

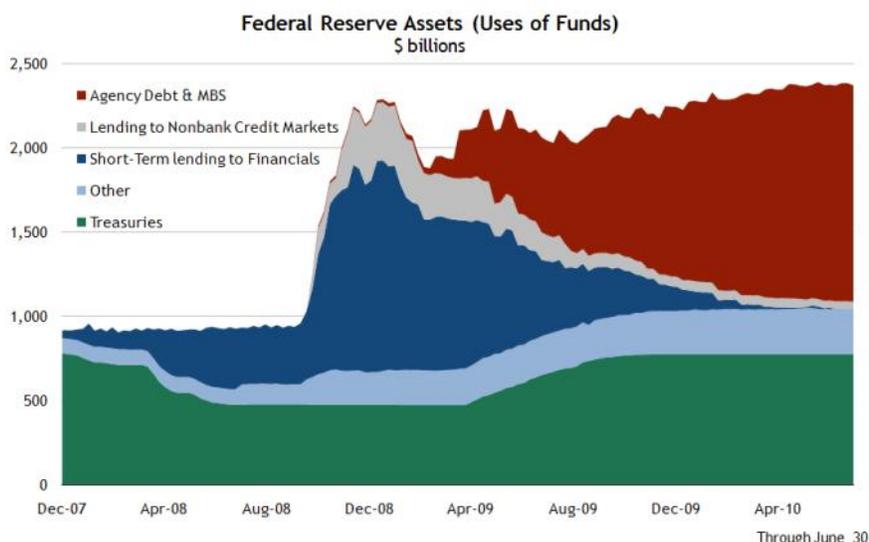
Financial Highlights

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Federal Reserve

Summary

The balance sheet declined \$14 billion for the week ending June 30.

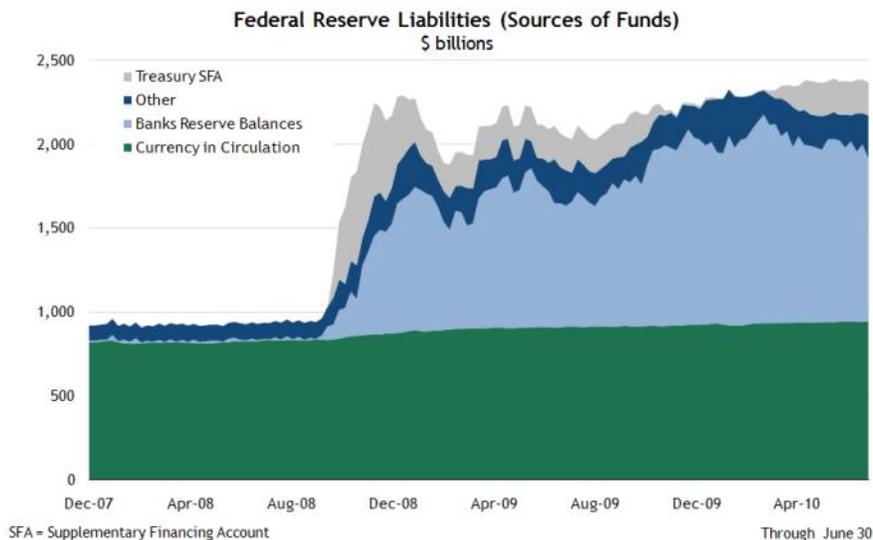


Source: Federal Reserve Board

- The primary contributor to the drop was a decline MBS, which declined by \$11 billion.

Bank reserve balances declined by \$90 billion while Treasury deposits with Federal Reserve banks increased by \$41 billion and other nondepository deposits with the Federal Reserve increased by \$25 billion, both part of "Other."

Term deposits, a potential reserve-draining tool, remained unchanged. A test auction conducted on June 28 for \$2 billion settled July 1.



Source: Federal Reserve Board

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMLFF; 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 Debt

Summary

Most peripheral European bond spreads (over German bonds) have narrowed or stabilized over the past two weeks, though they remain elevated.

European Bond Spreads

Basis points, 10-year bond spread to German bonds

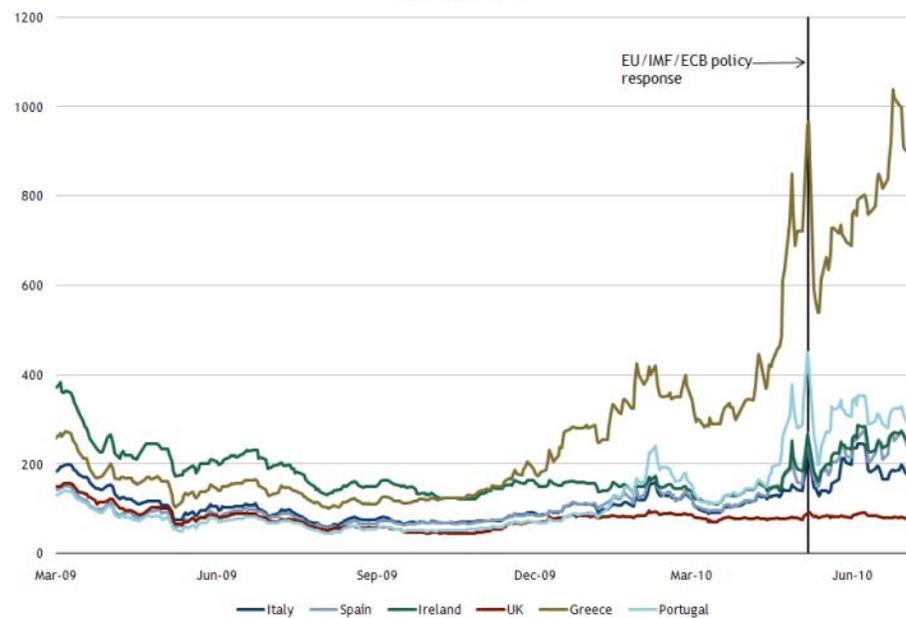


- After rising steadily through May and most of June, the 10-year Greece-to-German bond spread has *narrowed* 38 basis points (bps) (from 8.01% to 7.63%), through July 6. Most other European peripherals' spreads have narrowed, too, with Portugal's down 28 bps. However, Spain (up 18 bps) and Italy (8 bps higher) were the exceptions.

Similarly, CDS spreads have narrowed since the June FOMC, though they remain very high.

European CDS Spreads

5-year, basis points



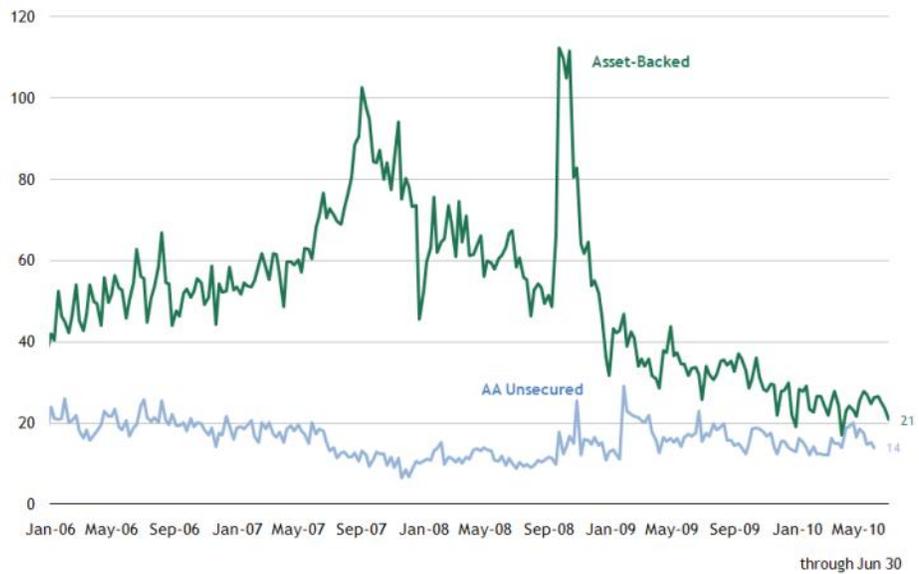
Commercial Paper

Summary

Issuance of asset-backed commercial paper continued to decline while unsecured commercial paper has remained stable for the past year.

Commercial Paper New Issuance

Avg Weekly, Billions \$

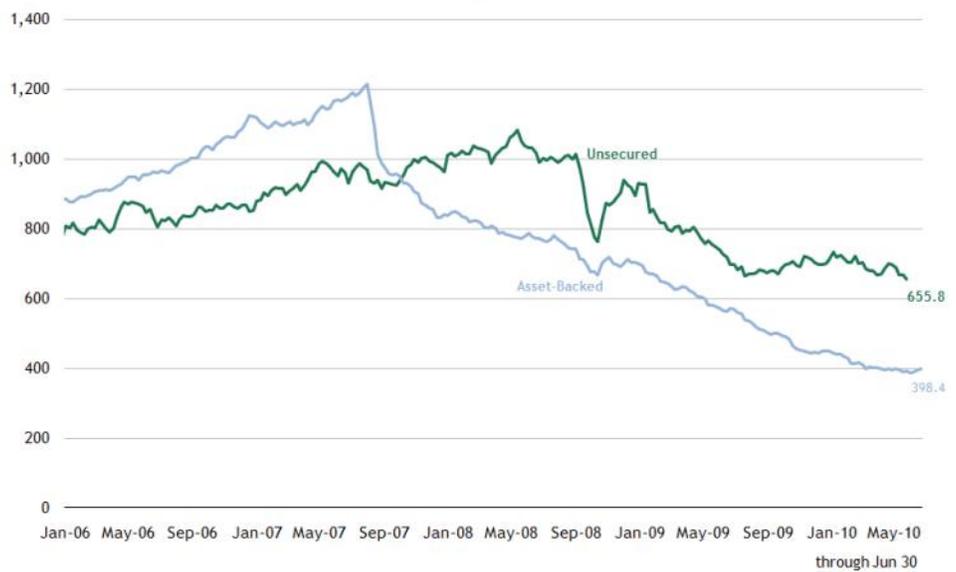


Source: Federal Reserve Board

As a result of issuance trends, unsecured commercial paper outstanding has remained stable while asset-backed commercial paper outstanding continues to contract.

Commercial Paper Outstanding

NSA, Weekly, Billions \$

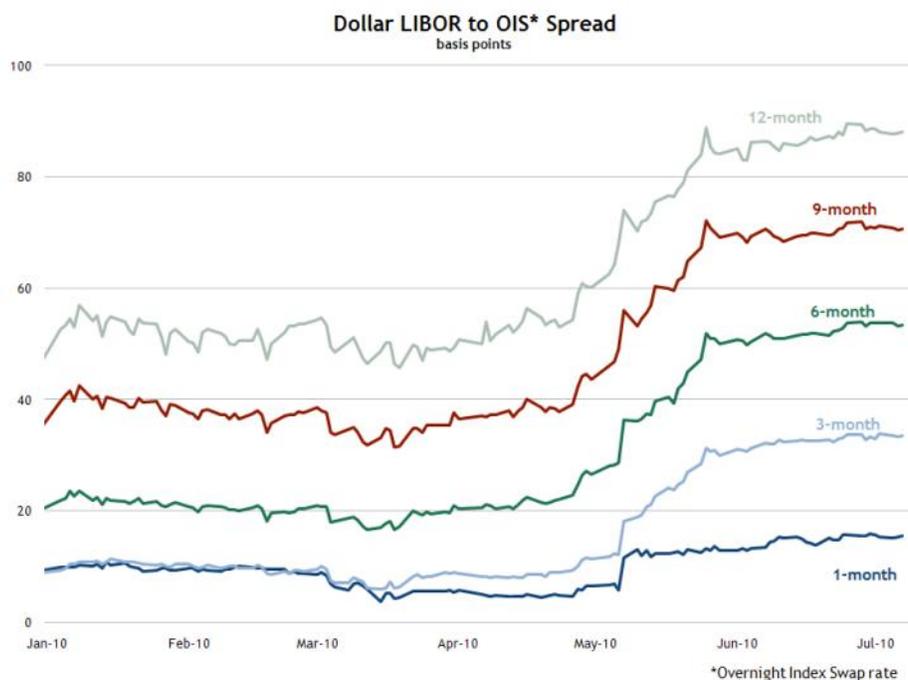


Source: Federal Reserve Board

Broad Financial Market Indicators

Summary

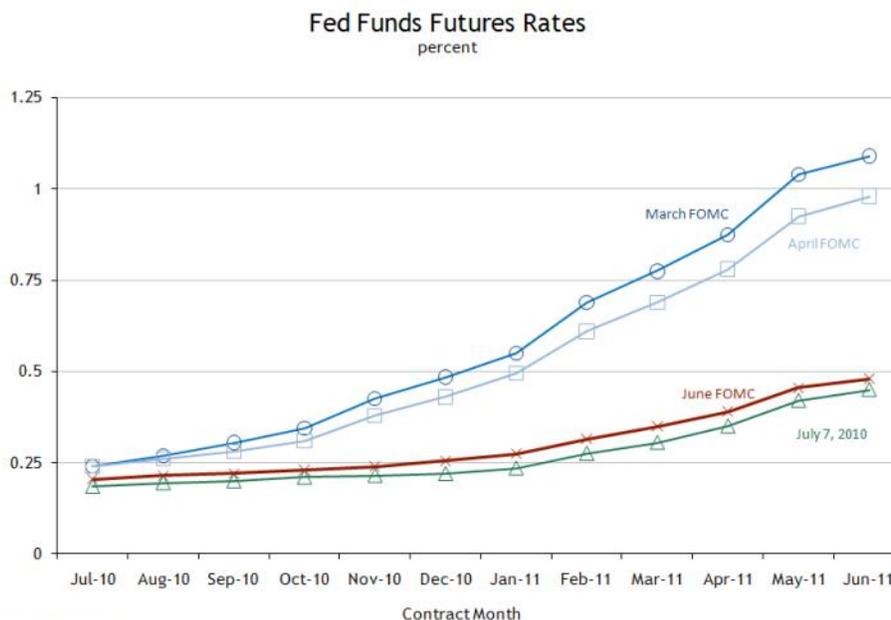
LIBOR to OIS spreads have been relatively stable, rising only a few basis points in the past month.



Source: Bloomberg/British Bankers' Association

- In the four weeks through July 7, dollar LIBOR to OIS spreads widened slightly across all tenors. The one- and three-month spreads rose by 0.9 and 1.4 bps, while the six- and 12-month spreads were higher by 2.4 and 2.8 bps, respectively; the nine-month spread was up only 1.4 bps.

The curve of expected rates from the fed funds futures market has flattened slightly since the June FOMC meeting, pushing back the first Fed rate increase to mid-2011.



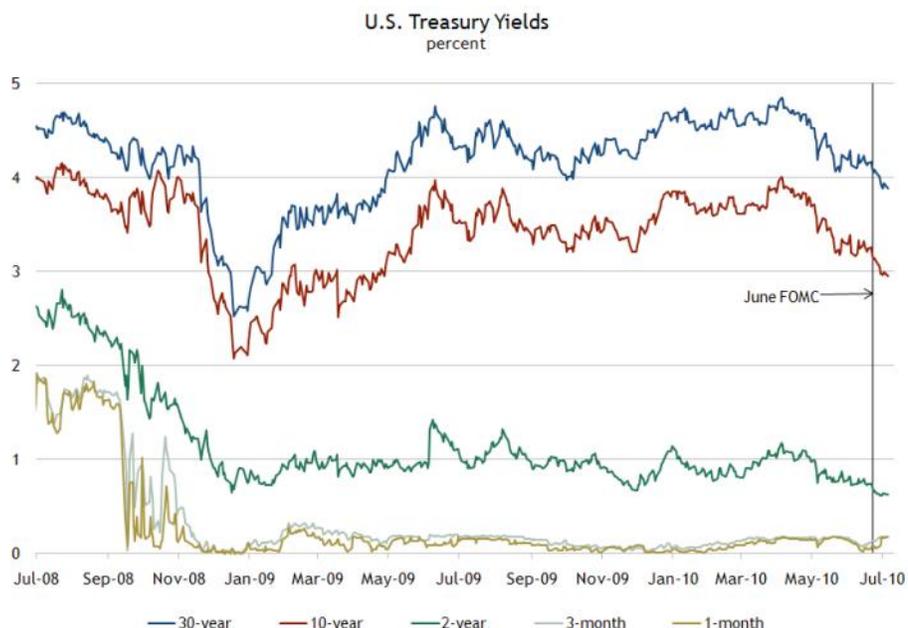
Source: Bloomberg

- In the two weeks since the June FOMC meetings, the fed funds futures market pushed back its expectation of a rate increase to mid-2011.
- As of July 7, the futures market for fed funds indicates an implied rate of about 45 bps for the June 2011 contract.

Broad Financial Market Indicators

Summary

Longer-dated Treasury yields continued their downward trajectory of the past few months, declining further since the June FOMC.

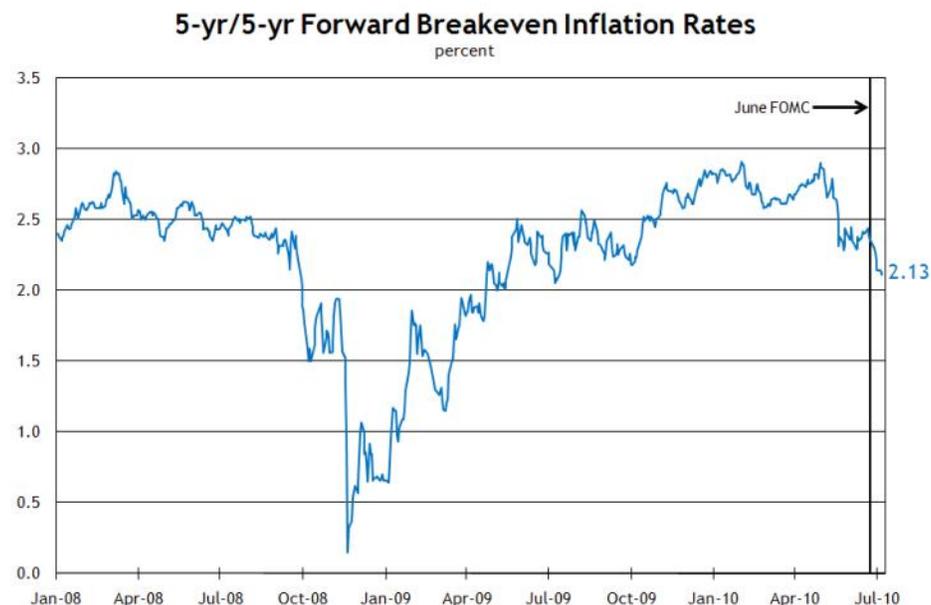


Source: Federal Reserve Board

- Treasury yields continue to experience declines from safe-haven flows coming in light of uncertainty regarding European financial troubles and lower global economic growth.
- In the two weeks since the June FOMC meeting, longer-dated Treasury yields moved lower across the two- to 30-year curve: the 30-year bond is down 16 bps to 3.89%, the 10-year 18 bps lower at 2.95%, with the two-year note declining 4 bps to 0.62%, through July 6.

Summary

Breakeven inflation rates according to the TIPS market have declined since the June FOMC



Source: Bloomberg/Barclays Capital

- Over the past two weeks, the 5-year/5-year forward breakeven inflation rate according to Barclays has declined 22 bps, from 2.35% to 2.13%.