

Financial Highlights

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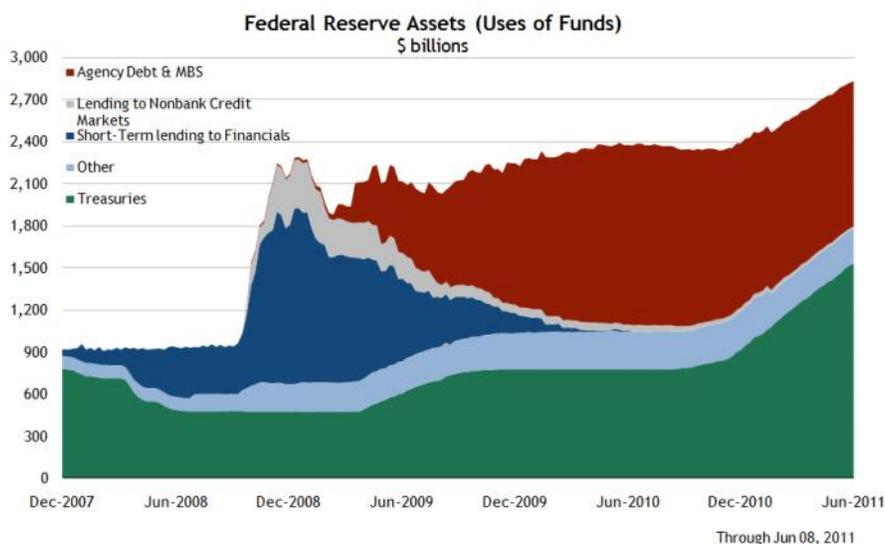
Federal Reserve

Summary

The balance sheet increased by \$23 billion for the week ended June 8.

Since November 10, the balance sheet has increased \$477.5 billion.

The \$600 billion purchase program is expected to be completed by the end of June.



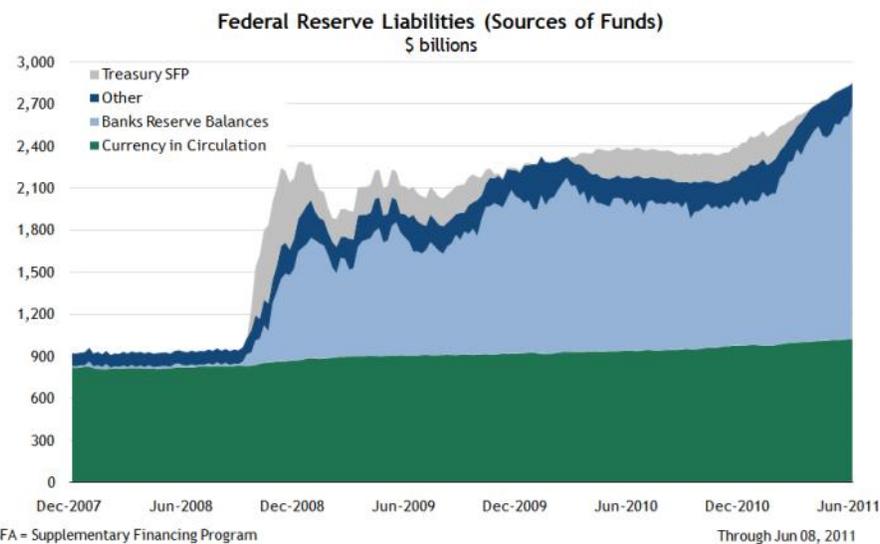
Source: Federal Reserve Board

- Treasuries increased by \$22 billion while agency debt and MBS were unchanged. Since November 10, Treasury securities have grown by \$702 billion while agency debt and MBS have shrunk by \$164 billion.
- According to the [New York Fed's tentative outright Treasury operation schedule](#), the desk plans to purchase approximately \$62 billion between mid-June and mid-July. The \$50 billion purchase is the last of the \$600 billion purchase program, and \$12 billion is to replace the expected principal payments from agency debt and agency MBS.

Bank reserve balances with the Federal Reserve increased \$70 billion while Treasury deposits with Federal Reserve banks declined \$50 billion.

The Treasury's [Supplemental Financing Program \(SFP\)](#) remained at \$5 billion.

As of June 8, 2011 bank reserve balances are \$1.66 trillion.



Source: Federal Reserve Board

- The Treasury has announced that the Supplemental Financing Program (SFP) will be reduced to \$5 billion to “provide flexibility” and delay the national debt from hitting the current ceiling of \$14.29 trillion.
- The Treasury SFP was also reduced from \$200 billion to \$5 billion over the period September 23, 2009, to December 30, 2009, for the same reason.

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities:** Other—Reverse repos, Treasury cash holdings, and deposits with Federal Reserve Banks other than reserve balances and excluding the Supplementary Financing Program.

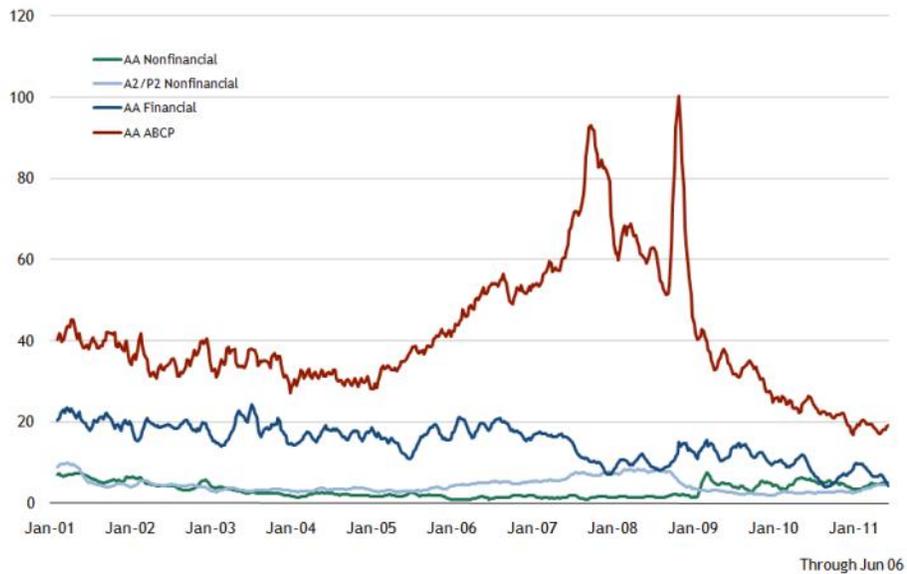
Commercial Paper

Summary

Issuance of asset-backed commercial paper continues to trend down while issuance of nonfinancial paper has increased in recent months.

Commercial Paper New Issuance

6 week moving average, Billions \$

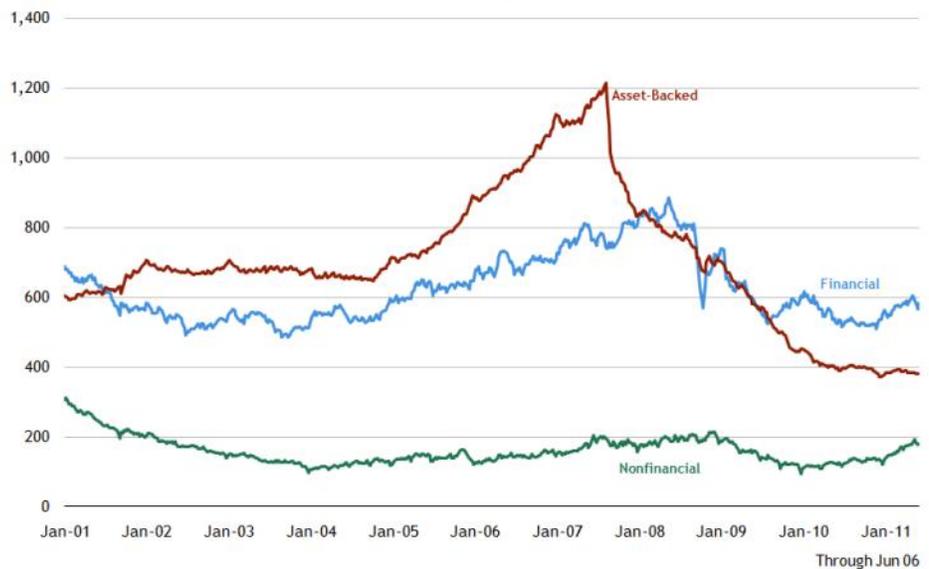


Source: Federal Reserve Board

Asset-backed and financial commercial paper is close to year-ago levels while nonfinancial paper outstanding has increased in recent months.

Commercial Paper Outstanding

NSA, Weekly, Billions \$



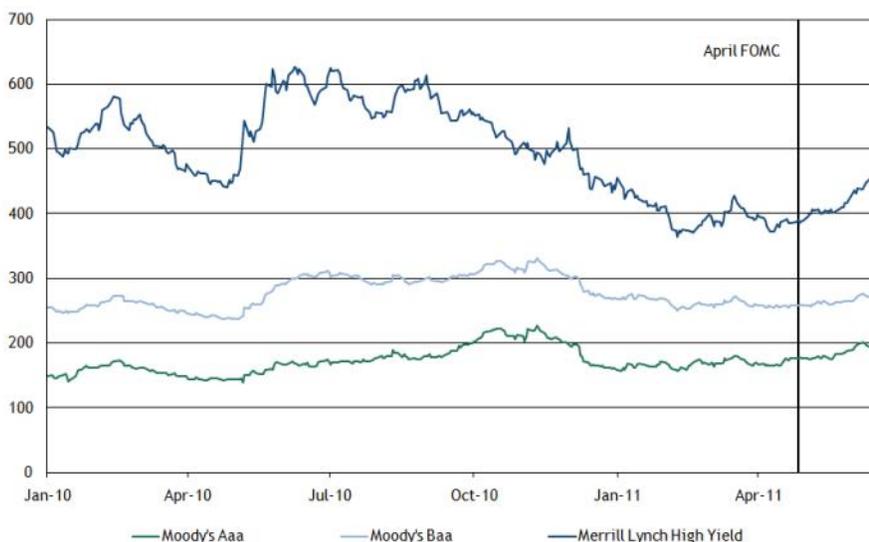
Source: Federal Reserve Board

Corporate Bonds

Summary

Since the April FOMC meeting, spreads on both investment-grade and high-yield corporate debt have widened.

Corporate Yield Spreads over 10-year Treasury
basis points

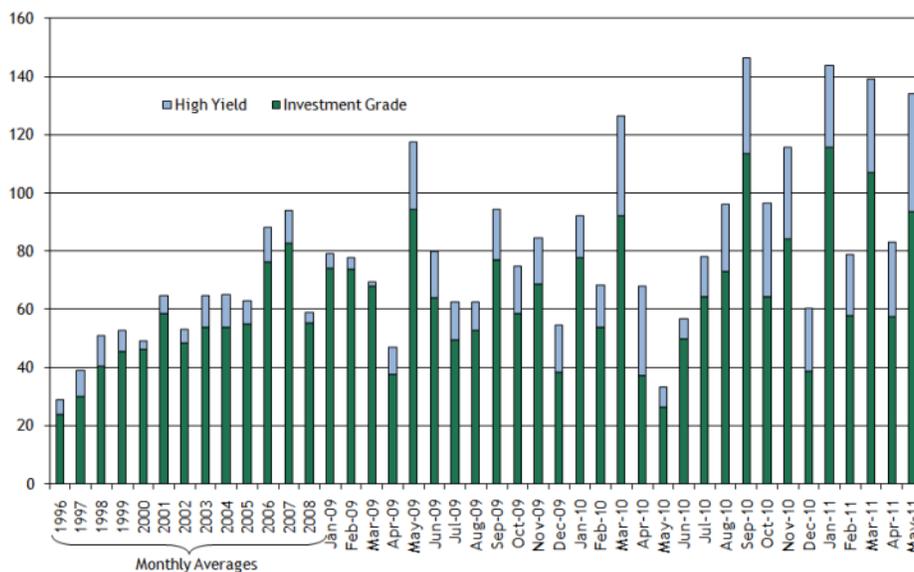


Source: Merrill Lynch, Moody's, Federal Reserve Board

- Since the April FOMC meeting, corporate yield spreads have widened for junk debt, with the Merrill Lynch high yield index up 57 basis points (bps).
- Higher-quality bond spreads also widened, as the Moody's Aaa- and Baa-rated bond yields rose by 20 bps and 4 bps, respectively.

U.S. corporations accessed the bond market for \$134 billion in May, according to SIFMA.

Corporate Bond Issuance
\$ billions



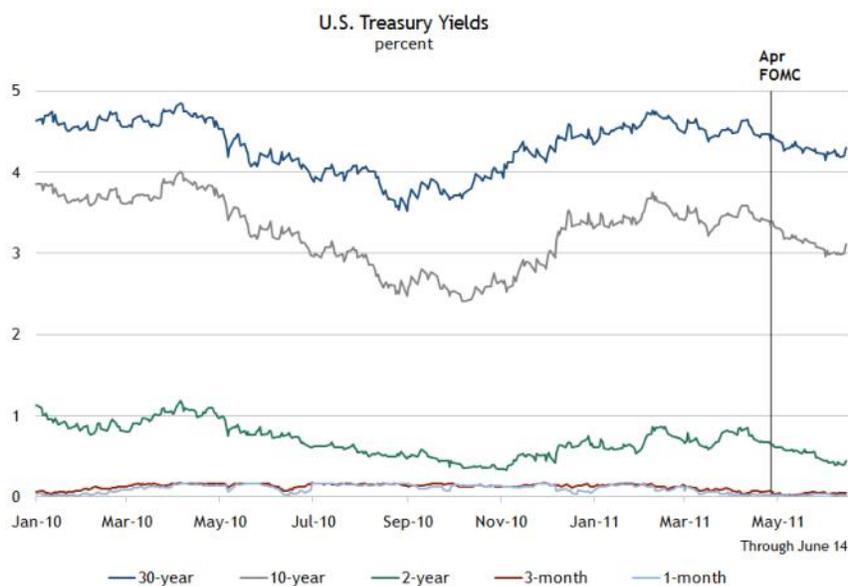
Source: SIFMA

- According to SIFMA, U.S. corporate bond issuance hit \$134 billion in May 2011, and high-yield debt issuance was \$40.4 billion of that amount.

Broad Financial Market Indicators

Summary

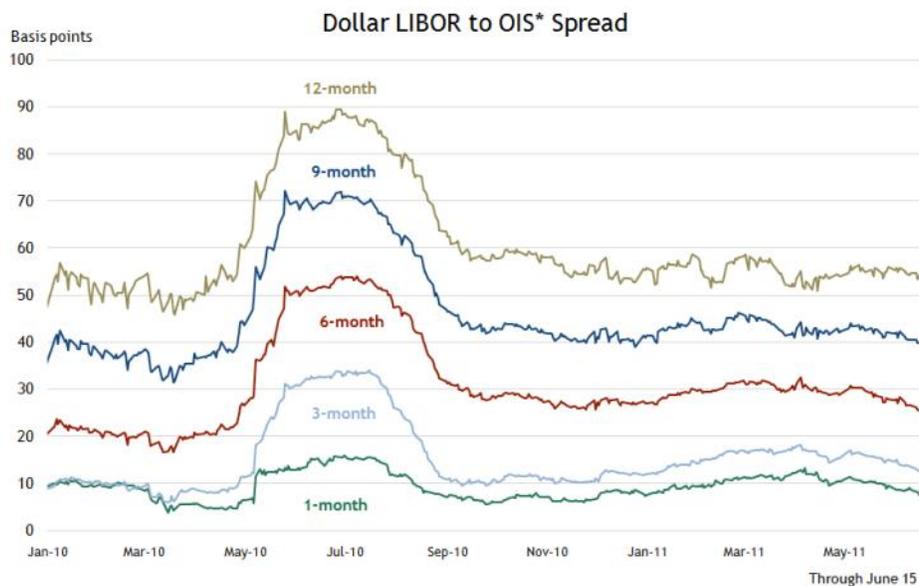
Since the April FOMC meeting, Treasury yields are lower across the curve, though they have risen somewhat in recent days.



Source: Federal Reserve Board/Haver Analytics

- Since the April FOMC meeting, the 30-year Treasury bond yield is down 15 bps to 4.30 percent, the 10-year note's yield is lower by 28 bps to 3.11 percent, and the two-year note is down 20 bps to 0.45%.

LIBOR to OIS spreads, from one to nine months, have narrowed by almost 3 basis points (bps) since the April FOMC meeting, with the one- and three-month spreads currently at 7.6 bps and 12.6 bps, respectively.



Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

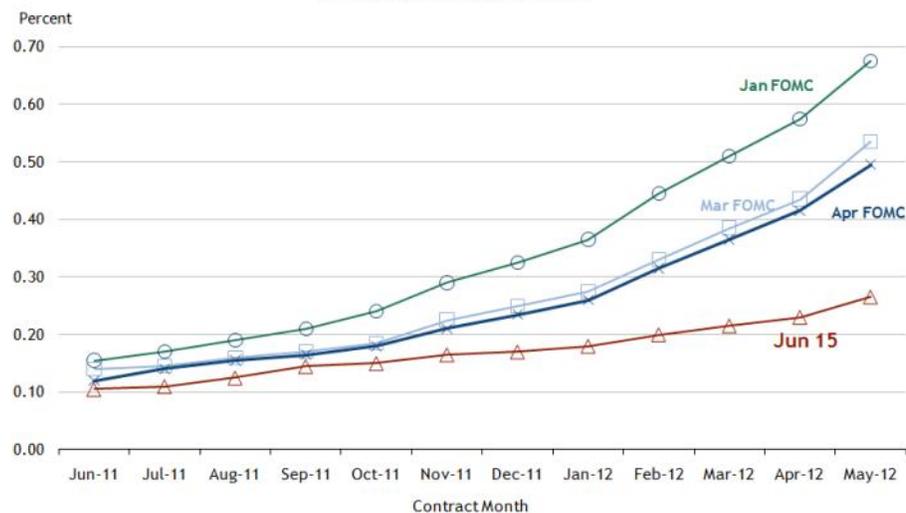
Broad Financial Market Indicators

Summary

The long end of the curve of expected rates has moved significantly lower since the April FOMC meeting, with no rate increase expected in the next year.

The short end of the curve is lower, at least partially, as a result of the anticipated runoff of the SFP and the FDIC assessment change.

Fed Funds Futures Rates

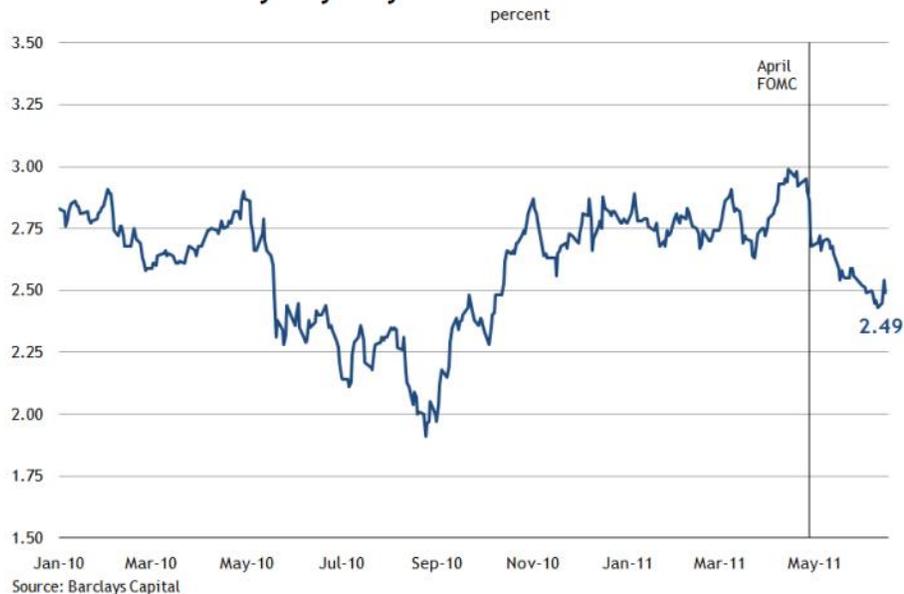


Source: Bloomberg

- As of June 15, 2011, the futures market for fed funds indicates an implied rate of about 27 bps for the May 2012 contract, about 23 bps lower since the April FOMC meeting.

Breakeven inflation rates have fallen sharply since the April FOMC meeting.

Barclays 5-yr/5-yr Forward Breakeven Inflation Rate



Source: Barclays Capital

- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.49 percent, as of June 15, 2011, which is 37 bps lower than what followed the April FOMC meeting.