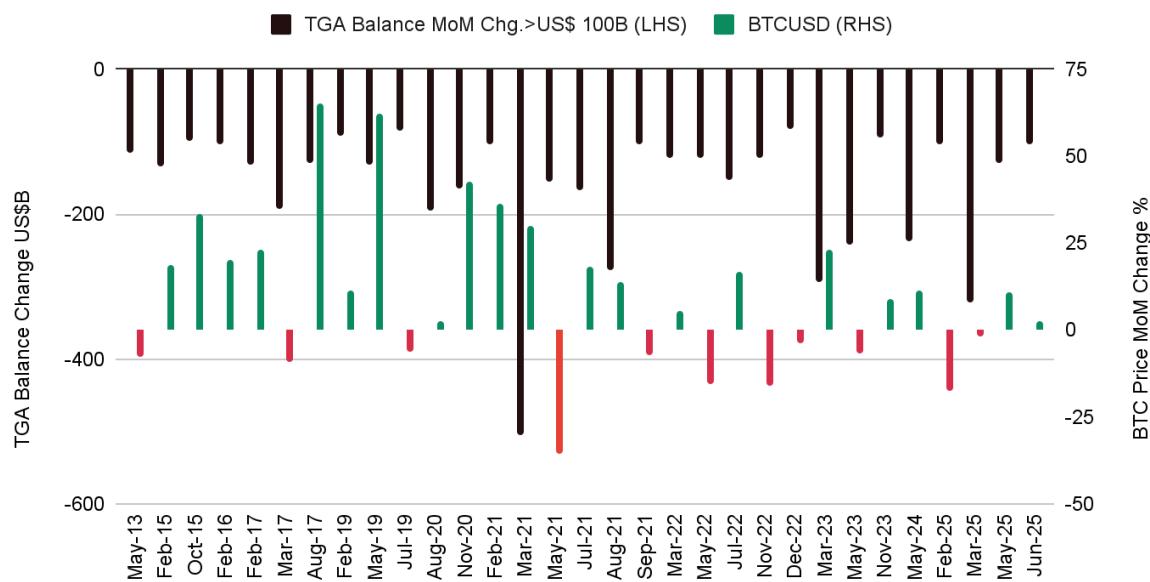
### 1. Short-Term Catalyst: The TGA "Slingshot"

The more than US\$1 trillion in cash hoarded within the TGA is a compressed spring. While history does not repeat, it often rhymes. In the first half of 2021, the drawdown of the Treasury's TGA balance (from US\$1.1 trillion down to several hundred billion) injected massive liquidity into the market, serving as a primary driver for the bull run in risk assets, including cryptocurrencies.

We are now facing a perfect mirror image of that scenario: a massive accumulation in the TGA. Once the government shutdown concludes, the Treasury will begin spending down this balance, unleashing hundreds of billions of dollars in liquidity. This "stealth QE" or "burst of liquidity" could trigger a "slingshot rally" into year-end for risk assets, especially those most sensitive to liquidity, such as Bitcoin, small-cap stocks, and non-AI related sectors.

Historically, during months when the TGA balance has declined by more than US\$80 billion, Bitcoin's price has risen 61% of the time, posting an average gain of 8.8% and a median gain of 2.7%.

**Figure 10: Months with a TGA Balance Decrease of Over US\$80B Since 2013**



Source: Fred, Tradingview, Binance Research as of November 10, 2025

## 2. Medium-Term Outlook: Replenishing Reserves with "QE-Lite"

Based on historical precedent, halting QT is only the first step. At the most, approximately six months after the halt (around mid-2026), the Fed will likely need to enter a "balance sheet expansion phase." This would involve purchasing US\$20–US\$25 billion in short-term Treasury bills (T-bills) per month to replenish reserves and maintain systemic stability.

According to remarks made on November 12 by **New York Fed President John Williams**, who stated that the Fed "**may soon start buying bonds to manage market liquidity**" as a technical measure to maintain control over short-term interest rates, the term "soon" in the Fed's context typically means within 1–3 months. This implies a high probability that bond purchases will commence in Q1 2026, potentially earlier than initial market expectations.

If the Fed adopts a cautious approach, it **may initially purchase US\$10–20 billion of short-term Treasury bills per month**, monitor market reactions and reserve levels, and then gradually **scale up to US\$20–40 billion monthly over the following several months.**

Although the Fed will frame this as a "technical operation" rather than formal Quantitative Easing, for the market, the liquidity-injecting effect is identical. This is, in essence, "QE-Lite," and it would represent a more powerful liquidity signal than rate cuts alone.

# 05 / Implications for Crypto Markets

This macroeconomic shift strengthens the bullish thesis for crypto, not only on a macro-liquidity level but also on a narrative level.

## 5.1 The Liquidity Inflection Point: From Headwind to Tailwind

Crypto assets, particularly Bitcoin, function as the ultimate "beta" play on global macro liquidity:

- Quantitative Tightening (QT) has been the single greatest macro headwind for crypto over the past two years.
- The Cessation of QT means this powerful headwind has now been neutralized. The second derivative of liquidity (i.e., the rate of change in the Fed's balance sheet) has officially bottomed. When liquidity stops contracting, it sets the stage for it to begin expanding.

## 5.2 Narrative Catalysts: Fragility and the Inevitability of Easing

This macro development provides a strong narrative foundation for the crypto market.

- **Narrative 1: The Validation of Fragility**

One of Bitcoin's core value propositions is its role as a hedge against the fragility of the traditional financial (TradFi) system. The events of October 2025 have once again validated this thesis: a fiat system built on a mountain of debt cannot withstand even "normal" interest rates and a modest balance sheet reduction. The moment the system experiences even slight pressure (like the TGA drain), the only politically viable solution is to halt tightening and, eventually, resume liquidity injections.

- **Narrative 2: The "K-Shaped" Economy as a Green Light for Easing**

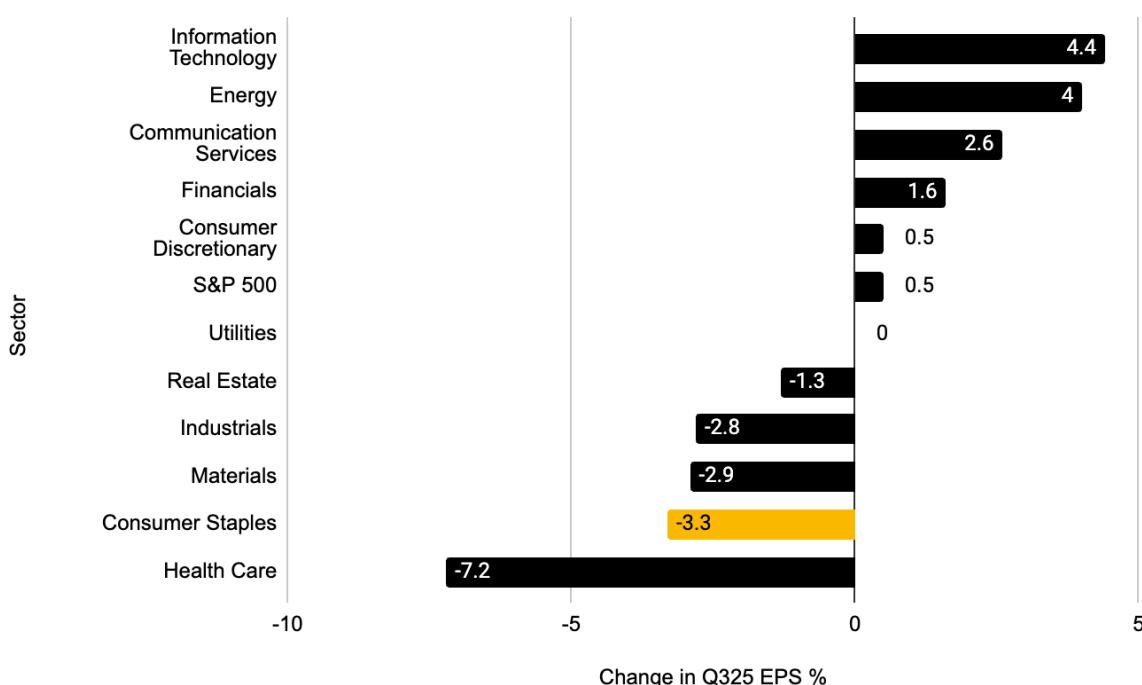
This is the most critical long-term macro insight. AI is driving corporate profit margins and asset prices higher, disproportionately benefiting the wealthy (top 10%). Meanwhile, lower-income groups see limited benefits and instead face pressures from layoffs and tariffs. This divergence, which filters through the labor market to consumption, creates a "K-shaped" economy that paradoxically gives the Fed a "green light" to ease monetary policy.

- **Evidence of the K-Shaped Divergence:** Deteriorating income expectations are hitting low-to-middle-end consumption hard. In October, same-store sales growth at value-focused Dollar Tree plummeted from 4.5% to 1.8%; McDonald's U.S. growth was slashed in half from 5.2% to 2.3%; and Chipotle

saw a double-digit decline in foot traffic. Meanwhile, luxury giant LVMH, catering to the wealthy, maintained robust sales growth of 8.1% in North America.

- **Implications for Crypto:** This dynamic—"consumer down-trading for the masses, asset inflation for the wealthy"—makes widespread, demand-driven inflation in the U.S. unlikely. With the inflation threat contained, the Fed has greater latitude to rescue struggling private sector employment and restore financial market liquidity through rate cuts and balance sheet expansion. This is a macroeconomic environment in which crypto assets tend to thrive.

**Figure 11: The latest earnings performance of the Consumer Staples sector, which relies on mass-market spending, ranked second to last among all S&P 500 sectors, in stark contrast to IT and Consumer Discretionary**



Source: Factset, Binance Research as of November 10, 2025

## 5.3 Key Upcoming Checkpoints to Watch for

We anticipate the Fed's dovish pivot will unfold across the following key milestones:

Event	Time	Status	Action	Impact
<b>TGA Liquidity Release</b>	Nov/Dec 2025	Pending	The end of the government shutdown allows the Treasury to begin injecting its trillion-dollar cash balance from the TGA into the market.	This "burst of liquidity" could trigger a short-term rally, providing the initial impetus for the market, similar to the dynamic seen in H1 2021.
<b>Cessation of QT</b>	Dec 1, 2025	Confirmed	The Fed ceases balance sheet reduction and begins reinvesting all proceeds from maturing securities.	The primary macro liquidity headwind is removed. The market stops "bleeding" liquidity.
<b>Potential Pause in the Easing Cycle</b>	Jan 2026	Anticipated	Following the initial rate adjustments in Q4 2025, the Fed may opt for a temporary pause to assess the economic impact.	This could create a temporary macro headwind as the market recalibrates its expectations for the next phase of easing.
<b>Launch of "QE-Lite"</b>	Jan-Mar 2026	Fed Signals	The Fed begins purchasing T-bills (estimated at US\$10-25B/month) to replenish bank reserves in response to the normal economic growth and increased government bond issuance.	This marks the start of a macro liquidity tailwind. While the Fed will frame it as a "technical adjustment to ensure an ample supply of reserves," the market will see it for what it is: "QE-Lite." This will be critical fuel for a sustained bull market.
<b>Resumption of the Rate Cut Cycle</b>	April-June 2026	Anticipated	An estimated 50 bps in cumulative cuts, bringing the terminal rate to the 3.00%-3.25% range. The primary goal would be to lower debt servicing costs for households and corporations, preventing a widespread default cycle.	The "risk-free rate" falls, pushing capital out of "safe" assets and into "risk" assets. Cryptocurrencies are expected to be a primary beneficiary.
<b>"QE-Lite" Expansion</b>	Jun-Sep 2026	Anticipated	The expected purchase to expand to US\$20-40B/month.	Market liquidity further enhanced.

Source: Binance Research as of November 10, 2025

## 5.4 Mind Market Expectation Swings

It is crucial to note that there is a significant internal division within the Fed regarding the pace of easing. This has created a dynamic of "dovish leadership, checked by a hawkish wing." Investors must remain vigilant for swings in market expectations driven by officials' comments:

**The Dovish Camp:** Led by officials like Bowman and Goolsbee, this camp prioritizes "debt risk over inflation risk." Bowman noted in an October speech that "the acceleration in household debt delinquencies is already faster than the same period in 2008, risking a credit contraction if policy is not eased promptly." Goolsbee is focused on deteriorating labor sentiment, arguing that "a decline in the perceived availability of jobs is a more significant warning sign than a rising unemployment rate."

**The Hawkish Wing:** Represented by Chair Powell and Waller, this group is signaling a path of "hawkish easing." Powell emphasized in his post-meeting press conference that "a December cut is not a foregone conclusion, as we need to assess both inflation data and financial stability risks." Waller is concerned that excessive easing could reignite inflation, pointing out that "core PCE remains above the 2% target, and a spike in oil prices above US\$100/barrel (a low-probability event) could trigger a second wave of inflation."

**The Market Expectation Gap:** The market was pricing in a year-end 2026 rate of 2.75%-3.00%, a full 25 bps lower than the Fed's own median projection (3.00%-3.25%). This reflects a market that is more concerned about debt risks than the Fed is. This gap in expectations explains why, when a rate cut was finally delivered, the market experienced a "sell-the-news" pullback as the more dovish outcome was already priced in.

## 5.5 Other Potential Policy Tools: Targeted for Debt Risk

Should financial stress escalate, the Fed could deploy the following targeted tools, if so would signaling a significant move towards further easing in macro liquidity:

### 1. Consumer Credit Facility (Relaunch)

- A ~US\$50-80B facility designed to ease household debt burdens.
- Mechanism: Use a Special Purpose Vehicle (SPV) to purchase consumer debt (credit card, auto, student loans) directly from banks.
- Conditions: Target loans to low/middle-income households and mandate that banks use the proceeds for new lending, not buybacks or dividends.
- Exit: Include a clear wind-down mechanism tied to specific improvements in delinquency rates.

### 2. Upgraded Bank Term Funding Program (BTFP)

- An enhanced version of the BTFP to support regional banks.
- Expanded Collateral: Accept AAA-rated municipal bonds and high-quality Commercial Real Estate (CRE) loans.

- Longer Term: Extend loan duration from 1 year to 3 years.
- Lower Rate: Reduce the lending rate from IORB + 10 bps to a flat IORB.

# 06 / Conclusion and Risks

The Federal Reserve's October 2025 policy shift represents a dovish pivot, forced by the combined pressures of a TGA-driven liquidity drain and a repo market crisis. In this new paradigm, halting QT is the signal, the release of TGA funds is the short-term catalyst, and the K-shaped economy provides the long-term "green light" for easing. This sequence of events offers powerful macroeconomic support and a compelling narrative catalyst for the highly liquidity-sensitive crypto market.

## Key Risks:

- **Stubborn Inflation** (Stagflation Risk): The greatest risk is that inflation remains elevated even as the economy slows. A resurgence in inflation (e.g., due to tariffs or energy prices) could force the Fed to disregard financial stability risks and resume tightening.
- **Recession Shock:** A "hard landing"—where the economy shifts from a "low-hiring, low-firing" environment to a "no-hiring, real-layoffs" scenario—could trigger a brief deleveraging panic, leading to an indiscriminate sell-off of all assets (similar to March 2020). However, such an event would almost certainly trigger even more aggressive monetary easing from the Fed in response.
- **Debt Default Contagion:** A concentrated wave of household and corporate defaults in 2026 would be a significant downside risk for crypto markets. The market has already shown sensitivity to this risk, selling off on news of loan defaults at several small regional banks in October.
- **Political & Regulatory Risk** (2026 Midterm Elections): The results of the 2025 local elections, where Democrats won in key swing states, are an adverse signal for the Republican party. The market may be overly optimistic in pricing in a full four years of a friendly regulatory environment. If the Republican party underperforms in the 2026 midterm elections, the window for crypto- and finance-friendly regulation could be shortened to just 12-18 months, creating a key medium-term uncertainty.

# 07 / References

[fred.stlouisfed.org](http://fred.stlouisfed.org)

[tradingview.com](http://tradingview.com)

[defillama.com/](http://defillama.com/)

[coinmarketcap.com/](http://coinmarketcap.com/)

[dune.com/](http://dune.com/)

[cmegroup.com/](http://cmegroup.com/)

[factset.com](http://factset.com)

[polymarket.com](http://polymarket.com)

# 08 / New Binance Research Reports

## The Stablecoin Business [Link](#)

Analysis of the battle for the stablecoin stack and future industry focus



## Monthly Market Insights - November 2025 [Link](#)

A summary of the most important market developments, interesting charts and upcoming events



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Binance Research is the research arm of Binance, the world's leading cryptocurrency exchange. The team is committed to delivering objective, independent, and comprehensive analysis and aims to be the thought leader in the crypto space. Our analysts publish insightful thought pieces regularly on topics related but not limited to, the crypto ecosystem, blockchain technologies, and the latest market themes.

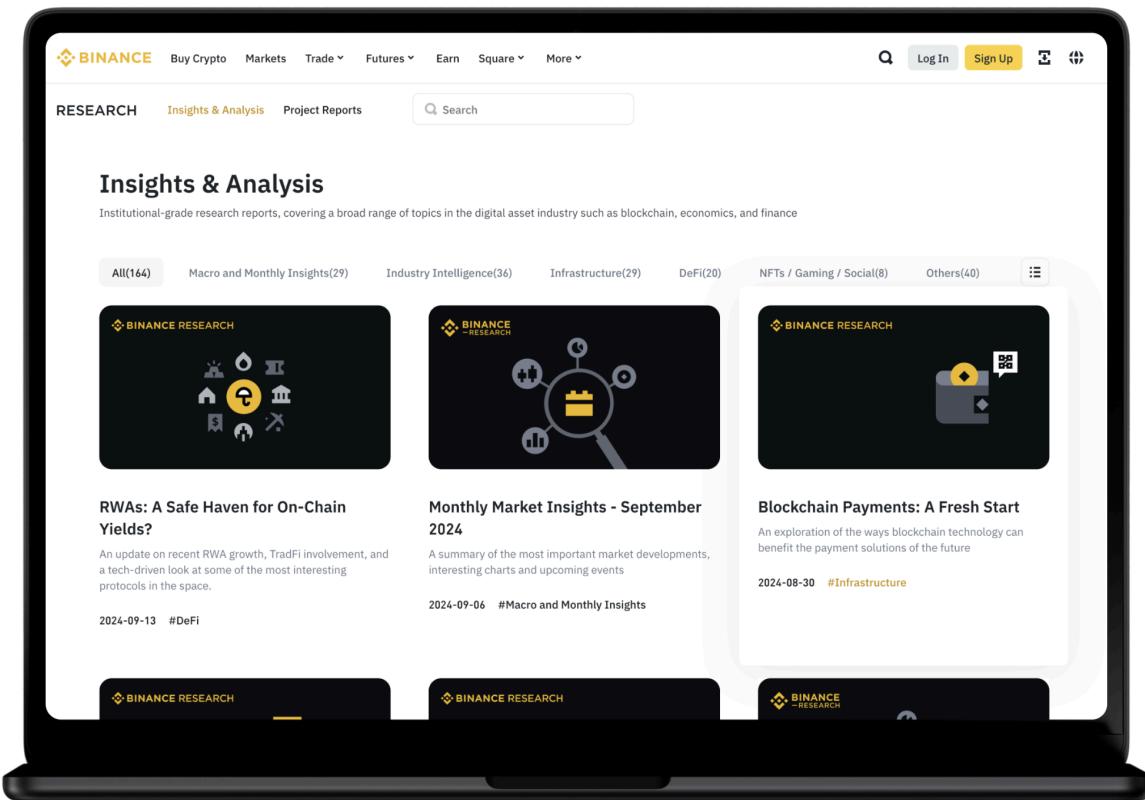


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Michael is a macro researcher at Binance. Prior to this, he worked as an economist at a U.S. private wealth management firm, focusing on cross-asset allocation. He also served as editor-in-chief at a media company, overseeing cryptocurrency reporting and educational content. Earlier in his career, he was a consultant at Ernst & Young and a crude oil trader at an energy firm.

# Resources

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