FEDERAL RESERVE BANK of ATLANTA

August 17, 2011

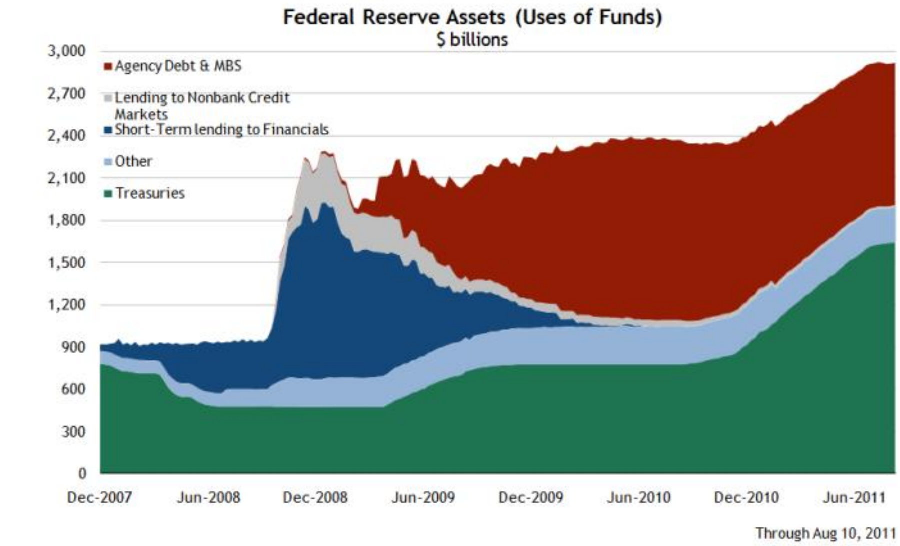
Financial Highlights

Federal Reserve

Summary

The balance sheet increased by $5.3 billion for the week ended August 10.

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



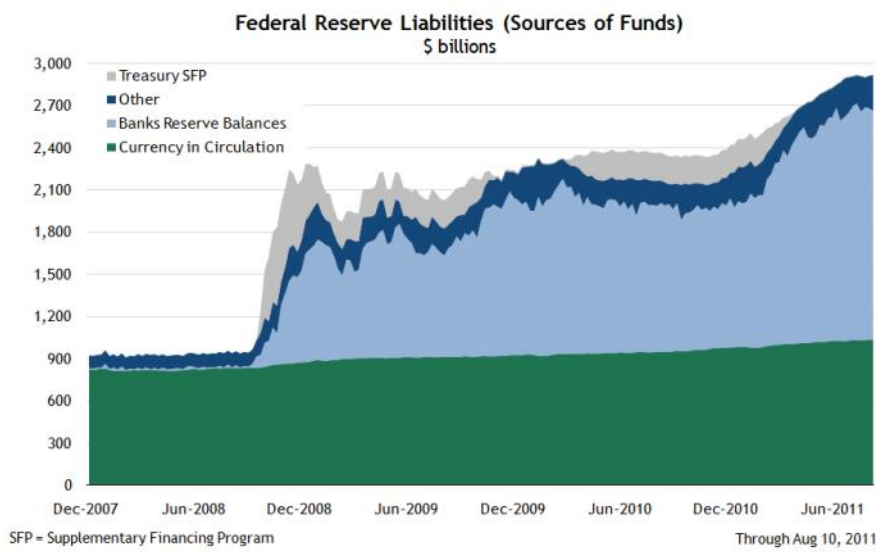
Source: Federal Reserve Board

- Treasuries increased by $3.8 billion while agency debt and MBS was unchanged.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $14 billion between mid-August and mid-September. 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 decreased $19.8 billion and the Treasury's general account with the Federal Reserve decreased $17.6 billion. Non-reserve deposits increased $11.7 billion.

Reverse repurchase agreements with foreign official and international accounts increased $28.2 billion.

As of August 10, 2011, bank reserve balances are $1.6 trillion.



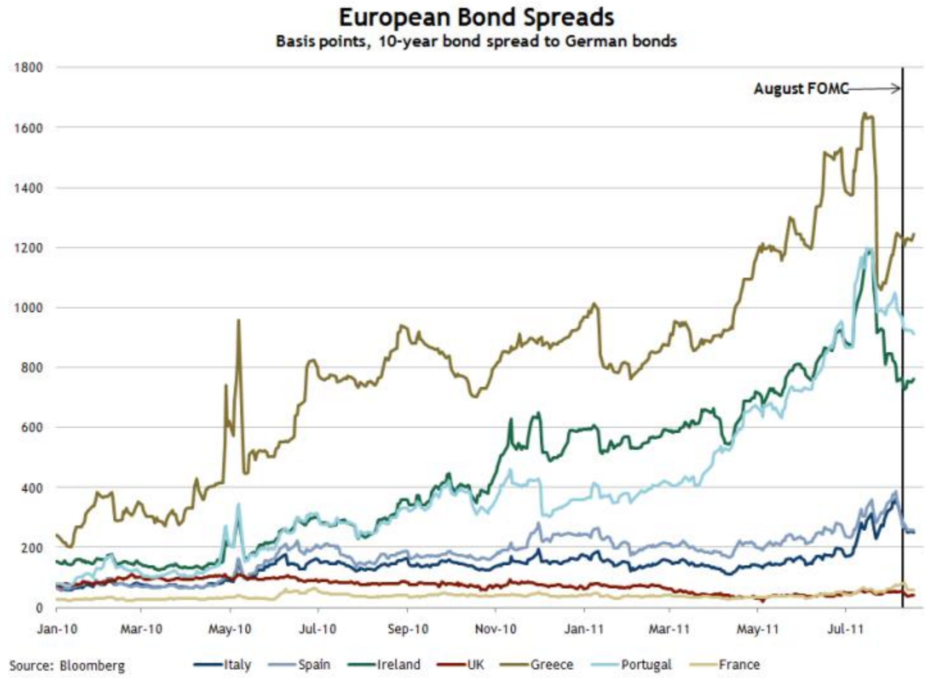
Source: Federal Reserve Board

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.

European Bond and CDS Spreads

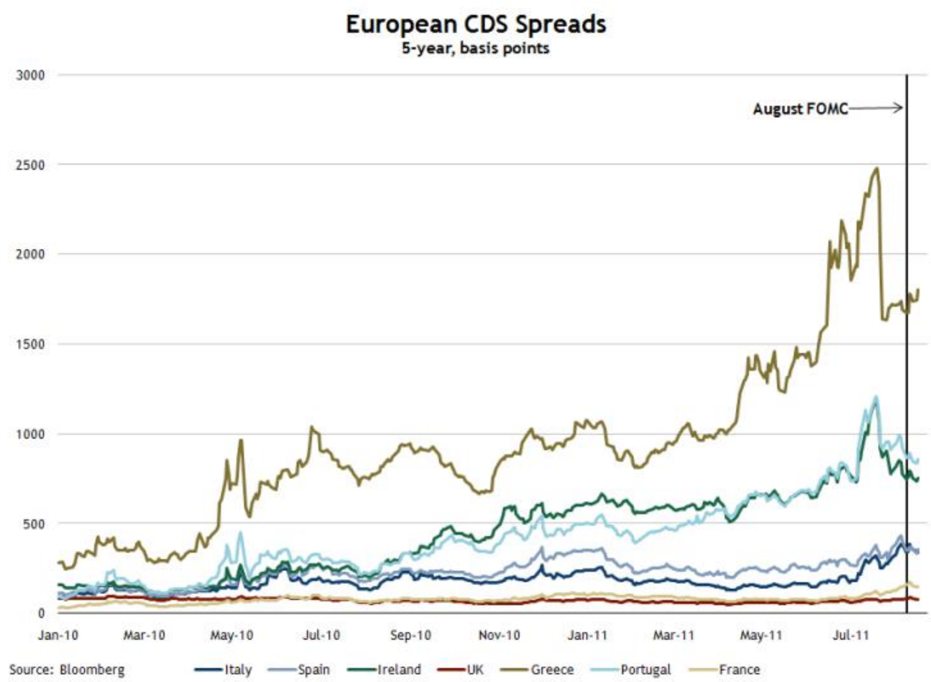
Summary

Beginning August 8, following an announcement by the European Central Bank (ECB) that it would purchase the sovereign debt of Spain and Italy, yield spreads (over German bonds) narrowed sharply across the eurozone.



- Following an announcement by the European Central Bank (ECB) over the previous weekend (August 6-7), to purchase Italian and Spanish debt, euro-area debt yields narrowed dramatically.
- Since the August FOMC meeting last week, the 10-year yield spread to German bonds has narrowed for all major eurozone countries, except Ireland and Greece, which are up 27 basis points (bps) and 18 bps, respectively.

Similarly, CDS spreads show a sharp narrowing following the ECB announcement and relatively little changes since last week's FOMC meeting.

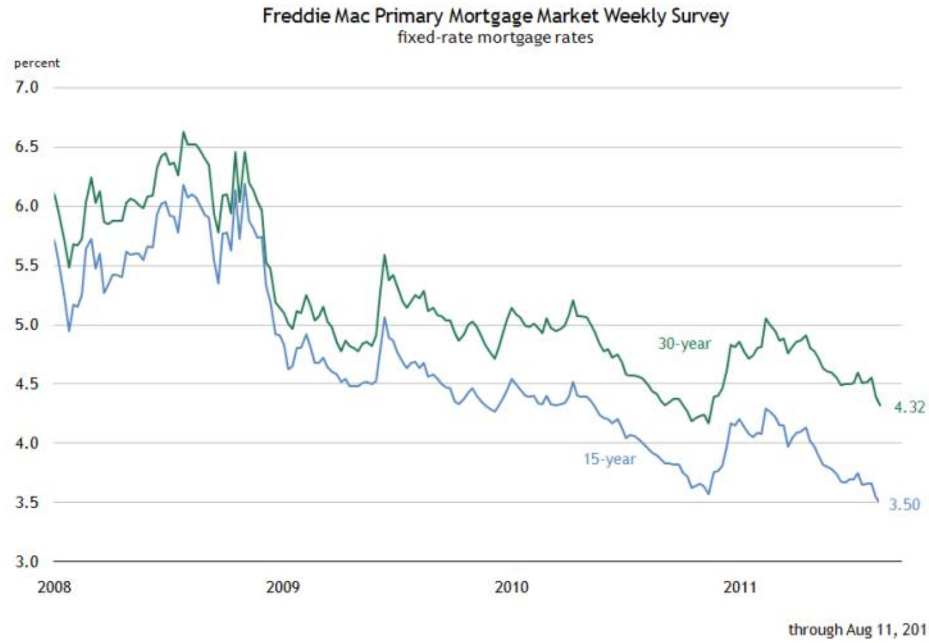


Mortgage Markets

Summary

Rates on both 30-year and 15-year fixed-rate mortgages declined for the survey week ending August 11, 2011.

The 30-year fixed rate marked a new low for 2011; the 15-year fixed rate reached an all-time record low.



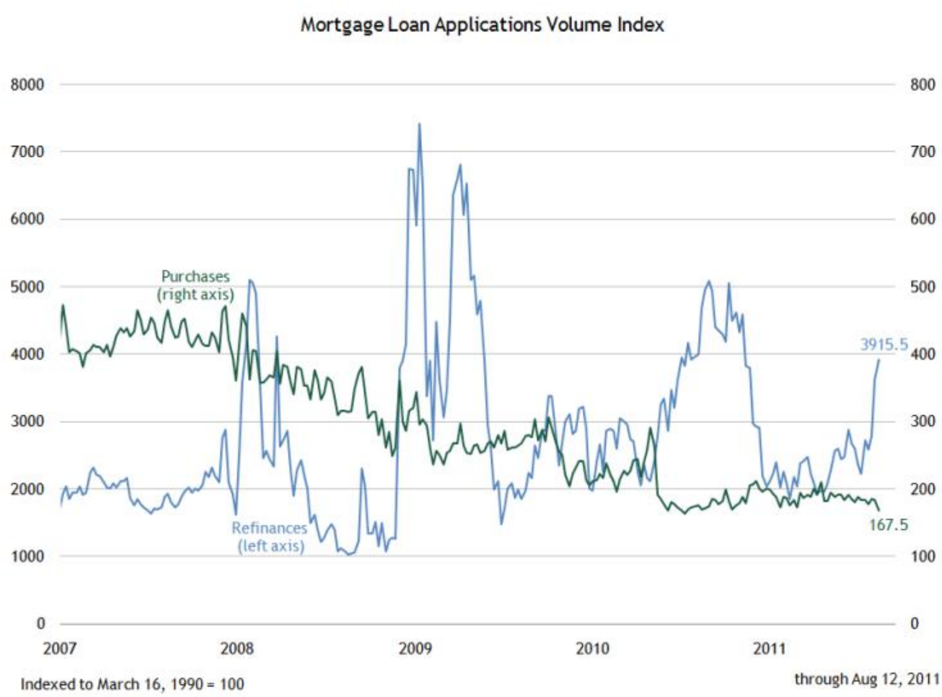
Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.32 percent, down from 4.39 percent a week ago. At this time last year the 30-year fixed rate averaged 4.44 percent.
- The 15-year fixed rate averaged 3.50 percent, down from 3.54 percent a week ago. At this time last year the 15-year fixed rate mortgage averaged 3.92 percent.

Total mortgage loan application volume increased 4.1 percent from the previous week, according to the MBA survey for the week ending August 12, 2011; refinance applications were up 8 percent while purchase applications fell 9.1 percent.

Both the refinance index and the purchase index are below the levels of one year ago.

The purchase index and refinance index are measures of loan application volume reported in the MBA's Weekly Application Survey. The survey has been conducted weekly since 1990 and covers more than 50 percent of all U.S. retail residential mortgage applications.



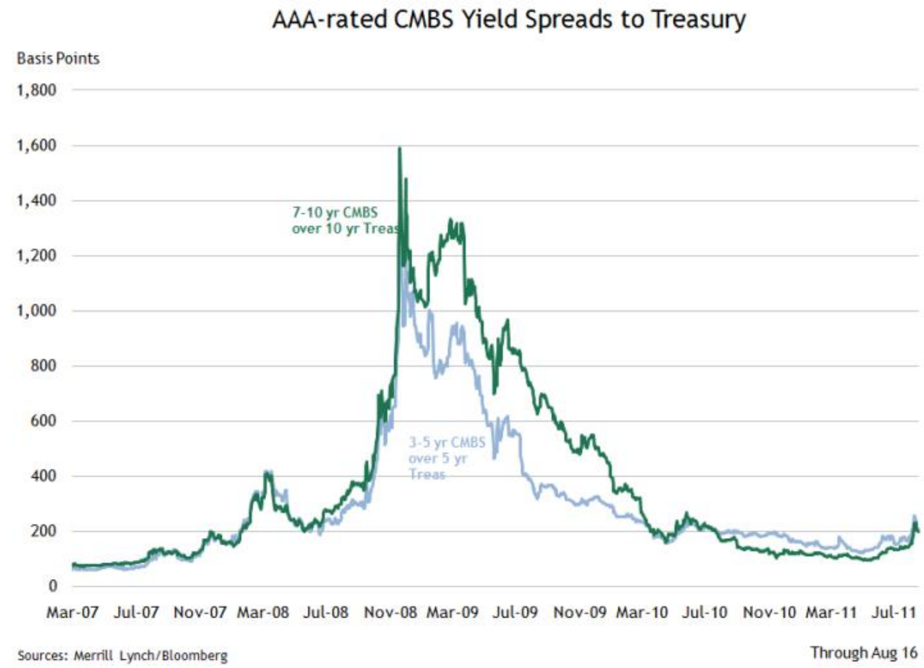
Source: Mortgage Bankers Association/Haver Analytics

- The refinance share of mortgage activity increased to 78.8 percent from 75.6 percent the previous week.

Mortgage Markets

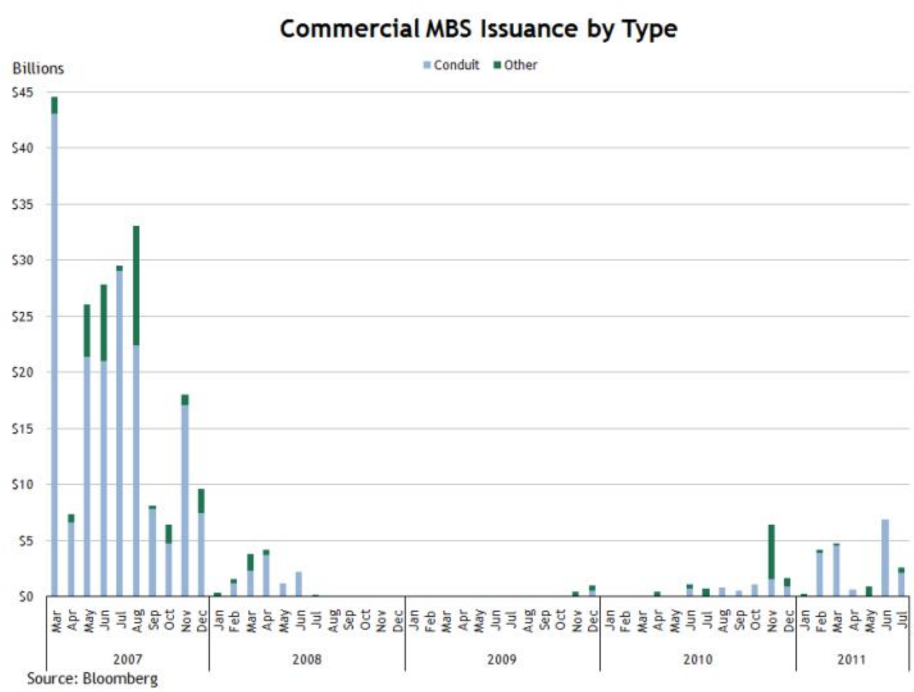
Summary

Top-rated CMBS yield spreads have risen over the past 30 days.



- Three-to-five year CMBS over five-year Treasuries have risen 34 bps since July 18. Likewise, seven-to-ten year CMBS over ten-year Treasuries are 62 bps higher.

CMBS issuance in the form of conduits has increased in recent months; a sign of improvement in the CMBS market.

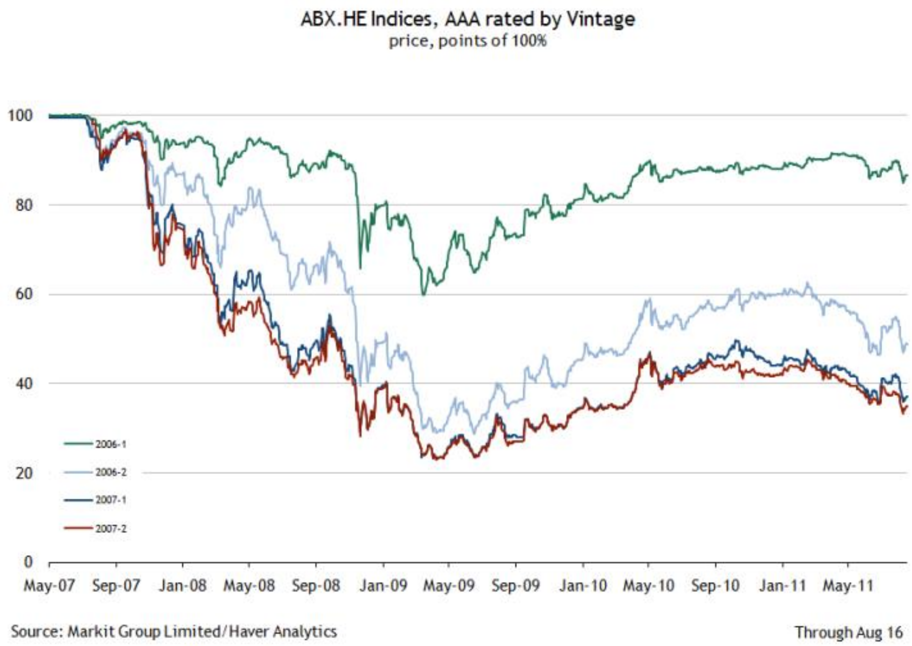


Mortgage Markets

Summary

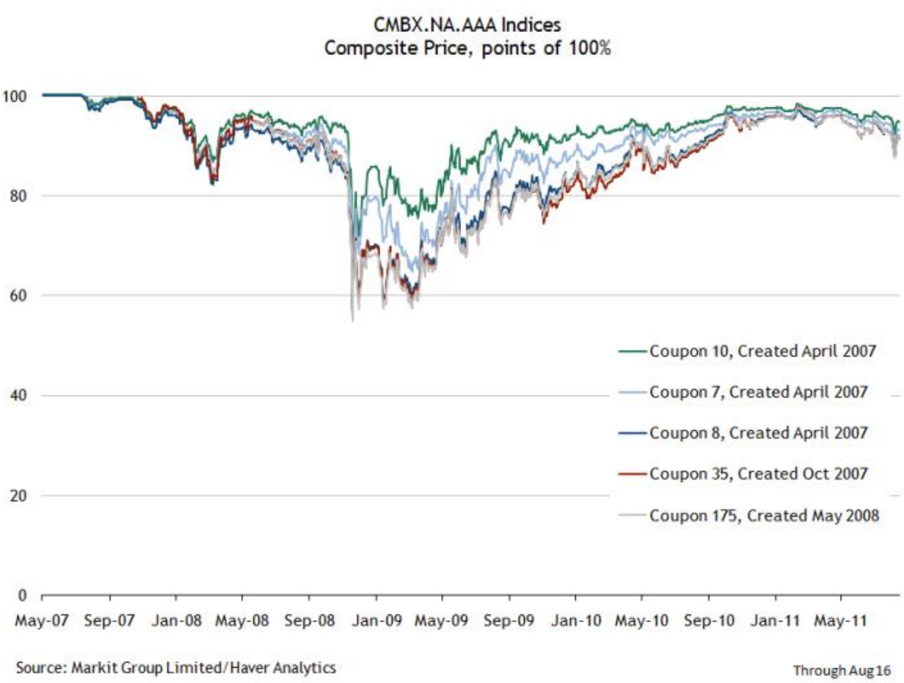
All vintages of the AAA ABX.HE stumbled in late July. Year-to-date the 2006-1 vintage is basically unchanged, and all other vintages are lower.

Decreases in the index indicate an increase in the cost to insure against default on the underlying home equity loans.



After a volatile couple of weeks, the index value of commercial MBS credit default swaps have almost returned to late July levels.

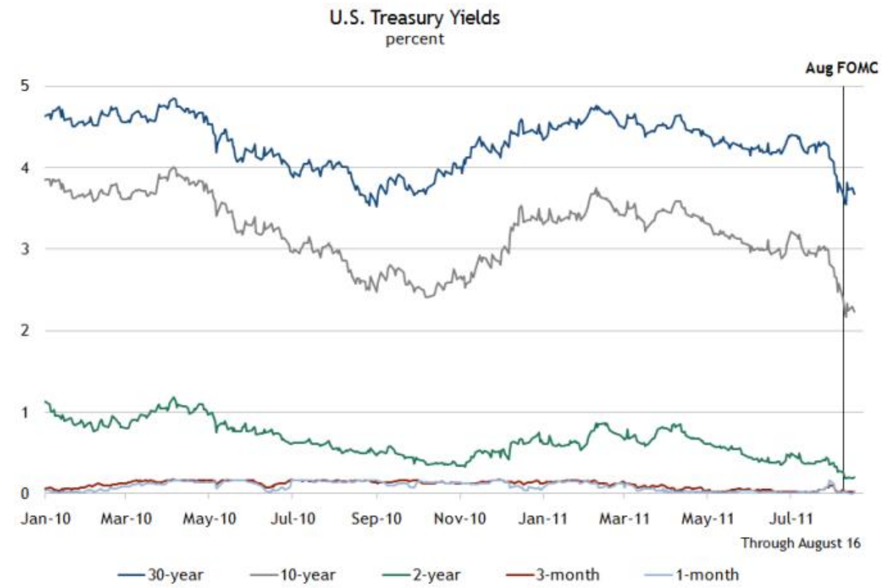
All vintages of the CMBX.NA.AAA remain close to prerecession levels. Increases in the index indicate a decrease in the cost to insure against default of commercial MBS.



Broad Financial Market Indicators

Summary

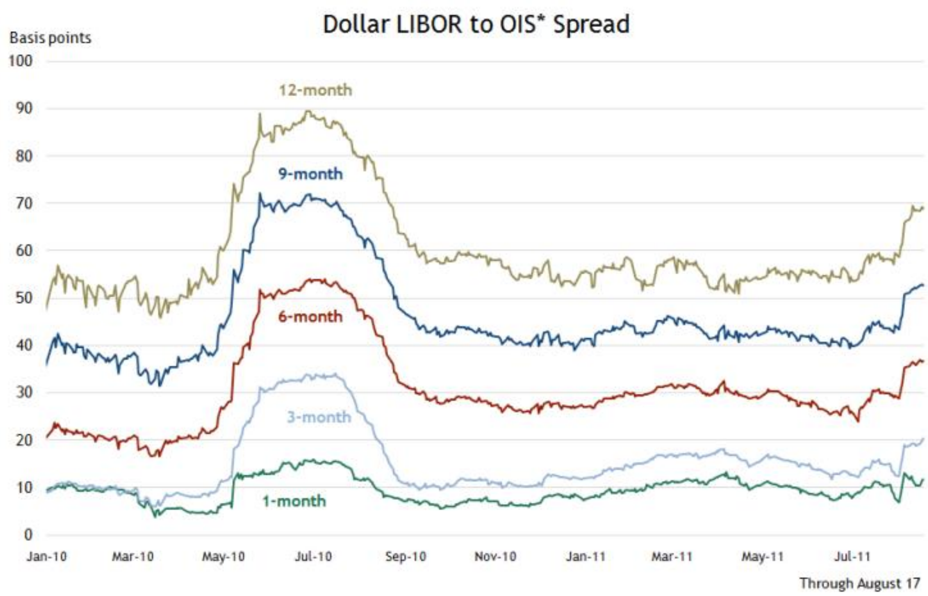
After plummeting just prior to the August FOMC meeting, Treasury yields are up 11 bps for the 30-year bond but are otherwise flat.



Source: Federal Reserve Board/Haver Analytics

- Since August 9, the 30-year Treasury bond yield is up 11 bps to 3.67 percent, the 10-year rose 3 bps to 2.23 percent, and the 2-year rose 1 bp to 0.20 percent. The three- and one-month T-bill rates are at 3 bps and 2 bps, respectively. Across the curve, yields are exceptionally low by historical comparisons.

LIBOR to OIS spreads for all tenors widened during the apex of the U.S. debt ceiling negotiations and as the European sovereign debt crisis rattled markets. Since then, spreads have remained mostly flat, with the one- and three-month spreads at 11.6 basis points (bps) and 20.3 bps, respectively.



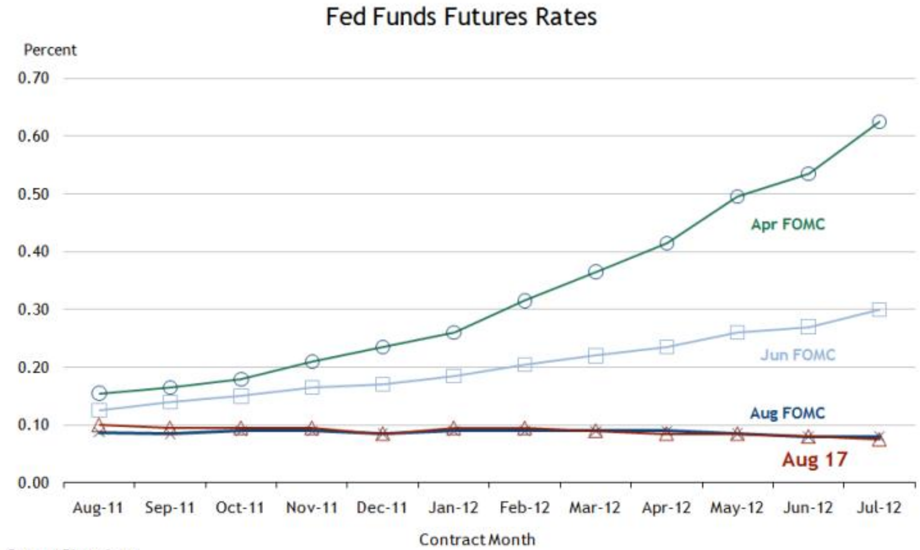
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

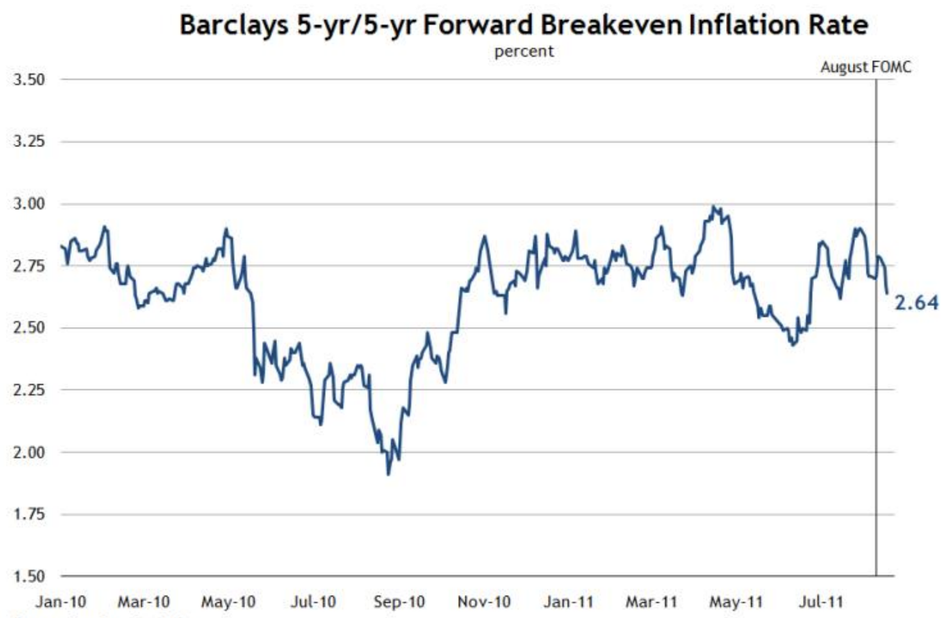
Following the FOMC's change in policy guidance to keep rates low through mid-2013, the fed funds futures market has priced in a flat path through at least July 2012.



Source: Bloomberg

- As of August 17, 2011, following the FOMC's decisions to maintain current interest rate policy through mid-2013, the futures market for fed funds indicates an implied rate between 7 bps and 9 bps for the *entire* forecast horizon from September 2011 through July 2012 (contracts farther out are less liquidly traded and so are not shown here).

Breakeven inflation rates—though volatile—are lower since last week's FOMC meeting, having declined recently as poor prospects for economic growth (and potential financial market contagion) have limited risk taking.



Source: Barclays Capital

- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.64 percent as of August 17, 2011, which is 7 bps lower since the August FOMC meeting last week.