FEDERAL RESERVE BANK of ATLANTA

January 19, 2011

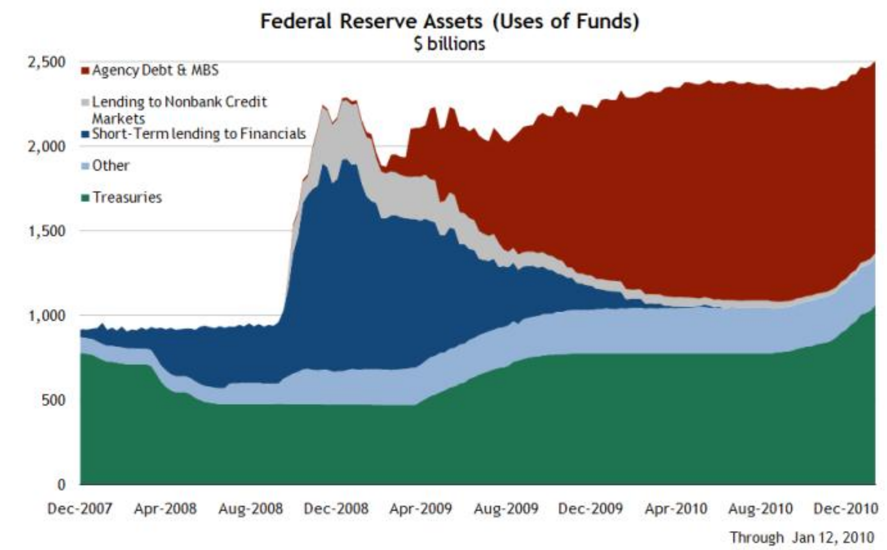
# Financial Highlights

# Federal Reserve

## Summary

**The balance sheet grew by $32.6 billion for the week ended January 12.**

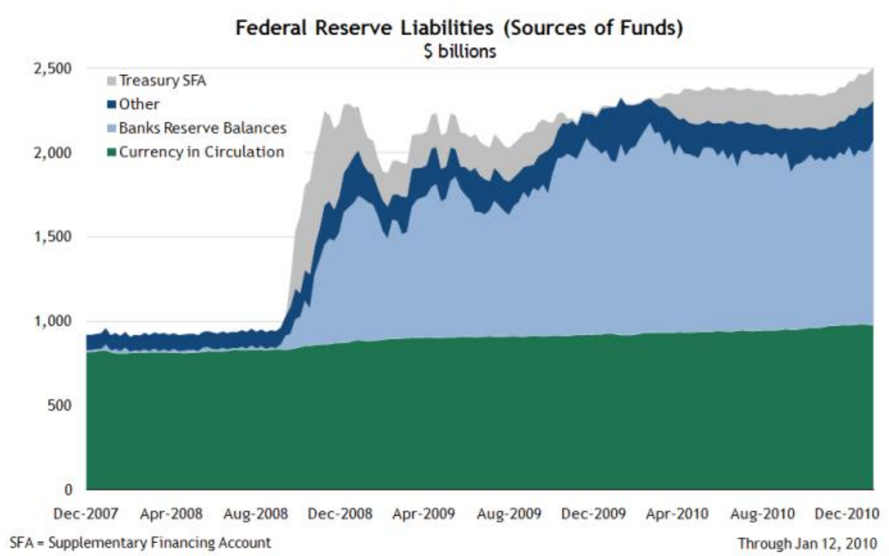
**Since November 10, the balance sheet has increased $155.6 billion.**




Source: Federal Reserve Board

- Treasuries increased by $31 billion while agency debt and MBS decreased $1.1 billion. Since November 10, Treasury securities have grown by $209 billion while agency debt and MBS have shrunk by $62.2 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $112 billion between mid-January and mid-February.
- Growth in the balance sheet will fluctuate from week to week as a result of the volatility of MBS prepayments.

**Bank reserve balances with the Federal Reserve increased $64.6 billion while Treasury deposits with Federal Reserve Banks (part of "Other") declined $30.1 billion.**




Source: Federal Reserve Board

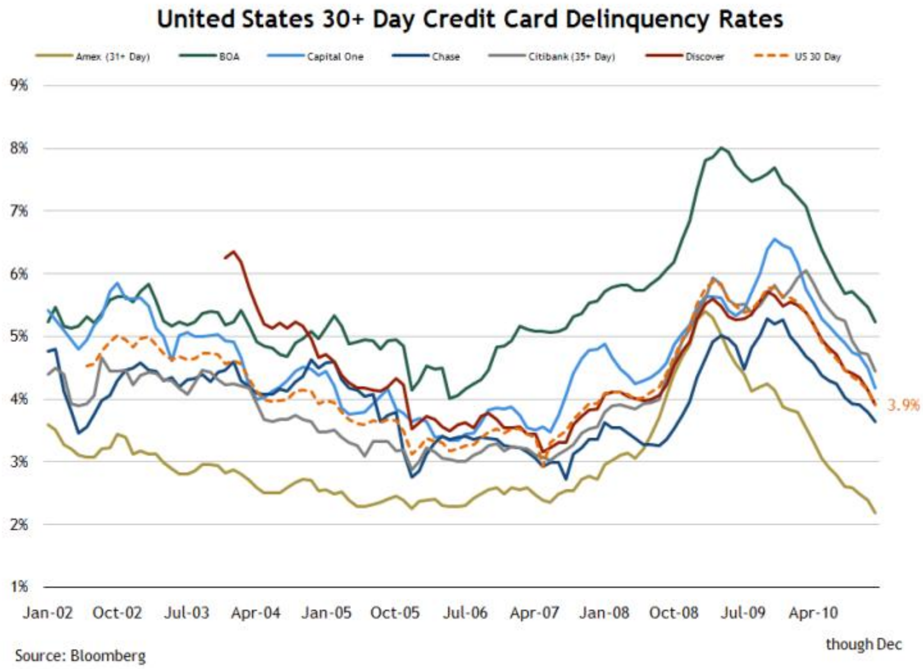
**Assets**: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with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

## Consumer Credit

### Summary

**Thirty-plus day delinquency rates on credit cards continue to decline.**

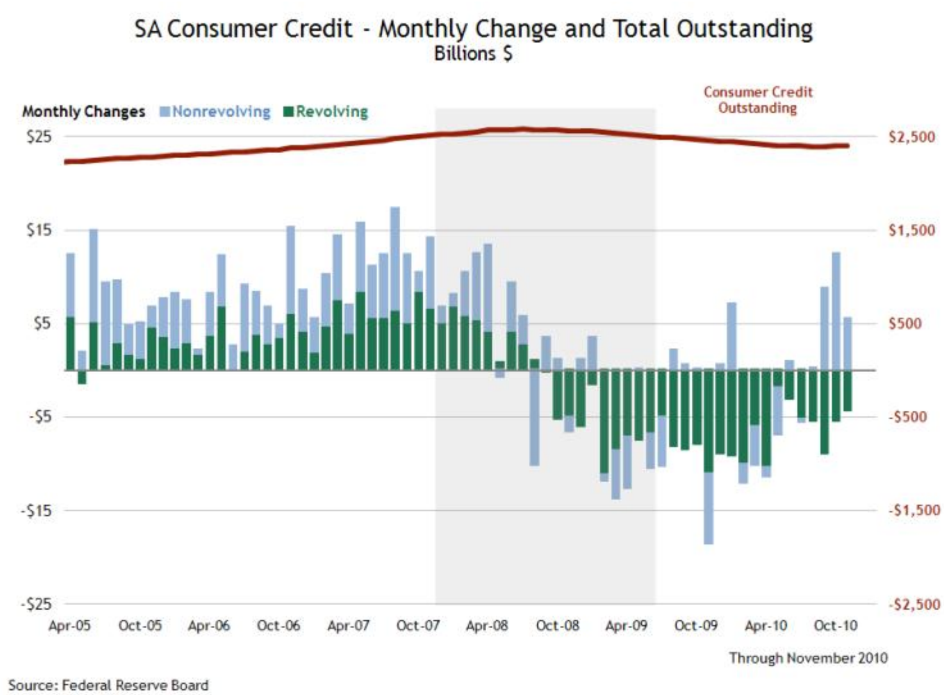
**Bloomberg's U.S. 30-day index was 3.9% in December 2010, down from a high of 5.9% in March 2009.**




**Consumer credit outstanding increased in October and November 2010, marking the first two consecutive months of increases since July 2008.**

**The recent gain has come entirely from nonrevolving credit outstanding, which increased $26.8 billion from August to November.**

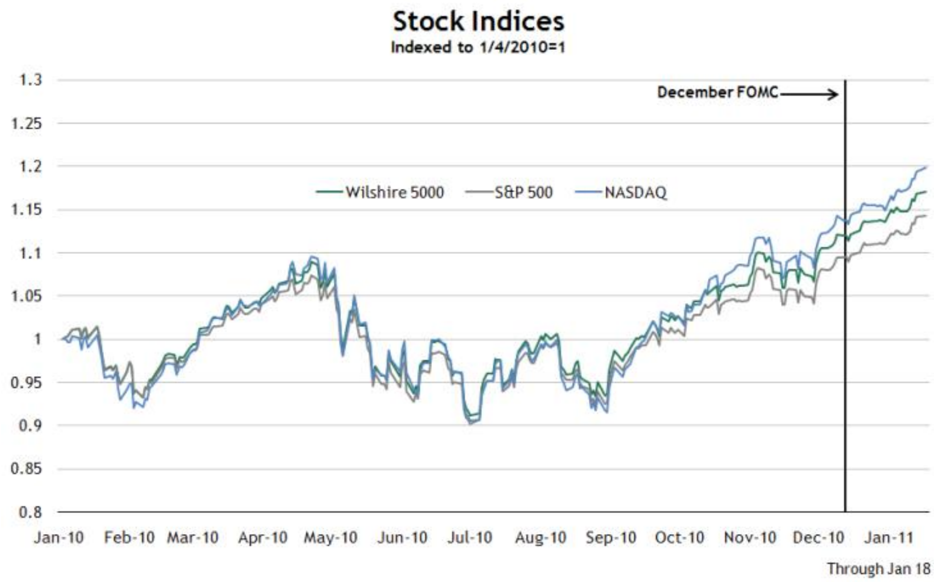
**In November, revolving credit continued its downward trend, declining $4.2 billion, marking the 26th consecutive month of declines.**



## Bond and Equity Markets

### Summary

**Equity markets levels have risen about 4% to 5% since the December FOMC meeting.**




Source: Dow Jones, NY Times, WSJ

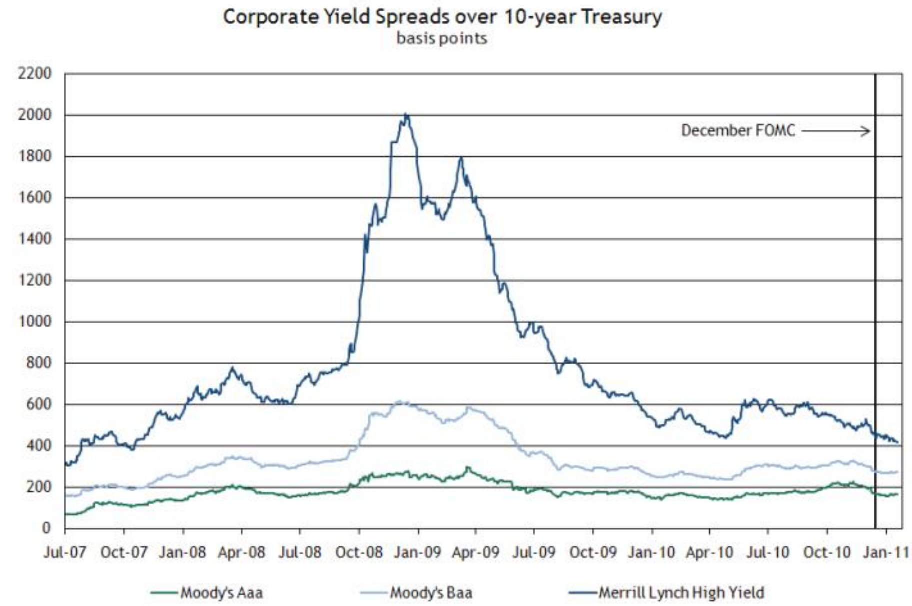
**The Merrill Lynch MOVE index shows bond market volatility decreased around 18% since the December FOMC meeting, while the VIX "fear index" from the Chicago Board Option Exchange indicates equity market volatility fell by almost 10%.**


Source: Merrill Lynch, Wall Street Journal

# Corporate Bonds

## Summary

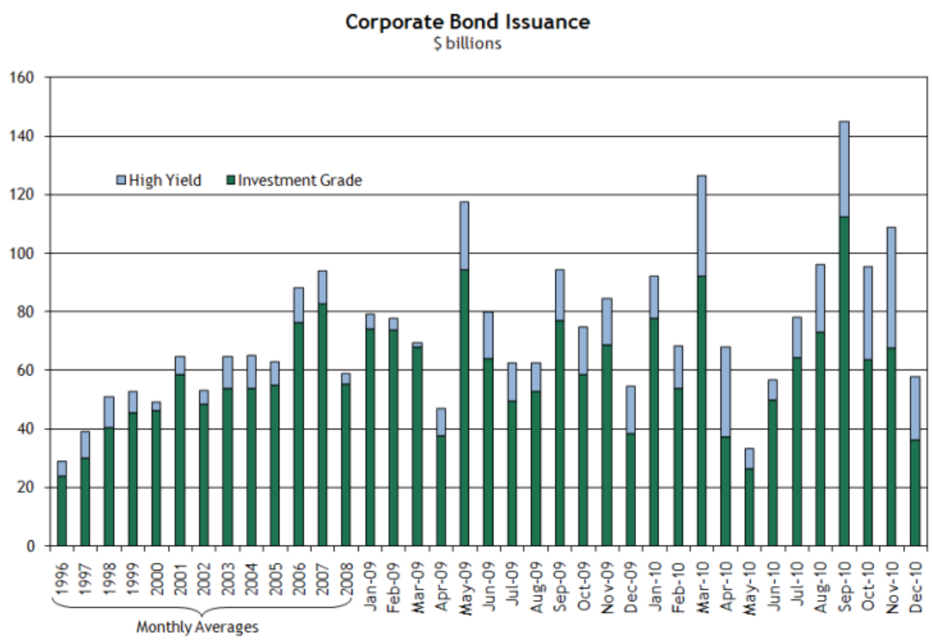
**Since the December FOMC meeting, corporate yield spreads have narrowed for riskier securities, while remaining flat for Aaa- and Baa-rated ones.**




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

- Since the December FOMC meeting, corporate yield spreads have narrowed by 21 basis points (bps) for the Merrill Lynch High Yield Index. The Moody's Aaa- and Baa-rated bonds have changed by 1 bp and –3 bps, respectively.

**U.S. corporations accessed the bond market for $57 billion in financing during December 2010.**




Source: SIFMA

- According to SIFMA, issuance of U.S. corporate bonds hit $57 billion in December 2010, and high-yield debt issuance made up $22 billion of that amount.

# Corporate Bonds

### Summary

**The index ended Tuesday at 75 basis points, its lowest level since Dec. 13, 2007.**

**Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. An increase in the CDX generally signals a deterioration in the perception of credit quality.**

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


Source: Markit Group Limited/Haver Analytics

# Broad Financial Market Indicators

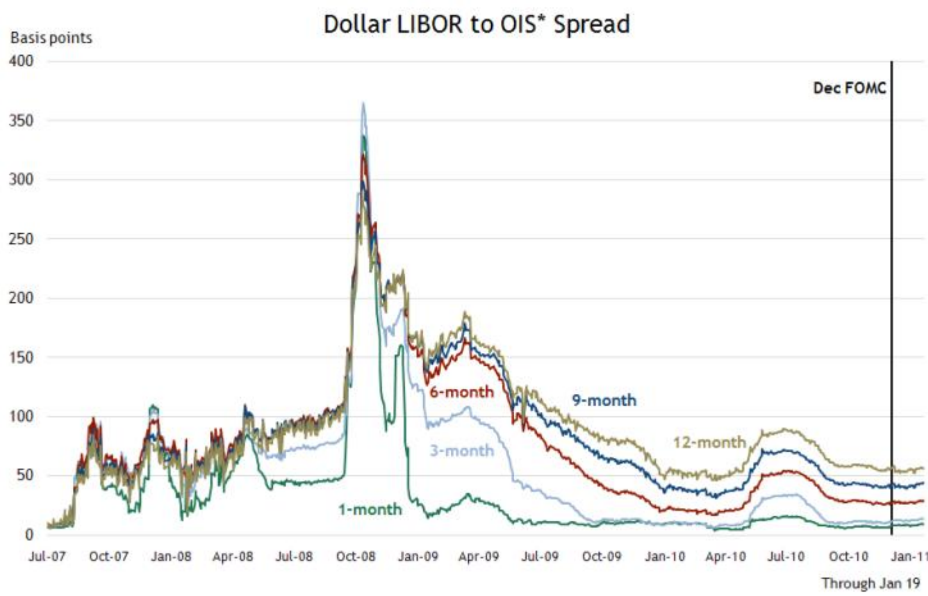
## Summary

**The two-to-30-year Treasury yield curve has steepened slightly since the December FOMC meeting.**


Source: Federal Reserve Board/Haver Analytics

- Through January 18, 30-year Treasury bond yield has risen 2 bps to 4.56% since the last FOMC meeting on December 14, and the 10-year note is lower by 10 bps, to 3.39%, and the two-year by 6 bps, to 0.60%.

**LIBOR to OIS spreads continue to be stable, with the one- and three-month spreads at 9 and 13 basis points, respectively.**



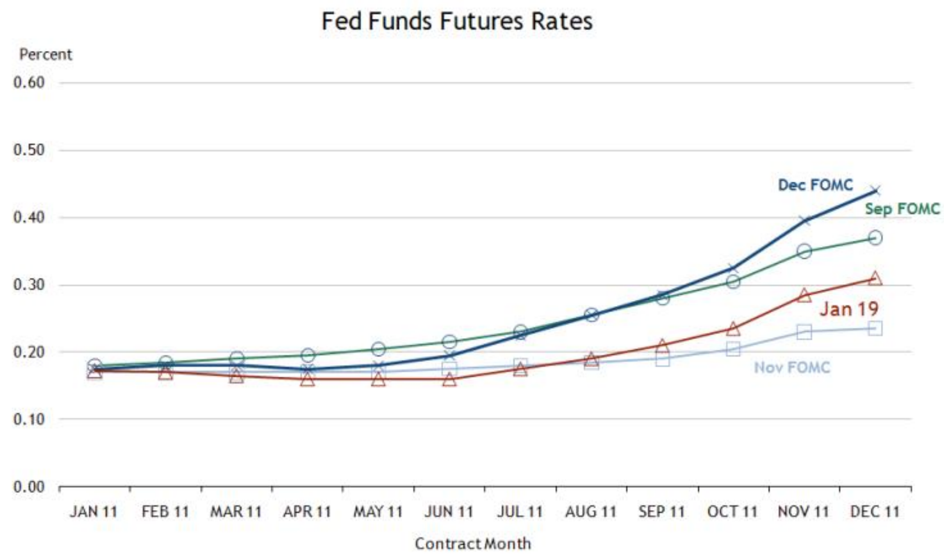

Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

## Broad Financial Market Indicators

### Summary

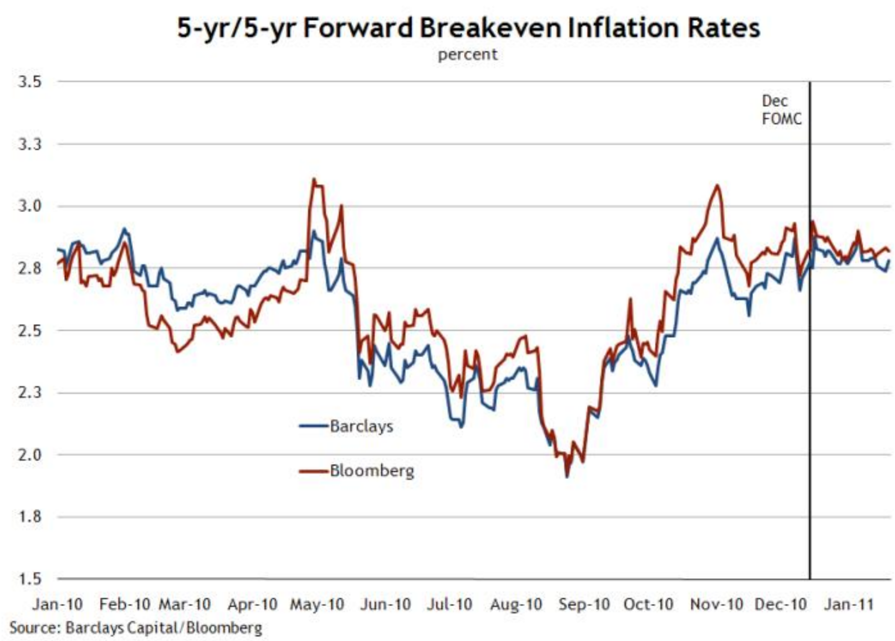
**Since the December FOMC meeting, the curve of expected rates beginning in mid-2011 has moved lower, according to the fed funds futures market, though it is still higher than what followed in November.**




Source: Bloomberg

- As of January 19, the futures market for fed funds indicates an implied rate of about 31 bps for the December 2011 contract, nearly 13 bps lower than what followed the December FOMC meeting, but 8 bps higher than in November.

**Breakeven inflation rates have remained flat since the December FOMC meeting.**




Source: Bloomberg/Barclays

- After breakeven inflation rates rose strongly between the September and November FOMC meetings, they have since stayed within the range of 2.7% to 2.9% in the past month.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.78% as of January 19, 2011, which is unchanged from the December FOMC meeting.