

Financial Highlights

Federal Reserve

Balance Sheet 1

Broad Financial Market Indicators

Treasury Yields 2

LIBOR to OIS Spreads 2

Fed Funds Futures 3

TIPS Breakeven Inflation Rates 3

Commercial Paper

Issuance and Outstanding Amounts 4

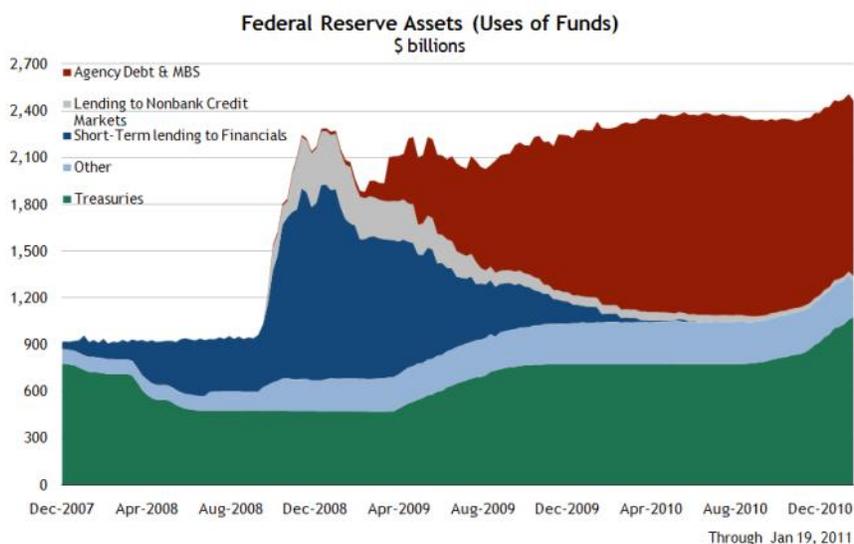
Federal Reserve

Summary

The balance sheet declined by \$43.6 billion for the week ended January 19.

The majority of the decline in the balance sheet comes from the closing of the AIG recapitalization plan and the purchase of approximately \$20 billion in preferred interests in AIA Aurora LLC & ALICO Holdings LLC by AIG.

Since November 10, the balance sheet has increased \$112 billion.

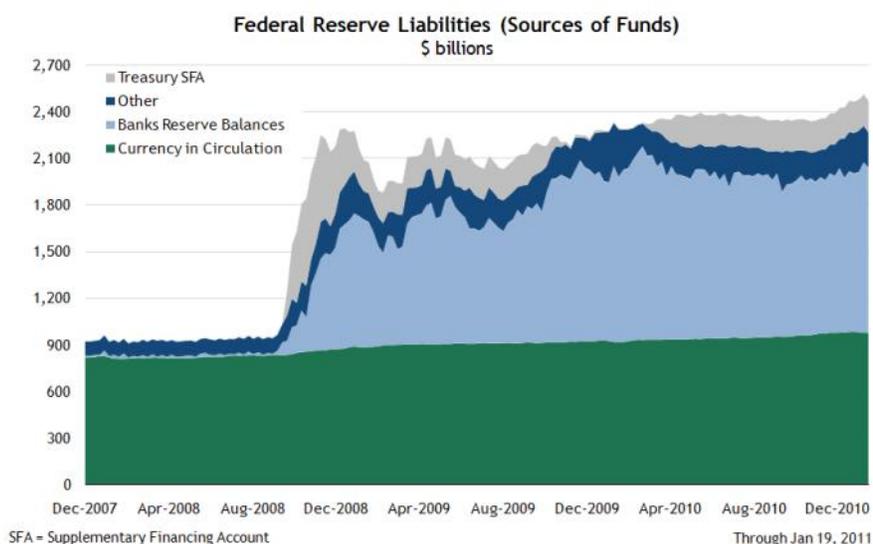


Source: Federal Reserve Board

- Credit extended to AIG declined by \$19.7 billion, and preferred interests in AIA Aurora LLC & Alico Holdings LLC declined \$26.4 billion. Both line items are now at zero, and [more details](#) are available.
- Treasuries increased by \$17.5 billion while agency debt and MBS decreased \$12.4 billion. Since November 10, Treasury securities have grown by \$226.5 billion, and agency debt and MBS have shrunk by \$74.7 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.

The largest change on the liabilities side came from a \$26.9 billion decline in “Funds from AIG asset dispositions, held as agent.” The line item reflected the cash proceeds of the initial public offering of AIA and the sale of ALICO. It was used to close the AIG credit line and to redeem about \$6 billion of the preferred interests in ALICO Holdings LLC.

Bank reserve balances with the Federal Reserve decreased \$33.9 billion while Treasury deposits with Federal Reserve Banks (part of “Other”) increased \$18.5 billion.



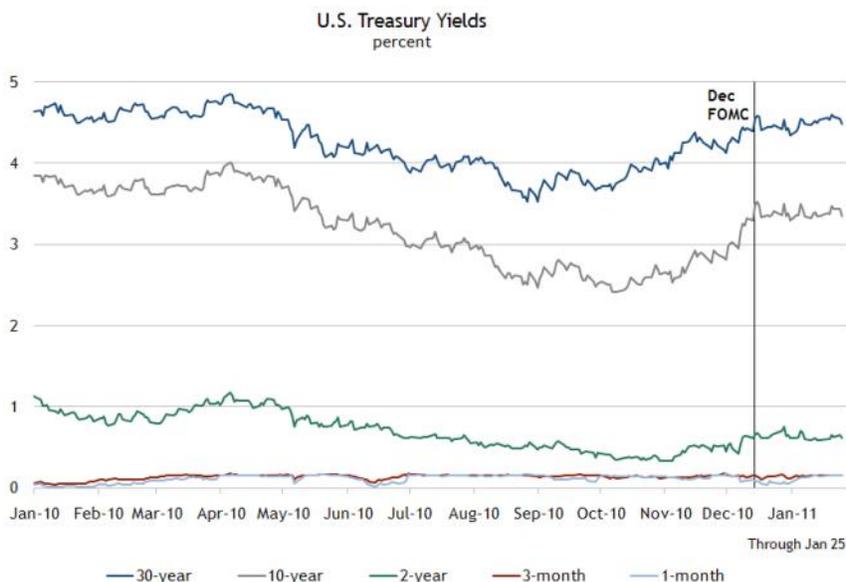
Source: Federal Reserve Board

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.

Broad Financial Market Indicators

Summary

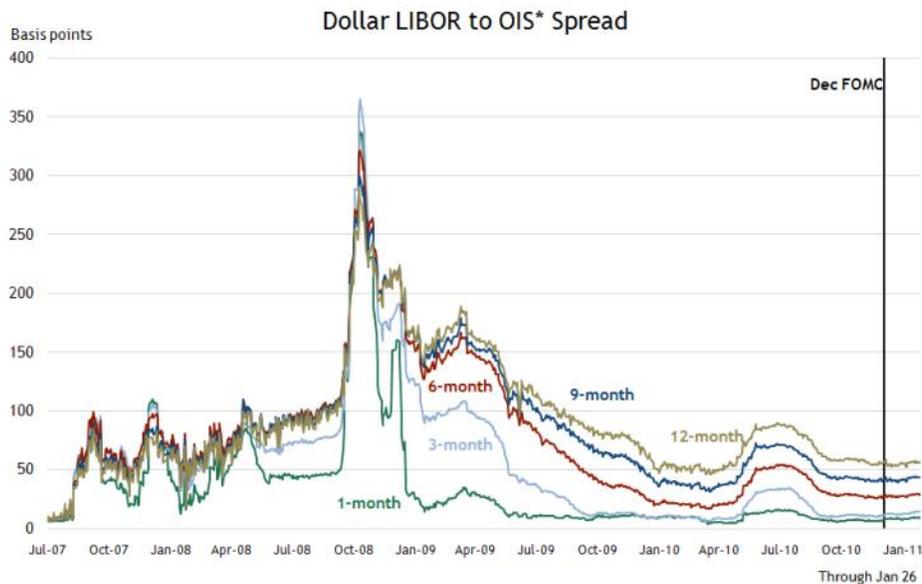
Longer-dated Treasury yields are down a bit since the December FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Through January 25, 30-year Treasury bond yields are down 6 basis points (bps) to 4.48% since the last FOMC meeting on December 14, while the 10-year note is lower by 14 bps to 3.35% and the two-year by 4 bps to 0.62%.

LIBOR to OIS spreads continue to be stable, with the one- and three-month spreads at 9 and 14 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 in the second-half of 2011 has moved lower, according to the fed funds futures market, though it is still higher than what followed in November.

Fed Funds Futures Rates

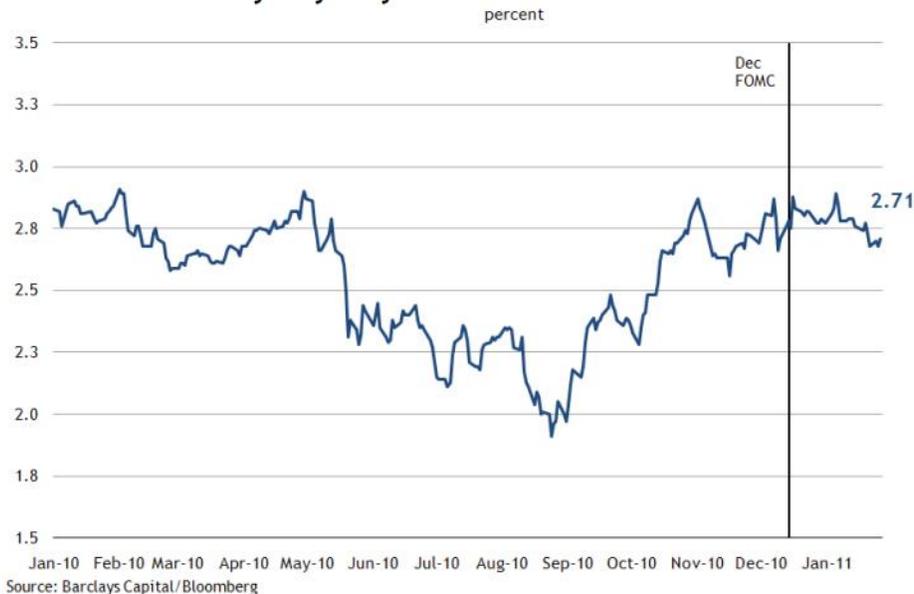


Source: Bloomberg

- As of January 26, the futures market for fed funds indicates an implied rate of about 34 bps for the December 2011 contract, nearly 10 bps lower than what followed the December FOMC meeting but 11 bps higher than in November.

Breakeven inflation rates are down slightly since the December FOMC meeting.

Barclays 5-yr/5-yr Forward Breakeven Inflation Rate



Source: Barclays Capital/Bloomberg

- 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 2.71% as of January 26, 2011, which is down by 7 bps since the December FOMC meeting.

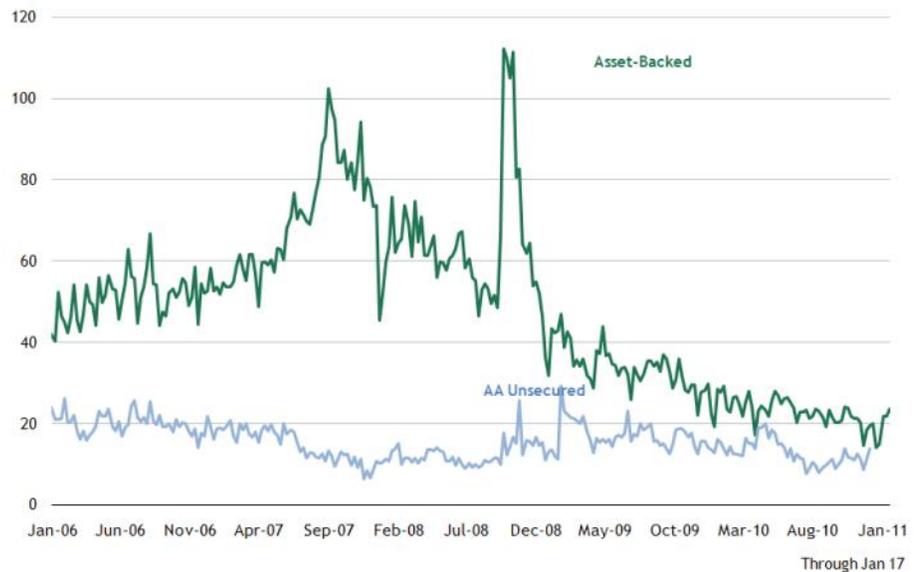
Commercial Paper

Summary

New issues of asset-backed commercial paper continues to trend downward while issues of AA-rated unsecured commercial paper remains relatively stable.

Commercial Paper New Issuance

Avg Weekly, Billions \$



Source: Federal Reserve Board

Breakeven inflation rates are down slightly since the December FOMC meeting.

Commercial Paper Outstanding

NSA, Weekly, Billions \$



Source: Federal Reserve Board