FEDERAL RESERVE BANK of ATLANTA

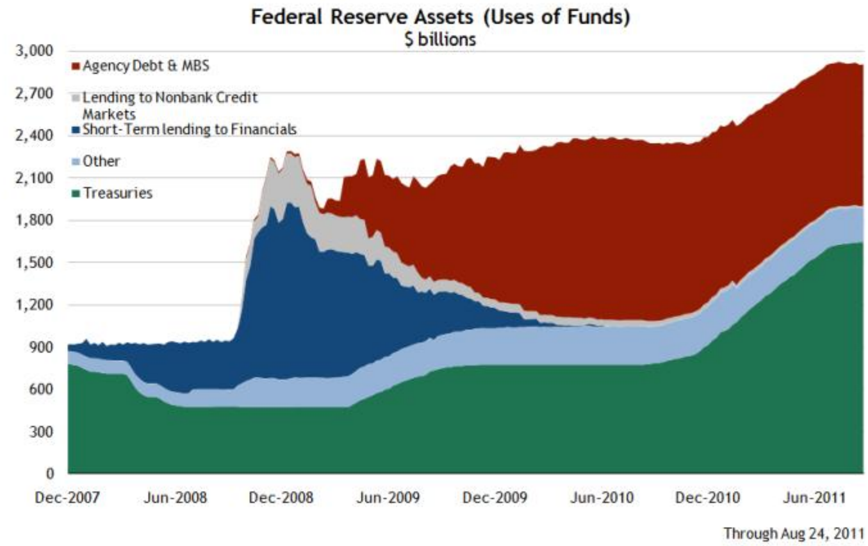
August 31, 2011

# Financial Highlights

# Federal Reserve

## Summary

**The balance sheet increased by $1.4 billion for the week ended August 24.**



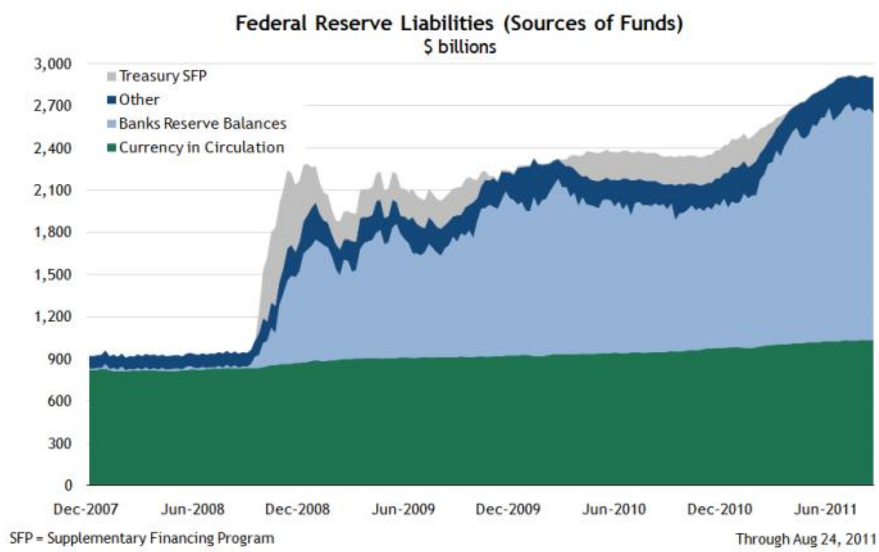

Source: Federal Reserve Board

- Treasuries increased by $800 million while agency debt and MBS declined $1.1 billion.
- 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 $37 billion while non-reserve deposits increased $36 billion.**

**The Treasury's Supplemental Financing Program (SFP) remained at $5 billion.**

**As of July 27, 2011, bank reserve balances are $1.66 trillion.**



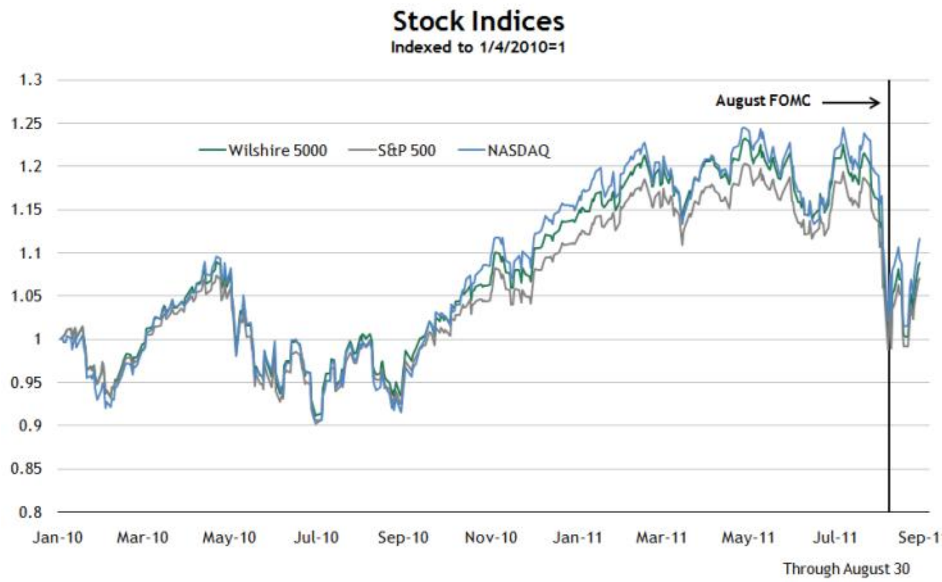

Source: Federal Reserve Board

**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.

## Bond and Equity Markets

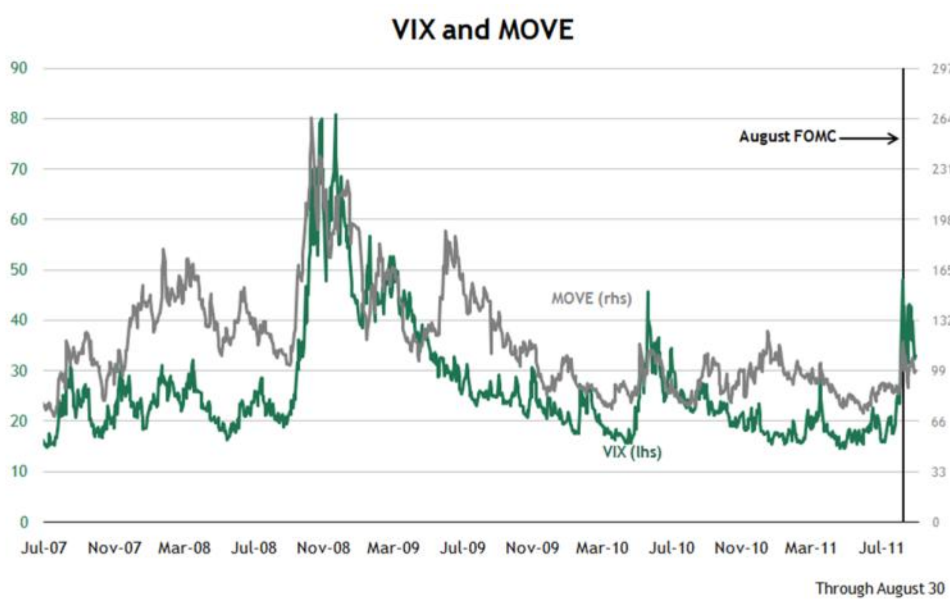
### Summary

**Though volatile, the Wilshire 5000, NASDAQ, and S&P 500 stock indices are up between 3.4 percent and 3.8 percent since the August FOMC meeting.**




Source: Dow Jones, NY Times, WSJ

**The Merrill Lynch MOVE index shows bond market volatility has fallen 7.9 percent since the August FOMC meeting, and the VIX "fear index" from the Chicago Board Option Exchange indicates equity market volatility is lower by 6.2 percent.**




Source: Merrill Lynch, Wall Street Journal

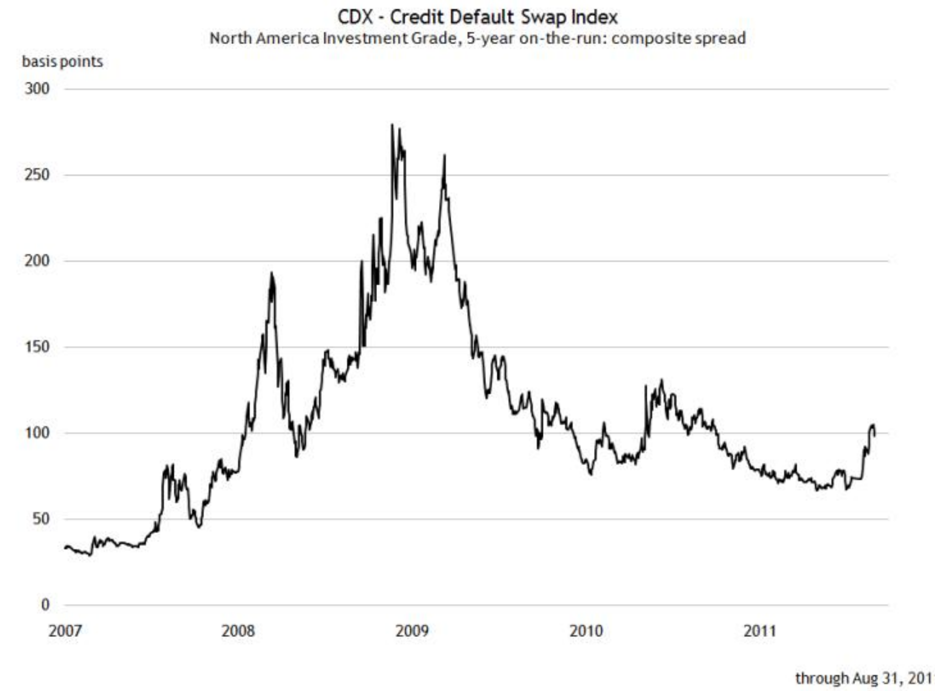
# Bond and Equity Markets

## Summary

The NAIG Credit Default Swap Index closed at 98.4 basis points (bps) on August 30 and has risen sharply in recent weeks.

Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. A decline in the CDX generally signals an improvement in the perception of credit quality. An increase in the CDX generally signals a deterioration in investor confidence.

One basis point equates to $1,000 annually on a contract protecting $10 million in debt.

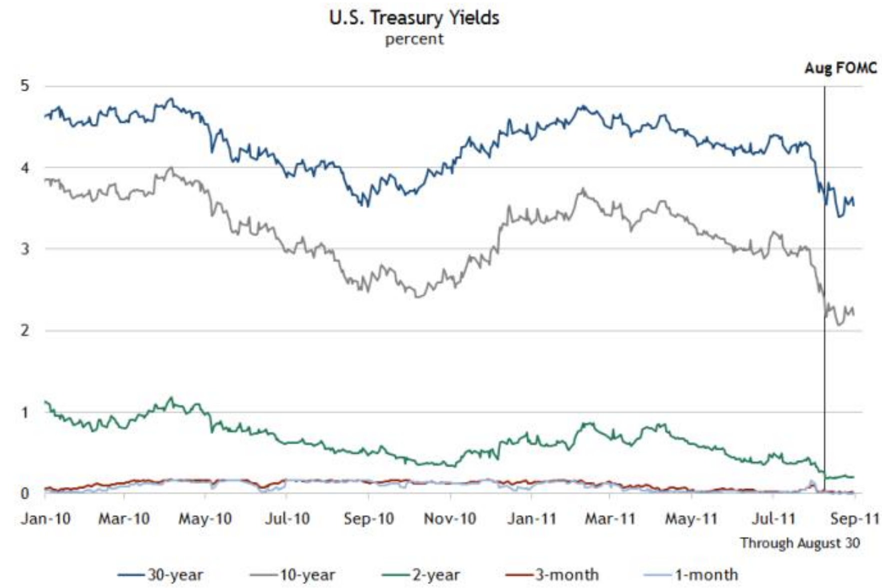



Source: Markit Group Ltd./Haver Analytics

## Broad Financial Market Indicators

### Summary

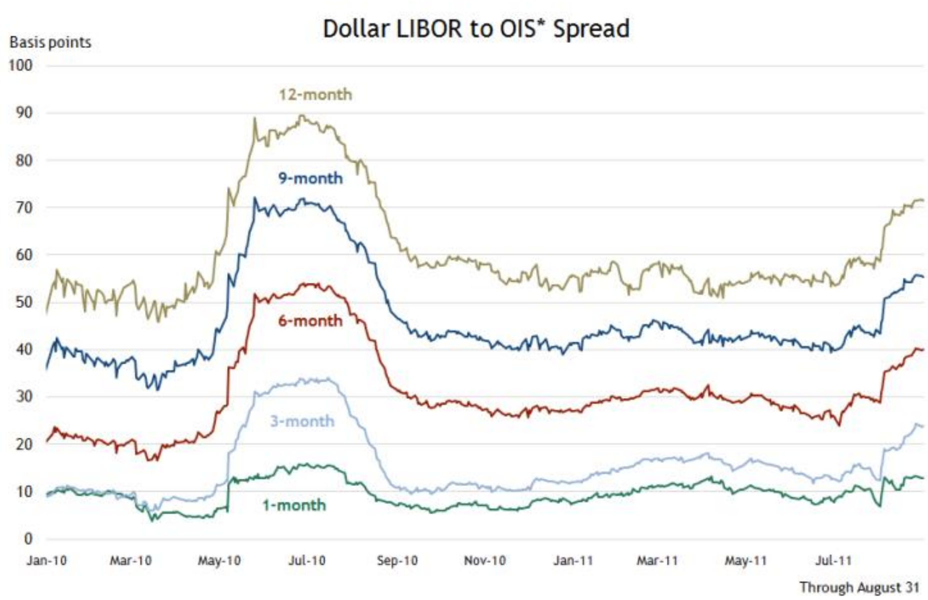
**Treasury yields are relatively unchanged since the August FOMC meeting.**




Source: Federal Reserve Board/Haver Analytics

- Since August 9, the 30-year Treasury bond yield is down 3 basis points (bps) to 3.53 percent, the 10-year yield is down 1 bp to 2.19 percent, and the two-year yield is up 1 bp to 0.20 percent. The three-month- and one-month T-bill rates are both at 1 bp, respectively.

**LIBOR to OIS spreads for all tenors except the one-month (which is flat) have widened since the August FOMC meeting. Since August 9, spreads are nearly 5 bps higher for the three-month tenor and 3.5 bps to 3.9 bps higher for the six-month to 12-month tenors.**



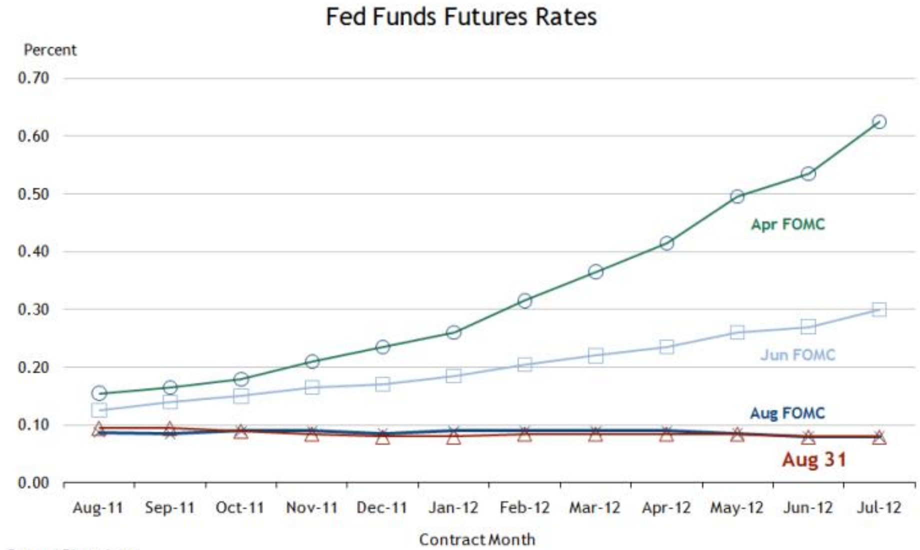

Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

## Broad Financial Market Indicators

### Summary

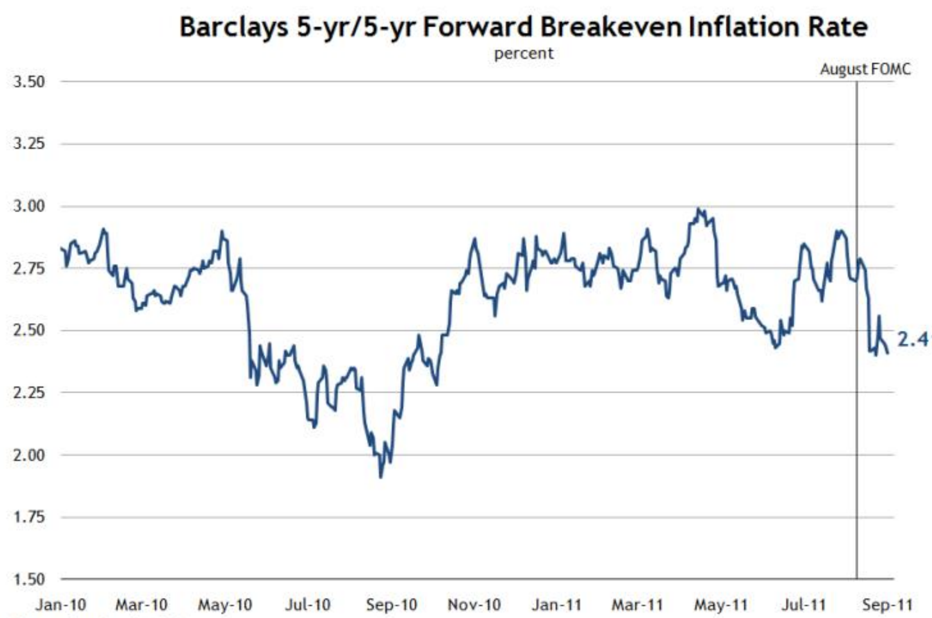
**Following the FOMC's change in policy guidance to keep rates low through mid-2013, the fed funds futures market continues to price in a flat path through at least July 2012.**




Source: Bloomberg

- As of August 31, 2011, since the FOMC's decisions to maintain current interest rate policy through mid-2013, the futures market for fed funds indicates an implied rate between 8 bps and 10 bps for the *entire* forecast horizon from September 2011 through July 2012. (Contracts further out are less liquidly traded and so are not shown here.)

**Breakeven inflation rates have moved sharply lower since the August FOMC meeting.**




Source: Barclays Capital

- Looking at one measure calculated by Barclays suggests investors see CPI inflation 5 to 10 years out as averaging about 2.41 percent as of August 31, 2011, which is 7 bps lower over the week and 30 bps lower since the August FOMC meeting. Current breakeven rates are approaching the lowest point seen since last fall.