

Financial Highlights

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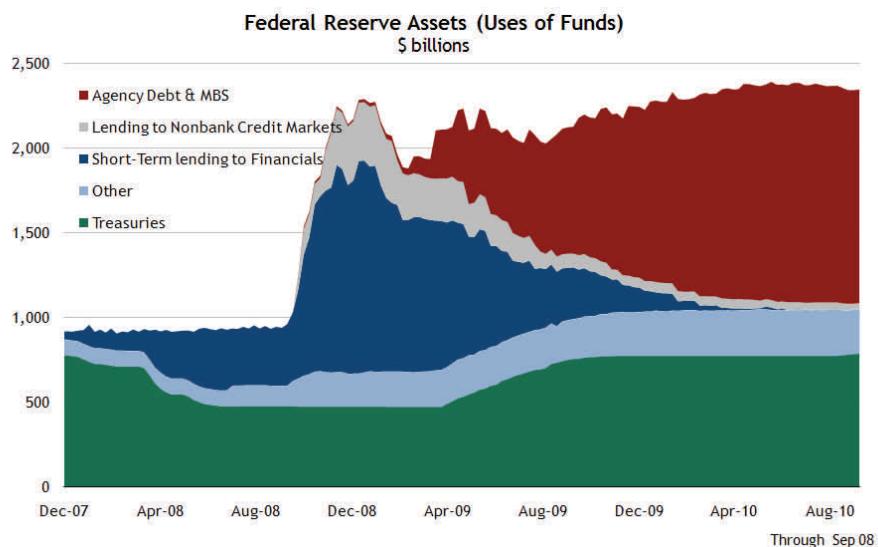
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Federal Reserve

Summary

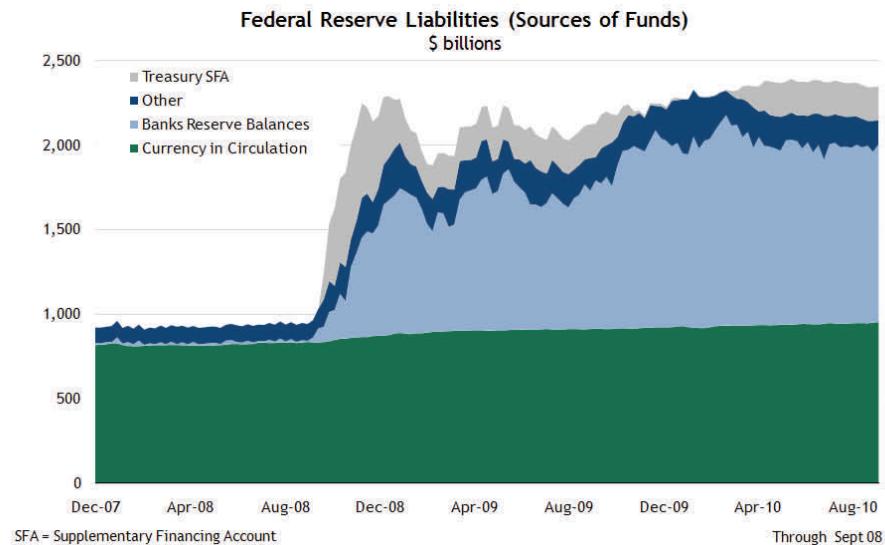
The balance sheet remained little changed, increasing by \$3 billion for the week ended September 8.



Source: Federal Reserve Board

- MBS and agency securities on the balance sheet remained unchanged.
- Treasuries increased by \$3.6 billion.
- The TALF facility (part of lending to nonbank credit markets) declined by \$0.9 billion.

Bank reserve balances increased by \$39 billion, offset by a \$41 billion decrease in Treasury deposits with Federal Reserve banks (part of "Other").



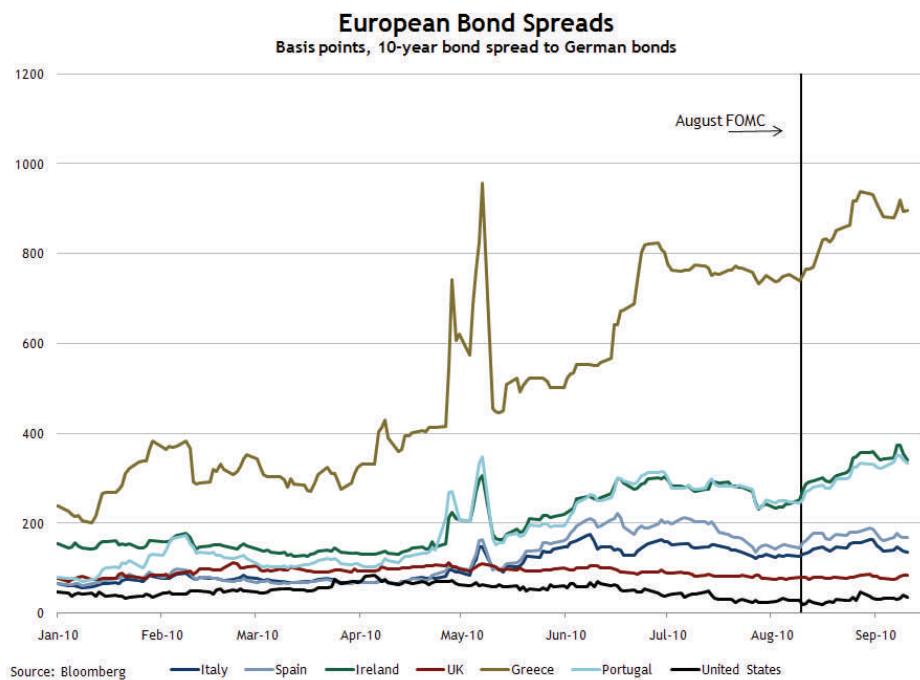
Source: Federal Reserve Board

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMLIF; 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.

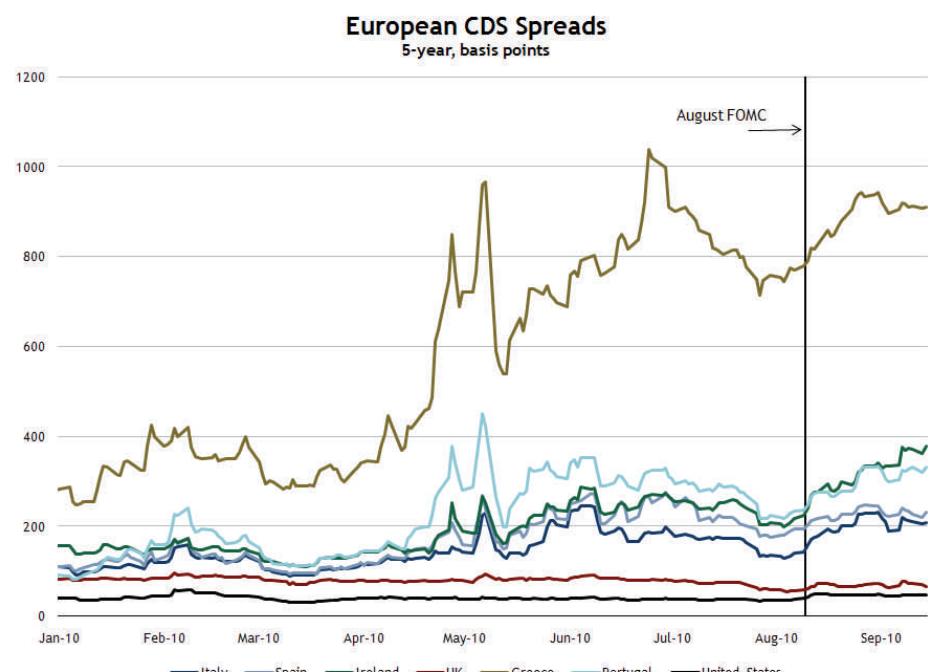
European Debt

Summary

European bond spreads have risen and remain elevated since the August FOMC meeting.



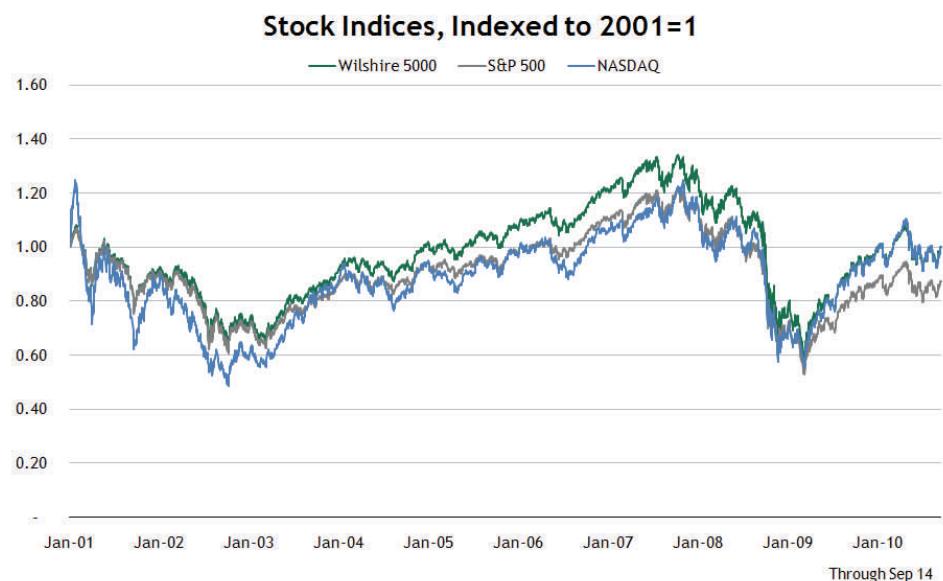
CDS spreads remain elevated for Greece and some other euro area countries.



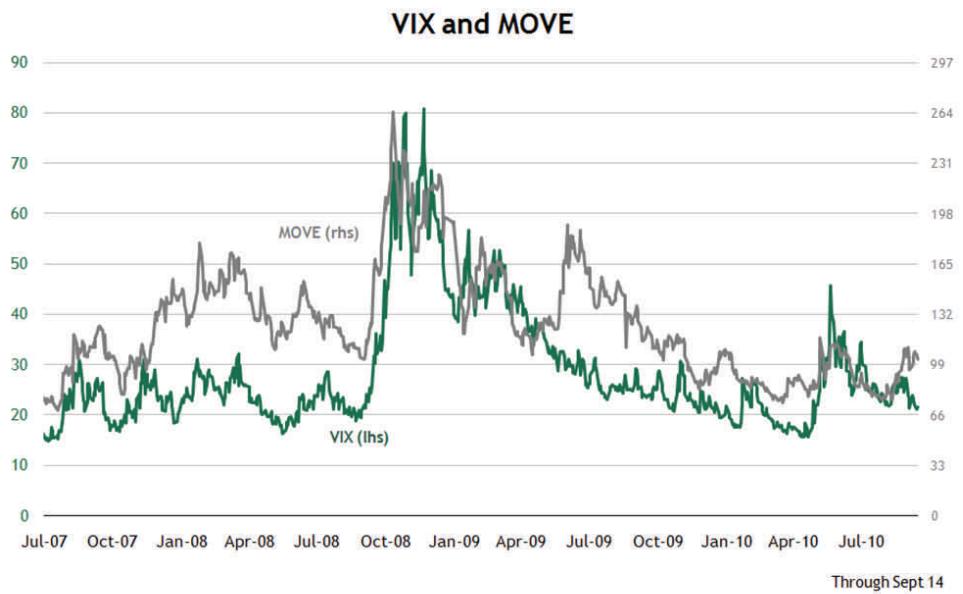
Bond and Equity Markets

Summary

Equity markets levels have changed little over the past few months.



The Merrill Lynch MOVE index shows bond market volatility increasing, while the VIX “fear index” from the Chicago Board Option Exchange indicates equity market volatility has decreased.



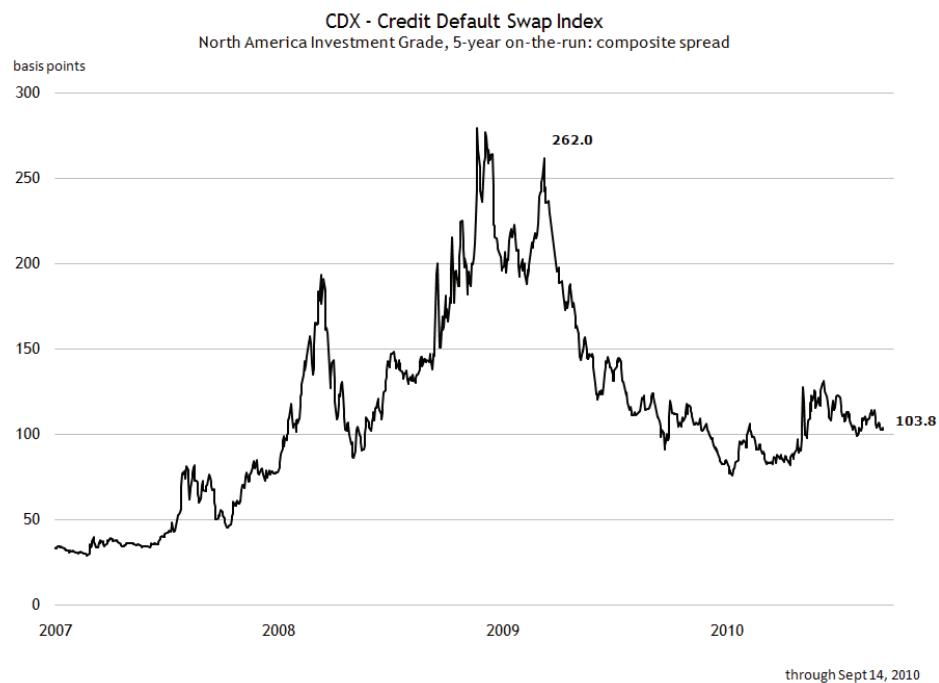
Bond and Equity Markets

Summary

The CDX stood at 103.8 basis points on September 14, hovering near levels seen in early August.

CDX 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.

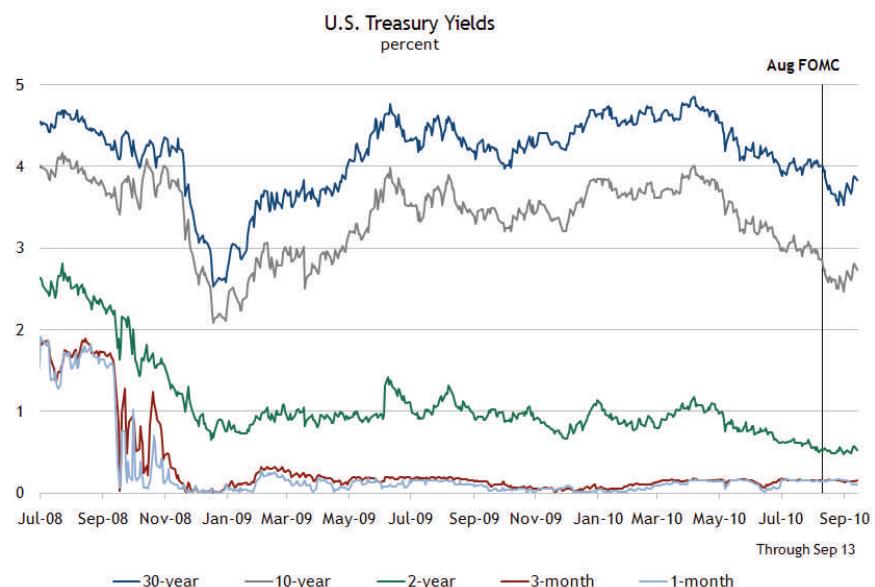


Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

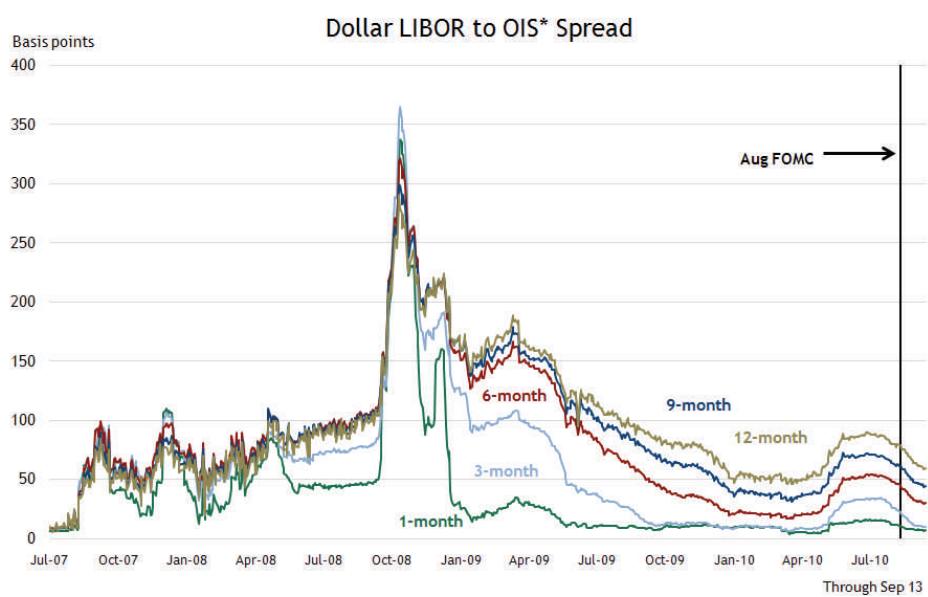
Longer-dated Treasury yields are slightly lower than the day of the August FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Thirty-year Treasury bonds have declined 17 basis points (bps) to 3.83% since the August FOMC meeting; 10-year Treasury bonds have declined 5 bps to 2.74%.

LIBOR to OIS spreads have narrowed since the August FOMC meeting.



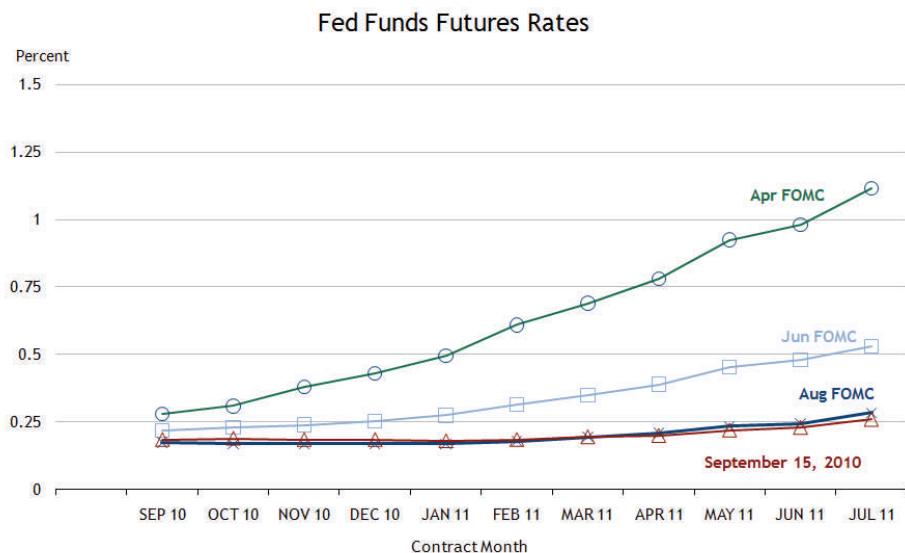
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

The curve of expected rates from the fed funds futures market is practically unchanged since the August 10 FOMC meeting.



Source: Bloomberg

- The fed funds futures markets expect a rate increase around late 2011 or early 2012.
- As of September 15, the futures market for fed funds indicates an implied rate of about 26 bps for the July 2011 contract.