FEDERAL RESERVE BANK of ATLANTA

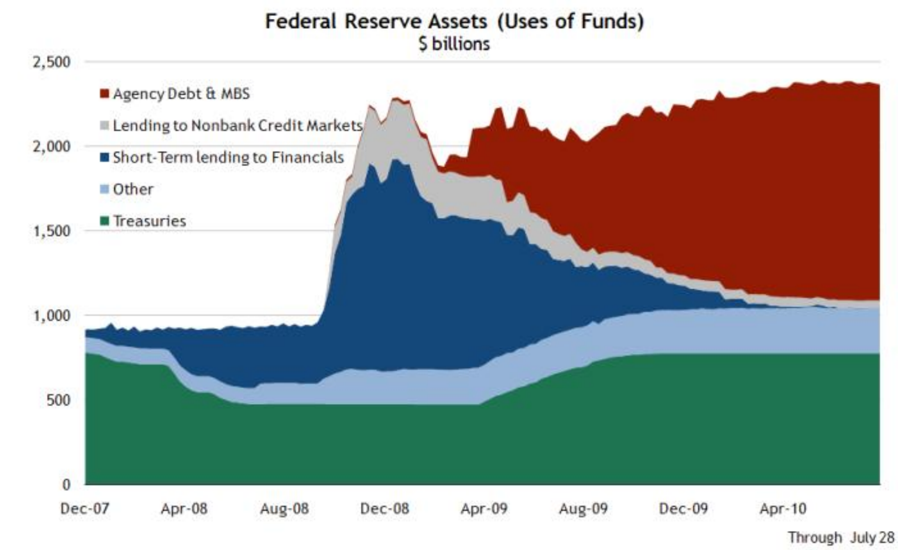
August 4, 2010

Financial Highlights

Federal Reserve

Summary

The balance sheet remained essentially unchanged, declining by $7.8 billion for the week ending July 28.

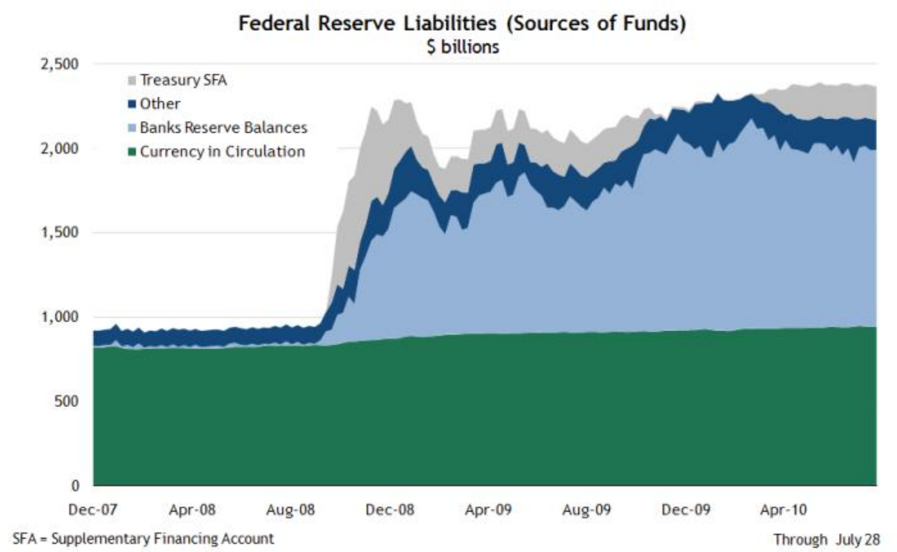


Source: Federal Reserve Board

- MBS on the balance sheet declined by $7 billion.

Treasury deposits with Federal Reserve banks decreased by $13.5 billion.

Term deposits, a potential reserve-draining tool, remained unchanged from the week prior.



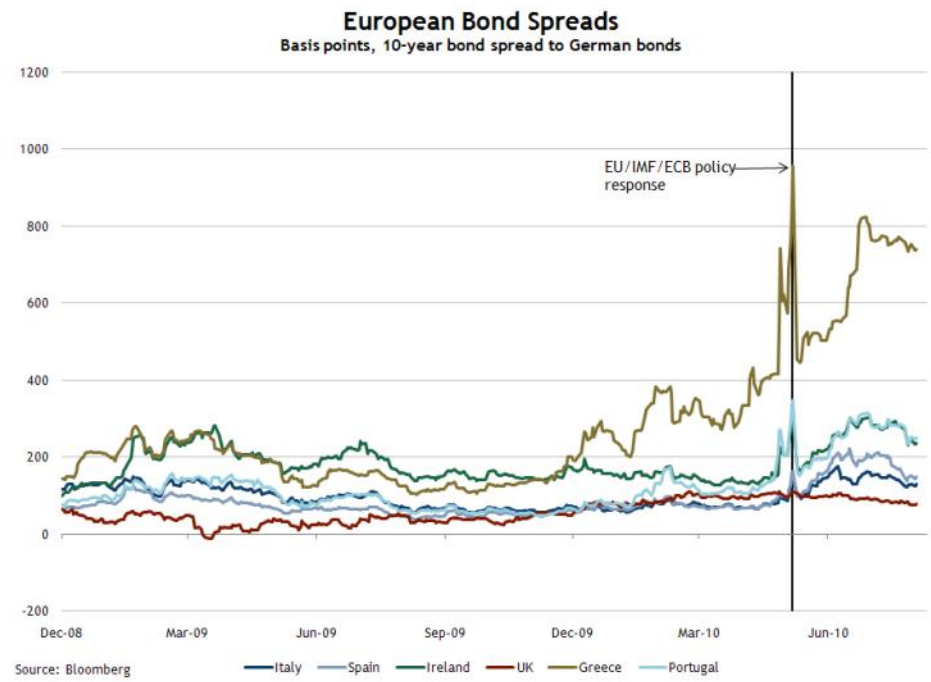
Source: Federal Reserve Board

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 Debt

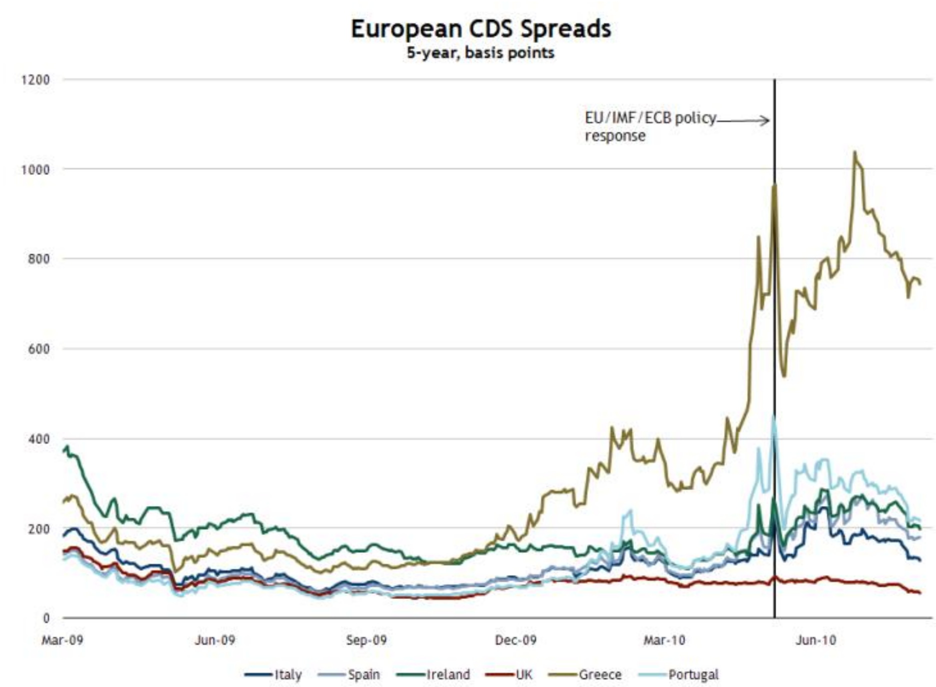
Summary

Peripheral European bond spreads (over German bonds) have declined by an average of 50 basis points (bps) since the June FOMC meeting but remain elevated.



- Since the June FOMC meeting, the 10-year Greece-to-German bond spread has narrowed by over 62 basis points (bps) (from 8.01% to 7.39%) through August 3. Other European peripherals' spreads have also narrowed, with Portugal lower by 57 bps over the period and Spain 45 bps lower.

Similarly, CDS spreads have narrowed considerably for the countries known collectively as the PIIGS (Portugal, Ireland, Italy, Greece, and Spain)—Ireland moved lower by nearly 70 bps while Greece declined by 177 bps.

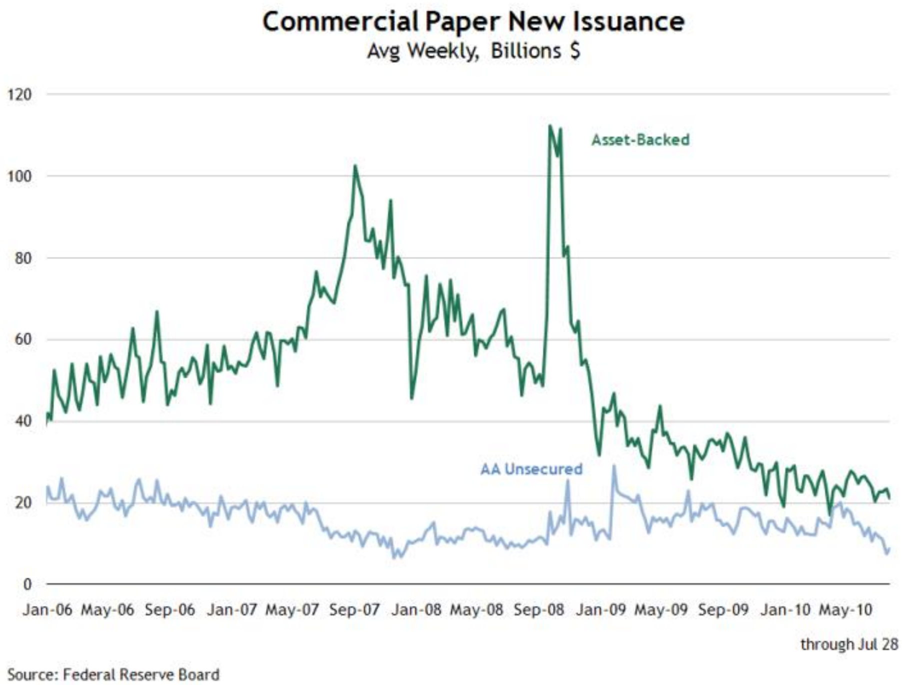


Source: Bloomberg

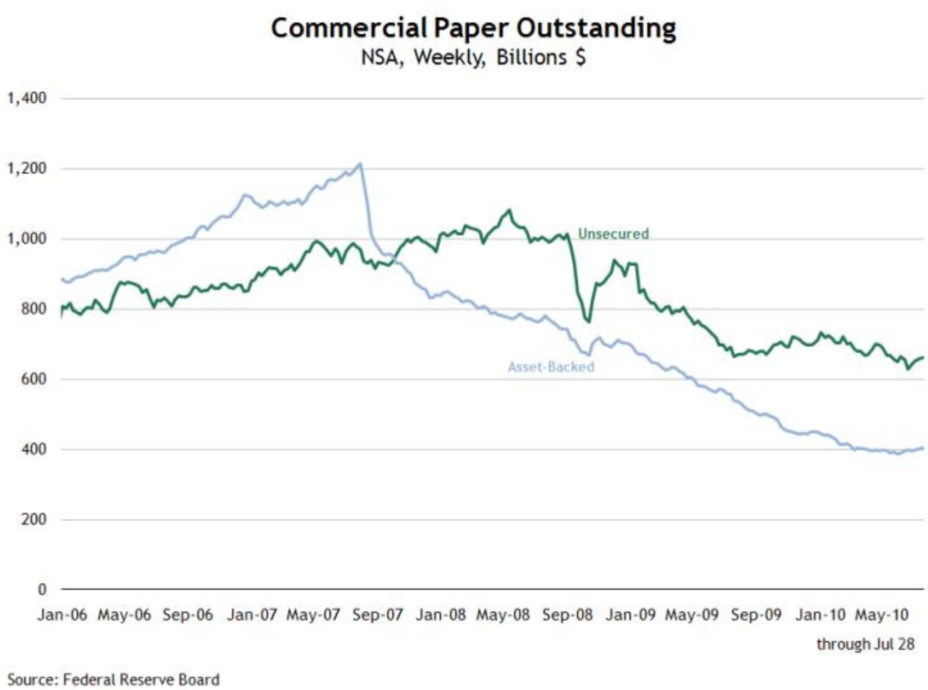
Commercial Paper

Summary

Issuance of asset-backed and unsecured commercial paper has decreased during the past two months.



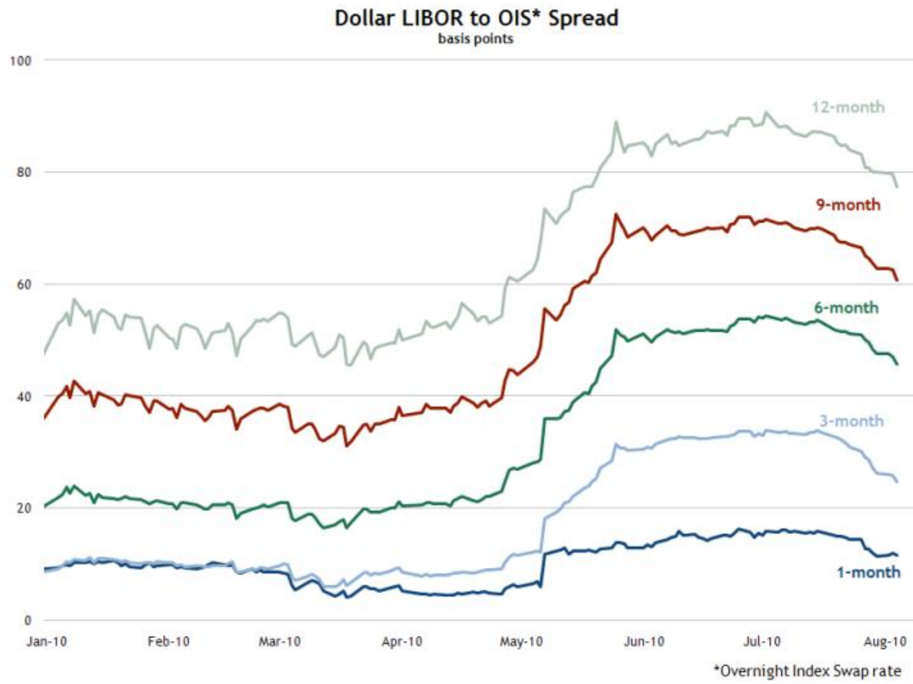
As a result of recent issuance trends, unsecured commercial paper outstanding has remained stable while asset-backed commercial paper continues to contract.



Broad Financial Market Indicators

Summary

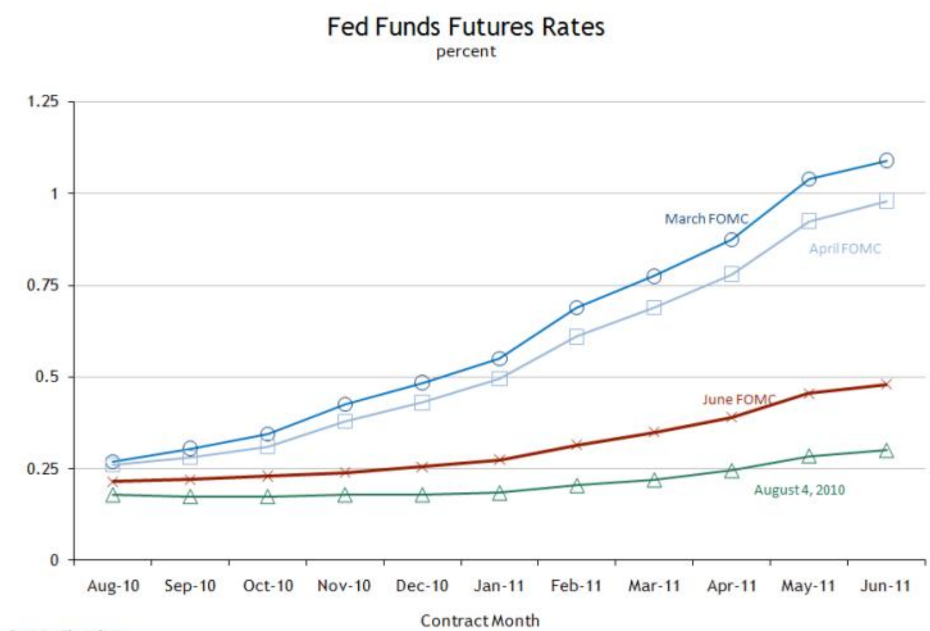
LIBOR to OIS spreads have narrowed across all tenors since the June FOMC meeting, yet spreads remain high relative to earlier this year.



Source: Bloomberg/British Bankers' Association

- Since the last FOMC meeting on June 23, dollar LIBOR to OIS spreads have narrowed across all tenors, but more so farther out on the curve. The one–, three-, and six-month spreads declined between 3 bps and 8 bps, while the nine- and 12-month spreads were lower by 10 bps to 11 bps.

Once again, the curve of expected rates from the fed funds futures market has flattened further, pushing back the first expectation of a Fed rate increase to the second half of 2011.



Source: Bloomberg

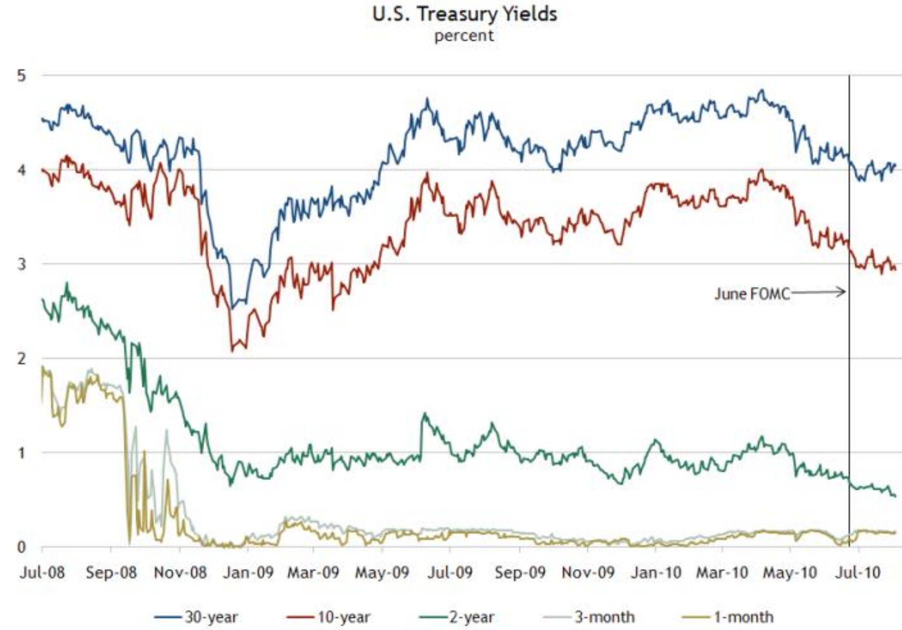
- Since the June FOMC meeting, the fed funds futures markets has pushed backed its expectation of a rate increase to late 2011.
- As of August 4, the futures market for fed funds indicates an implied rate of about 34 bps for the July 2011 contract.

Broad Financial Market Indicators

Summary

With the exception of the 30-year bond, longer-dated Treasury yields have declined since the June FOMC meeting.

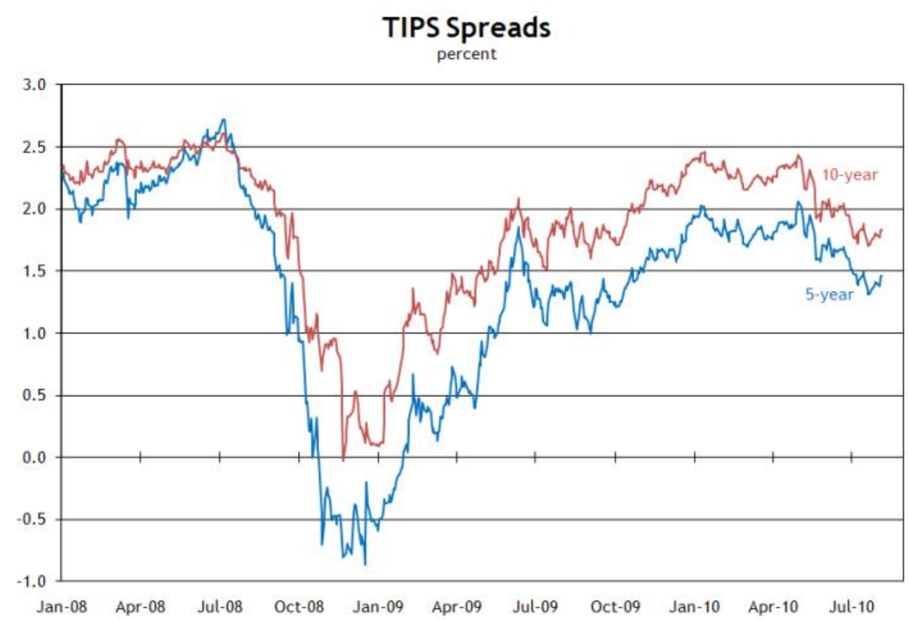
The two-year note hit an all-time low yield of 0.53%.



Source: Federal Reserve Board

- Since the June FOMC meeting, the two-to-30-year curve of Treasury yields has flattened: The 30-year bond is essentially flat at 4.04%, but the 10-year and two-year notes have fallen by 19 bps and 13 bps, respectively, to 2.94% and 0.53%. The latter is a lowest in the history of the series, going back to 1976.
- T-bill rates have risen during this period. The three– and one-month bills are higher by 3 bps and 8 bps, respectively, at 0.16% and 0.15%, through August 3.

For both the five– and 10-year tenors, TIPS spreads have narrowed by 13 bps to 19 bps since the June FOMC meeting.



Source: Bloomberg

- Since the June 23 FOMC meeting, the five– and 10-year TIPS spreads (the difference between the nominal Treasury yields and those of matched "real" yields of TIPS) have narrowed by 19 bps and 13 bps, respectively. Though it should be noted that much of the widening stems from lower nominal yields, real yields have not moved substantially lower.