FEDERAL RESERVE BANK of ATLANTA

August 10, 2011

Financial Highlights

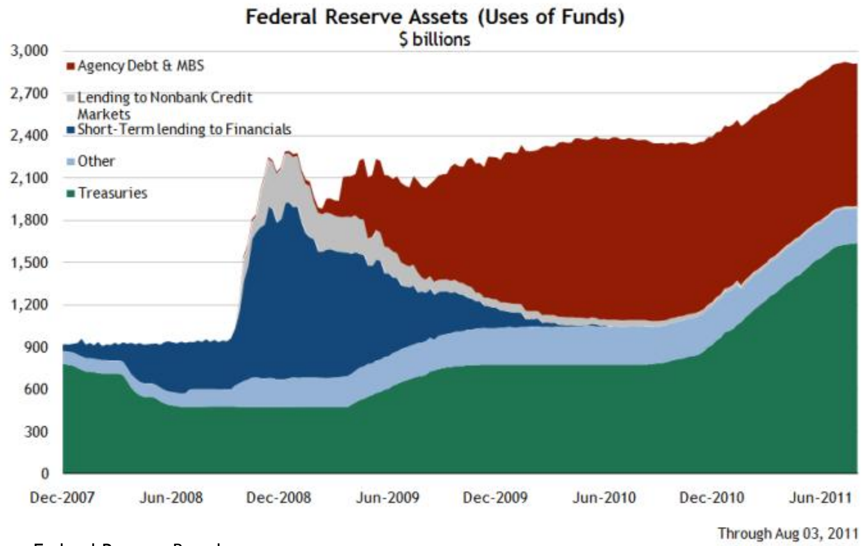
Contents

Federal Reserve

Summary

The balance sheet increased by $3.5 billion for the week ended August 3.

The $600 billion Treasury purchase program was completed on June 30, 2011.



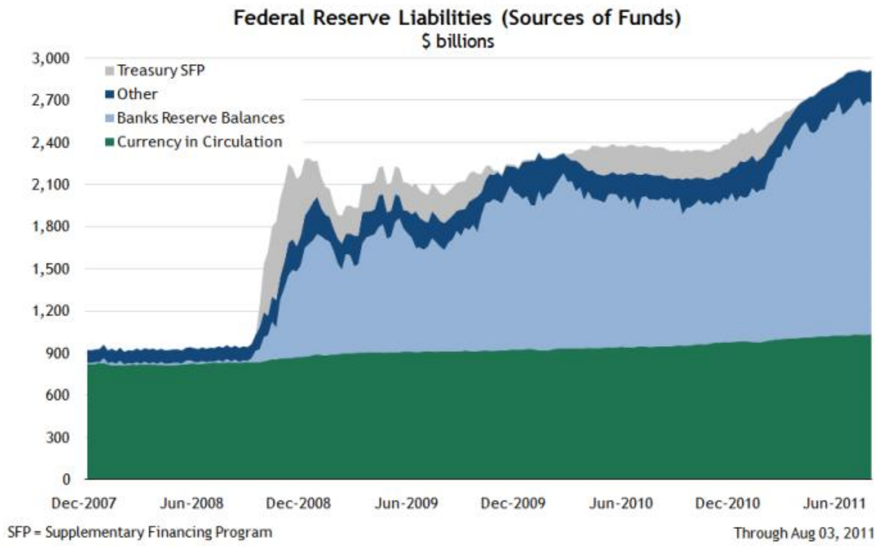
Source: Federal Reserve Board

- Treasuries increased by $2.8 billion while agency debt and MBS were unchanged.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $14 billion between mid-July and mid-August. This amount represents how much is needed to replace the expected principal payments from agency debt and agency MBS over this time period.

Bank reserve balances with the Federal Reserve increased $10.4 billion. Non-reserve deposits with the Federal Reserve increased $42 billion, more than offsetting a $34.5 billion decrease in Treasury deposits with Federal Reserve banks.

The Treasury's Supplemental Financing Program (SFP) declined to zero. The Treasury announced this would happen in it's latest Quarterly Refunding Statement.

As of August 3, 2011, bank reserve balances are $1.65 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.

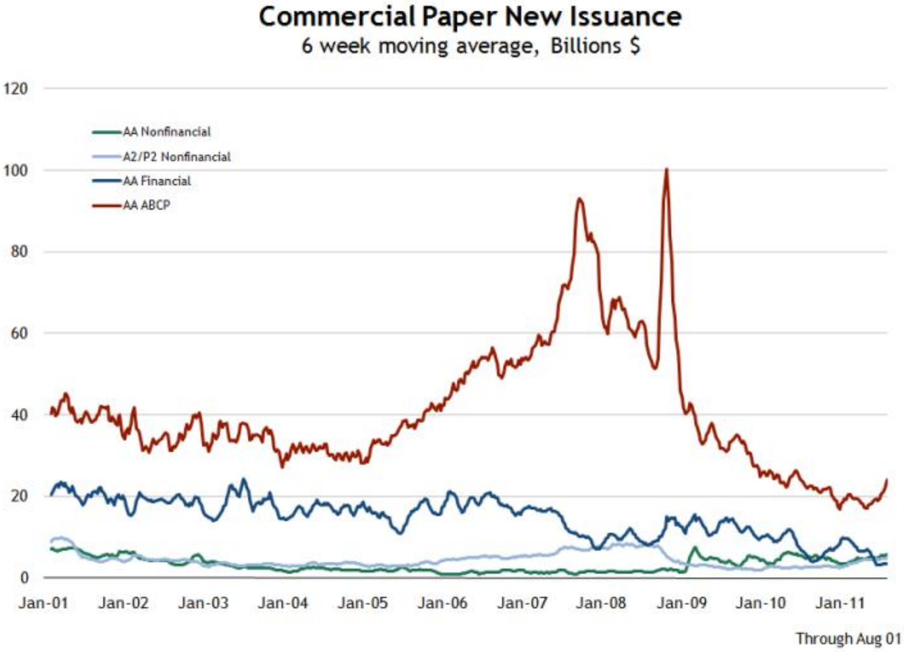
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

Commercial Paper

Summary

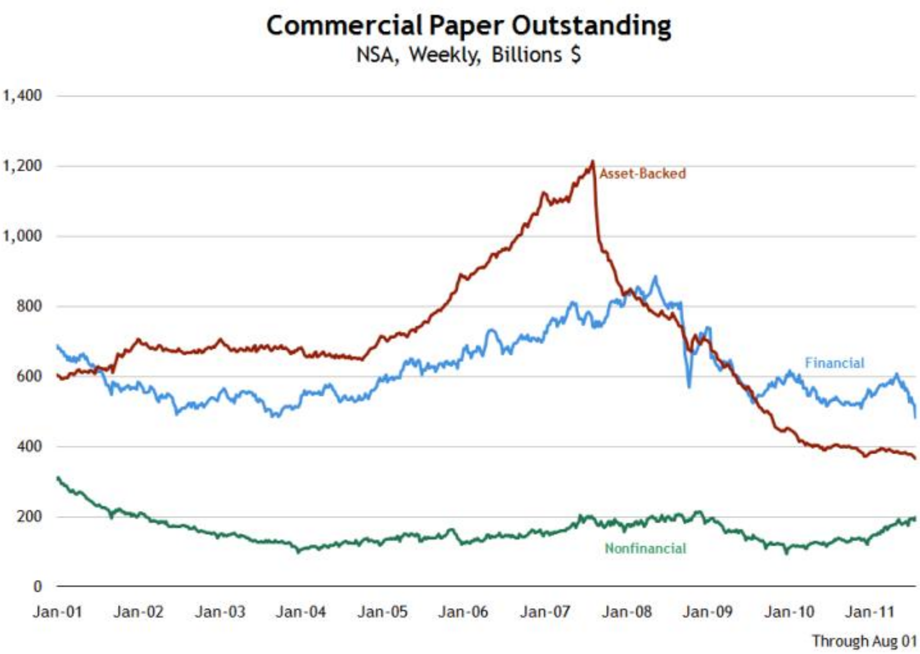
Weekly issuance of asset-backed commercial paper has been trending up since April.

Issuance of nonfinancial paper has been on the rise for more than a year.



Source: Federal Reserve Board

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

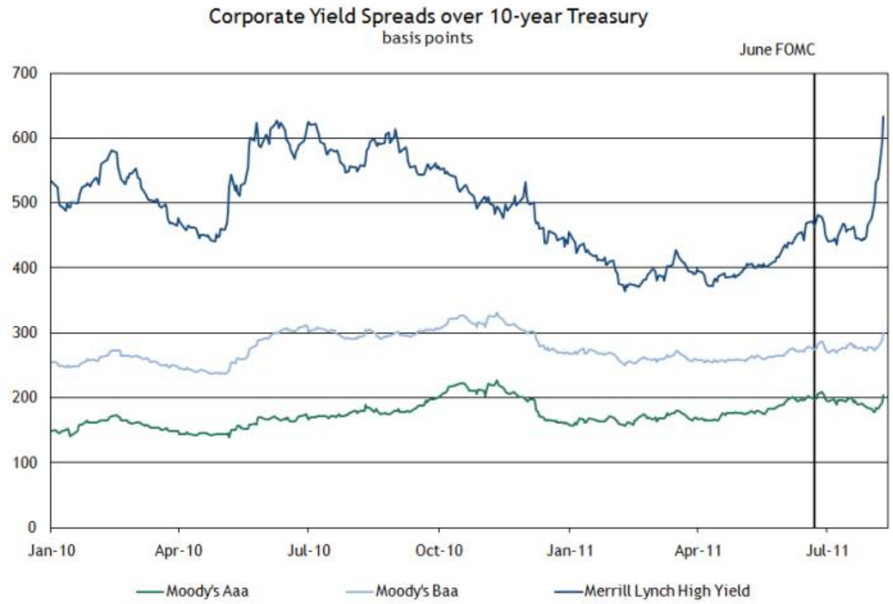


Source: Federal Reserve Board

Corporate Bonds

Summary

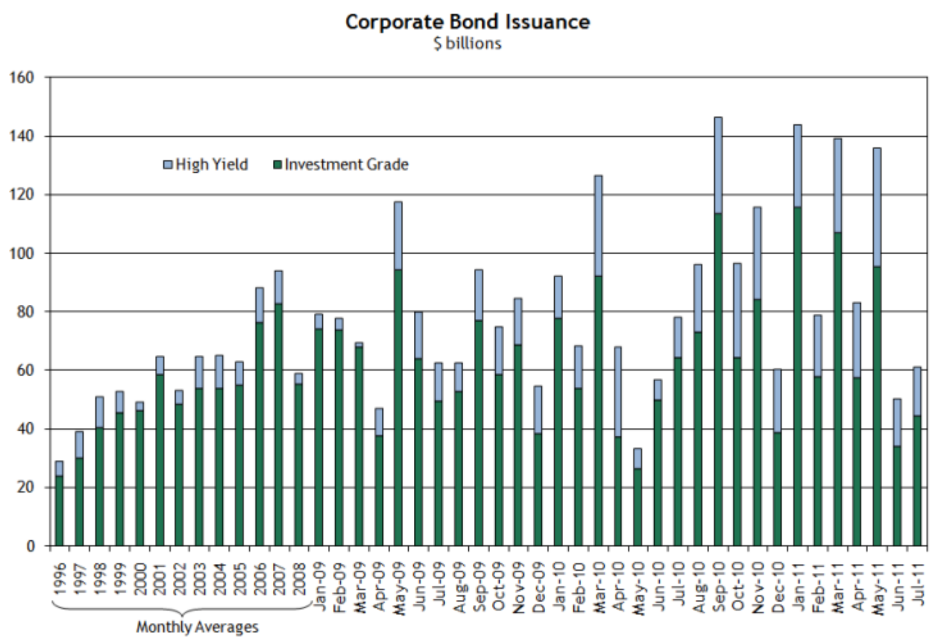
Between the June and August FOMC meetings, spreads on high yield corporate debt have widened significantly, but spreads on investment-grade debt are only slightly higher.



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

- Since the June FOMC meeting, corporate yield spreads have soared for junk debt, with the Merrill Lynch High Yield Index up 169 basis points (bps) over the 10-year Treasury note yield.
- Higher-quality bond spreads widened moderately, with Moody's Aaa– and Baa-rated bonds up 7 bps and 27 bps, respectively, over Treasuries.

U.S. corporations accessed the bond market for $60.8 billion in July, according to SIFMA.



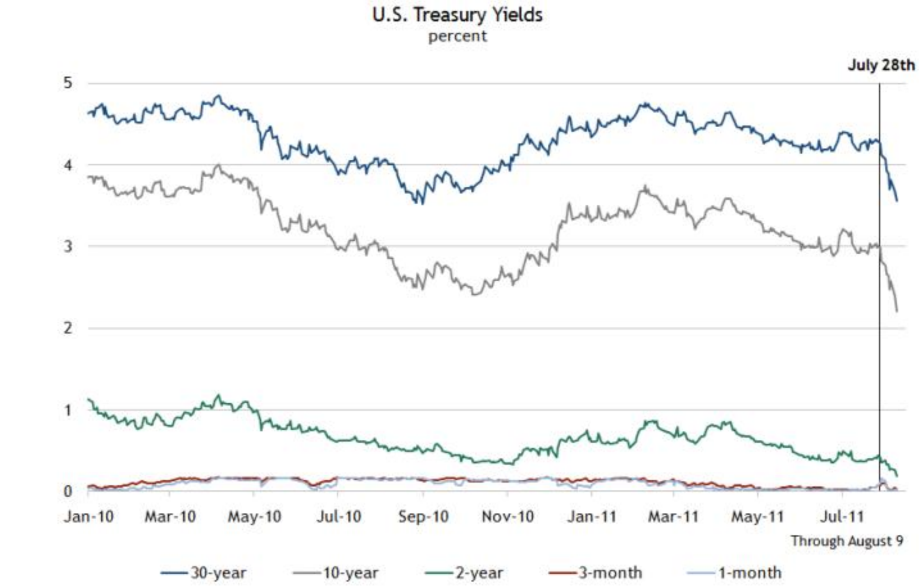
Source: SIFMA

- According to SIFMA, U.S. corporate bond issuance hit $60.8 billion in July 2011, and high-yield debt issuance was $16.5 billion of that amount.

Broad Financial Market Indicators

Summary

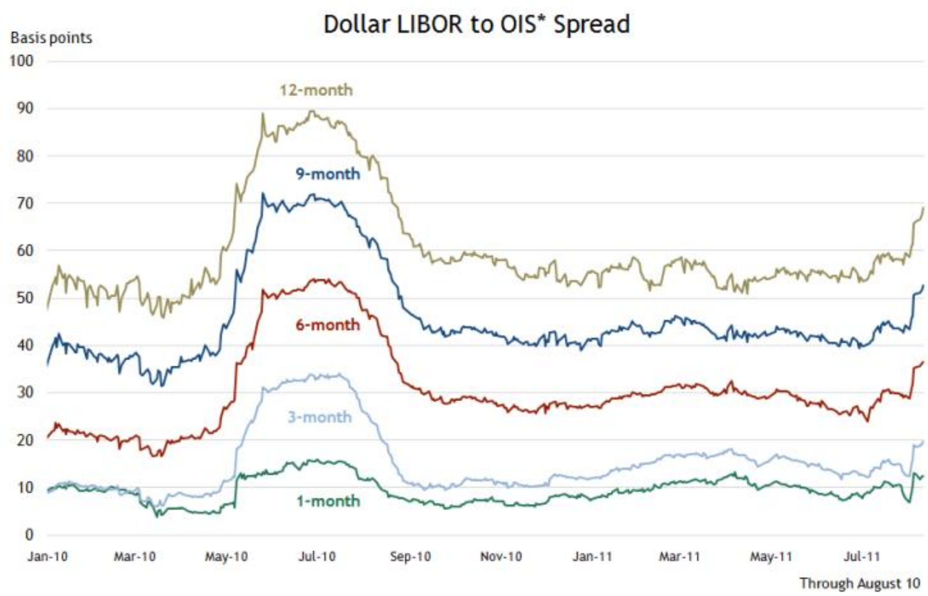
Since late July, Treasury yields have plummeted on renewed fears of slowing economic growth and general shunning of risky assets.



Source: Federal Reserve Board/Haver Analytics

- Since July 28, just before market confidence began to deteriorate significantly, the 30-year Treasury bond yield is down 70 bps to 3.56 percent, the 10-year is 78 bps lower to 2.20 percent, and the two-year is down 23 bps to 0.19 percent.
- The three- and one-month T-bill rates have also declined 4 basis points (bps) and 8 bps, respectively, after having risen due to worries over the U.S. debt ceiling negotiations.

LIBOR to OIS spreads for all tenors widened as the U.S. debt ceiling negotiations and European sovereign debt crisis rattled markets. Relative to the June FOMC meeting, the one- and three-month spreads are up 4.5 basis points (bps) and 6.7 bps, respectively. Six-, nine-, and 12-month spreads are wider by 11 bps-14 bps during the same period.



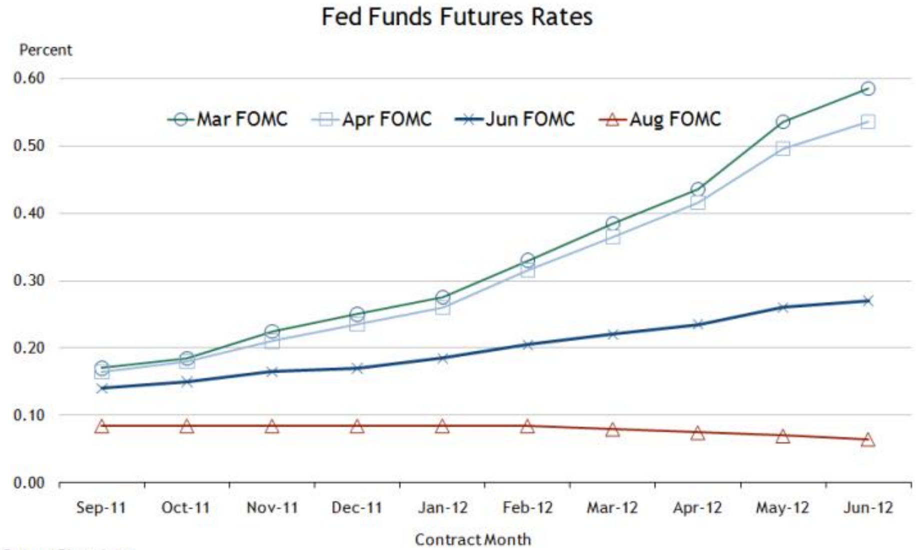
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

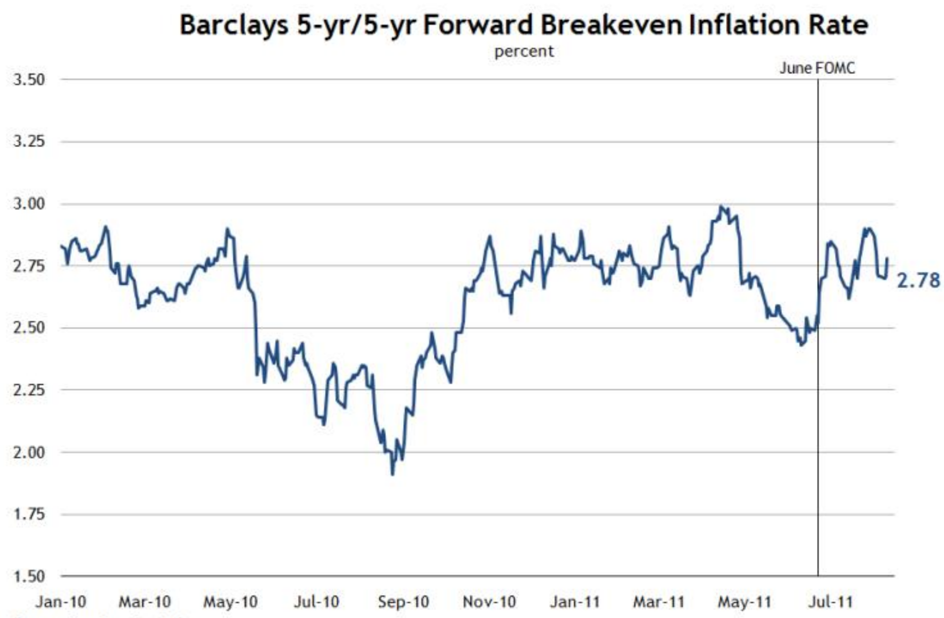
Following the FOMC's change in policy guidance to keep rates low through mid-2013, the fed funds futures market has priced in a flat path through at least June 2012.



Source: Bloomberg

- As of August 10, 2011 (the day after the FOMC meeting), the futures market for fed funds indicates an implied rate between 9 and 6 bps for the *entire* forecast horizon through June 2012 contract (contracts farther out are less liquidly traded and so are not shown here). This indication follows the FOMC's decision to maintain current interest rate policy through mid-2013.

Breakeven inflation rates—though volatile—rose over the intermeeting period but have declined recently.



Source: Barclays Capital

- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.78 percent as of August 10, 2011, which is 26 bps higher than what prevailed at the June FOMC meeting but is down around 12 bps since broader financial market sentiment turned negative in late July.