FEDERAL RESERVE BANK of ATLANTA

January 4, 2012

Financial Highlights

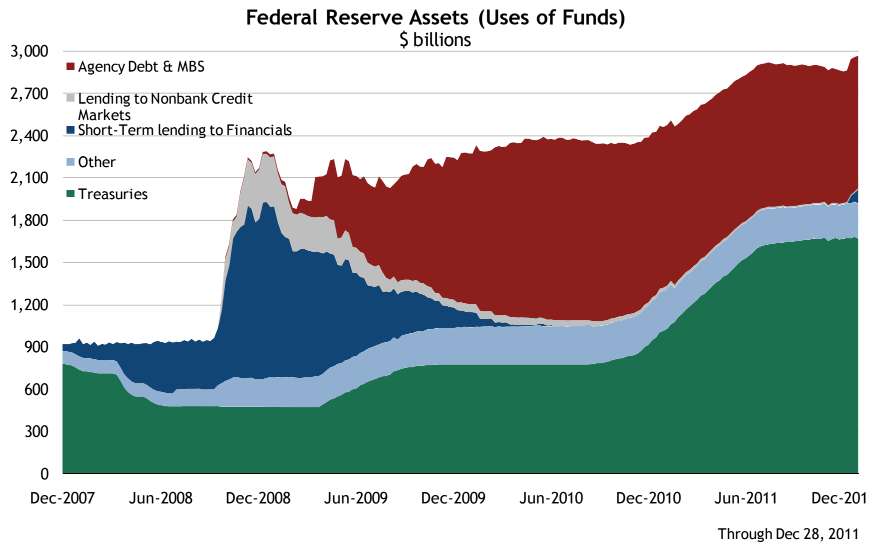
Federal Reserve

Summary

Between December 21 and December 28, the balance sheet increased by $9.7 billion.

The increase over the past few weeks has stemmed from increased use of dollar swap lines by foreign central banks. On November 30, 2011, the Federal Reserve, in coordination with several other central banks, announced that it would enhance the capacity to provide liquidity support. This press release contains more information.

The need for more liquidity support stems from increased demand for dollars abroad as the European debt crisis continues.



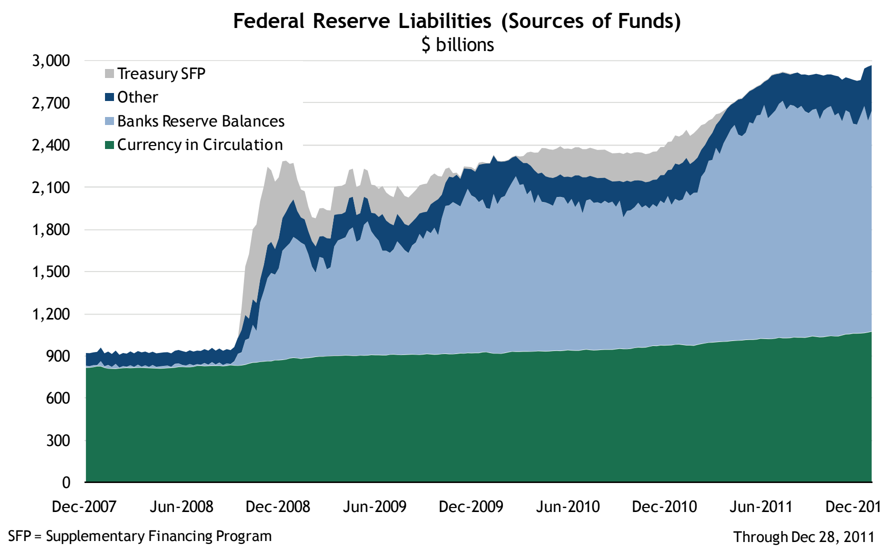
Source: Federal Reserve Board

- Treasuries decreased by $12.2 billion, and agency debt and MBS decreased by $15.1 billion.
- Bank liquidity swaps increased by $37.2 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, and in line with the maturity extension program, the desk plans to purchase approximately $45 billion in Treasury securities with remaining maturities of from six to 30 years and sell approximately $44 billion in Treasury securities with remaining maturities of three years or less over the month of January.
- The Federal Reserve Bank of New York's statement outlining the implementation of the maturity extension program and changes in the reinvestment program for mortgage-backed securities can be found here.

Bank reserve balances with the Federal Reserve increased $62.7 billion.

Offsetting most of the increase was a $15.2 billion decrease in the Treasury's general account with the Federal Reserve and a $42.2 billion decrease in nonreserve deposits held at the Federal Reserve (both part of "Other").

As of December 28, 2011, bank reserve balances are $1.57 trillion.



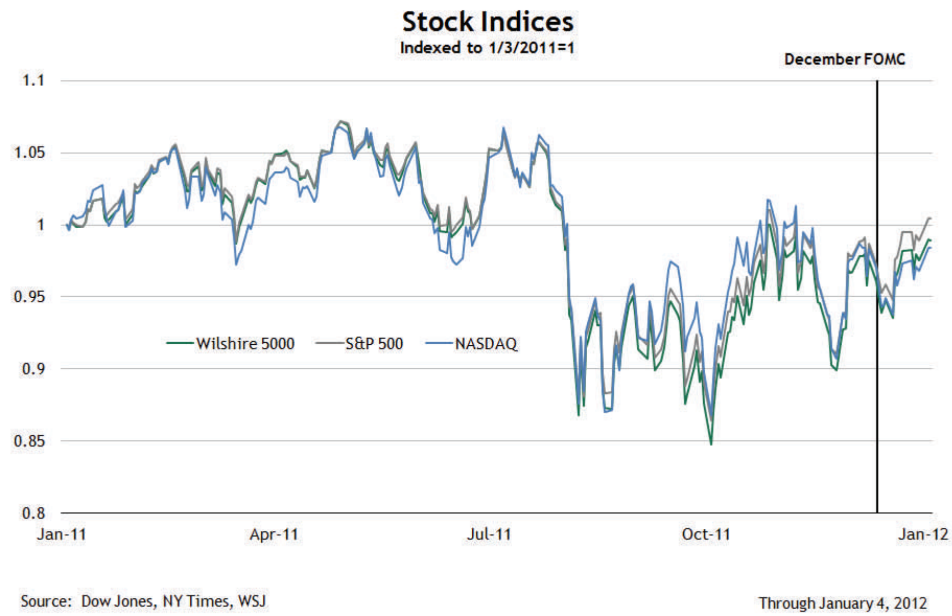
Source: Federal Reserve Board

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.

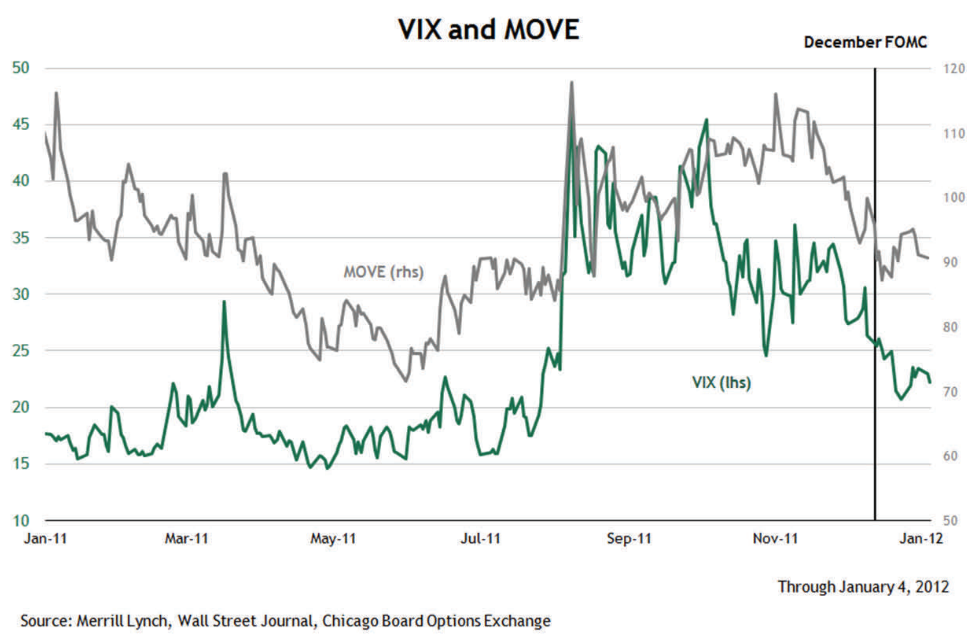
Bond and Equity Markets

Summary

The Wilshire 5000, NASDAQ, and S&P 500 stock indices finished the calendar year 2011 nearly unchanged. Since the FOMC meeting held on December 13, 2011, however, they are up 3-4 percent.



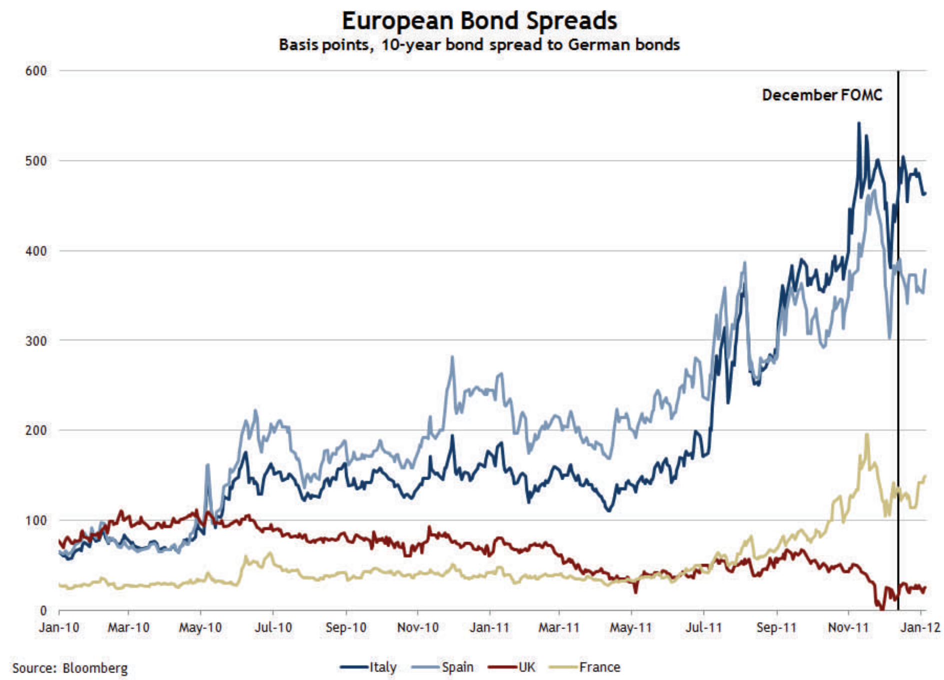
The Merrill Lynch MOVE index shows bond market volatility has been flat since the FOMC meeting held on December 13, 2011. But the VIX "fear index" from the Chicago Board Options Exchange, which measures equity market volatility, is down nearly 13 percent.



European Bond Spreads and Stock Market Premium

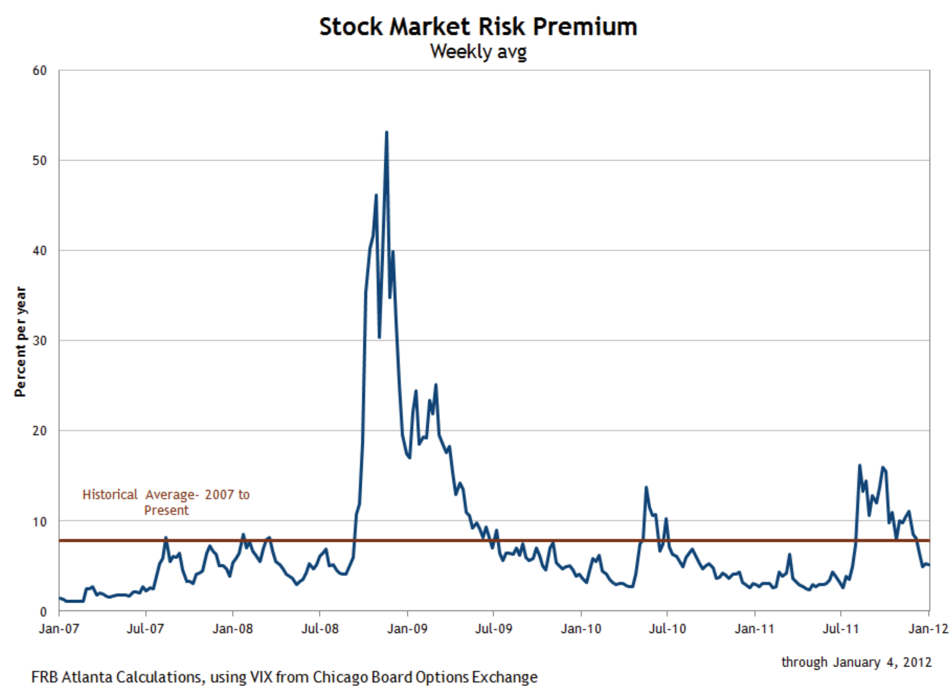
Summary

Bond spreads for Italian, French, and Spanish debt have not changed much since the FOMC meeting held on December 13, 2011.



- Bond yield spreads (against German bonds) for the "core" euro-area countries—Italy, Spain, and France, among others—have declined a bit since the December FOMC meeting, though they remain elevated by historical comparison. Italian debt spreads are down 7 basis points (bps), Spanish spreads are flat, and French spreads are higher by 16 bps.

The premium investors have demanded in order to invest in stocks has declined recently to its lowest levels since July 2011.

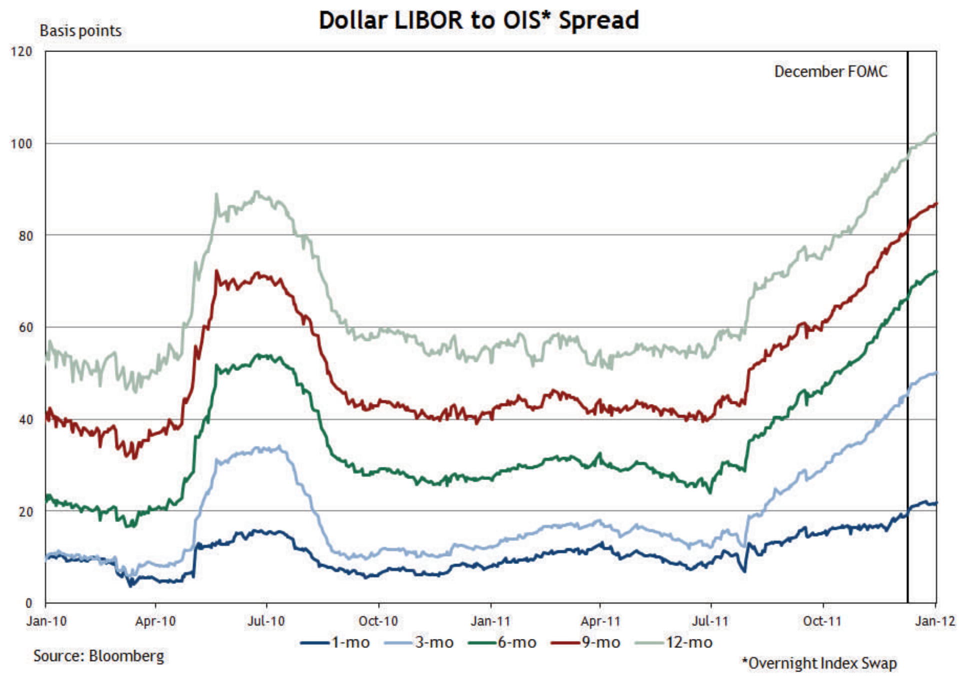


- In the most recent weekly average, the premium has declined to 5.11 percent per year, a decline from the previous weekly average of 5.23 percent and below the four-and-a-half year average of 7.81 percent. The past three weeks have seen the lowest levels in the risk premium since July 2011.

Broad Financial Market Indicators

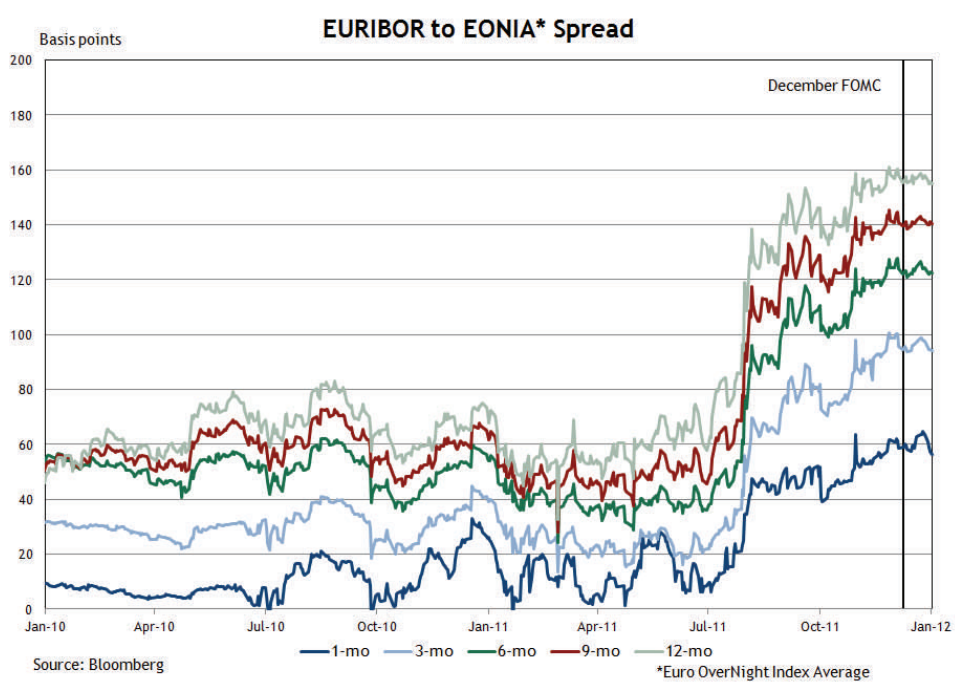
Summary

LIBOR to OIS spreads for all tenors have continued their widening trend since late August 2011. Since the FOMC meeting held on December 13, 2011, spreads are about 4-6 basis points (bps) higher for three-to-12-month tenors and about 2 bps higher for the one-month tenor. The levels of the spreads have exceeded the recent peaks of last summer.



- The LIBOR-OIS series shown above is denominated in U.S. dollars and reflects the spread between interbank lending rates offered and the overnight index swap (OIS) rate. The LIBOR panel used to create the rate is made up of 19 large international banks based in the United States, Europe, and elsewhere. The OIS rate is a proxy measure for the expected effective rate on federal funds held over a given maturity.

The euro-based Euribor-to-Eonia spread at longer tenors has stabilized since the FOMC meeting held on December 13, 2011, but the one-month spread is down 3 bps.

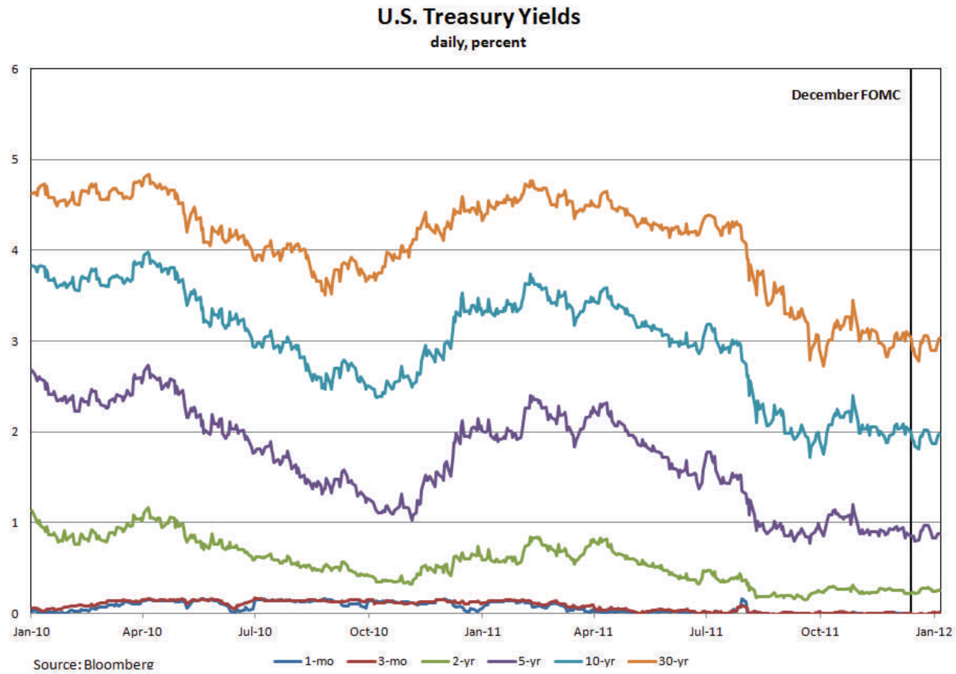


- The Euribor rates are offered interbank lending rates, denominated in euros and for a set of given maturities. The Euribor rate is determined by surveying 44 banks with the highest volume of business in the euro area, including 4 non-European banks. Eonia is the Euro Overnight Index Average swap rate on unsecured interbank lending in the euro area.

Broad Financial Market Indicators

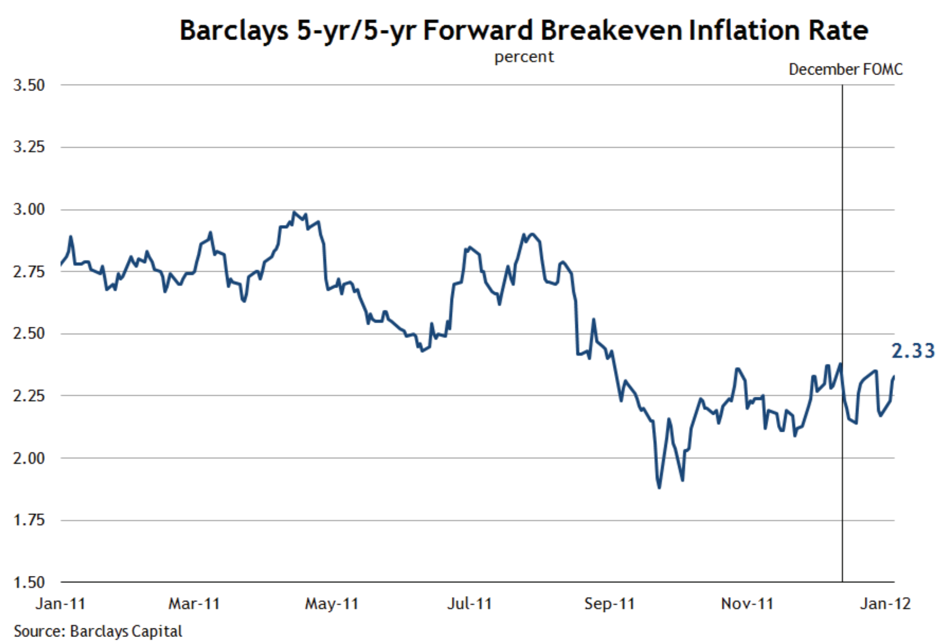
Summary

After declining by more than 100 bps in 2011, long-term Treasury yields are very little changed over the past few weeks since the FOMC meeting held on December 13, 2011.



- Since December 13, 2011, the 30-year Treasury bond yield is up 2 bps to 3.03 percent, and the 10-year yield is 1 bp lower to 1.98 percent. The two-year note is up 2 bps to 0.26 percent. The three- and one-month T-bill rates are both little changed near 0.00 percent.
- Between January 3, 2011, and January 5, 2012, the 30-year bond yield declined 137 bps, the 10-year yield was down 136 bps, and the five-year yield was down 113 bps. The two-year yield declined 34 bps.

Over 2011, breakeven inflation rates declined from the 2.6-2.9 percent range to the 2.1-2.4 percent range. Since the FOMC meeting held on December 13, 2011, the breakeven rate is essentially unchanged.



- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.33 percent as of January 5, 2012, which is very near the 2.30 percent rate seen at the December 2011 FOMC meeting.