FEDERAL RESERVE BANK of ATLANTA

February 16, 2011

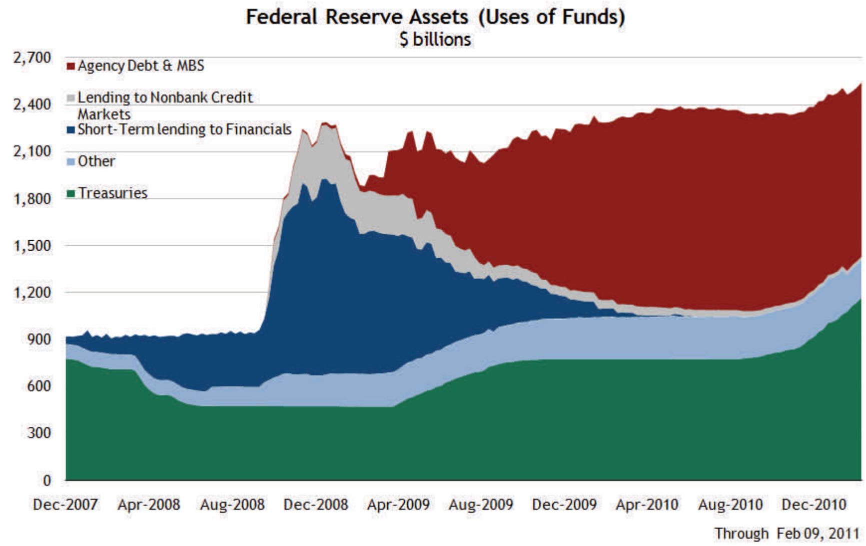
Financial Highlights

Federal Reserve

Summary

The balance sheet increased $31 billion for the week ended February 9.

Since November 10, the balance sheet has increased $188 billion.



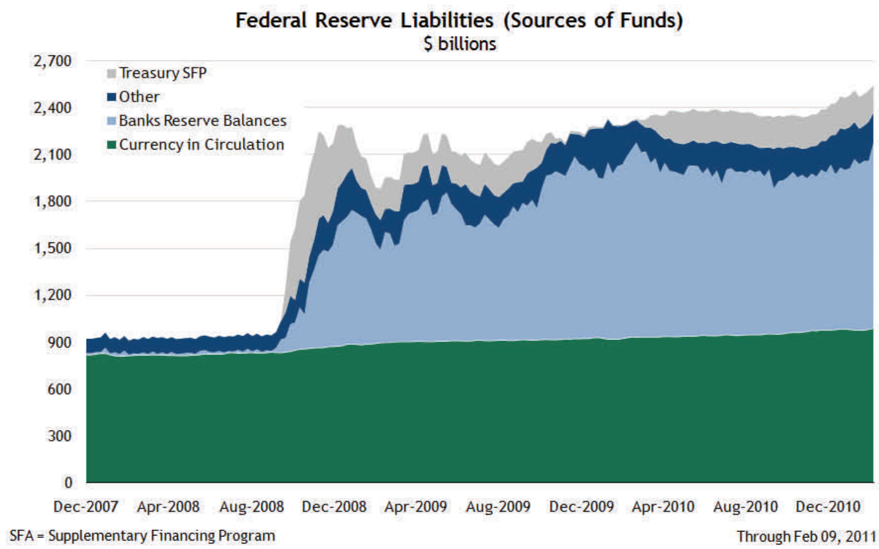
Source: Federal Reserve Board

- Treasuries increased by $28.9 billion while agency debt and MBS remained the same. Since November 10, Treasury securities have grown by $314 billion while agency debt and MBS have shrunk by $91 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $97 billion between mid-February and mid-March.
- 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 $108 billion while Treasury deposits with Federal Reserve Banks (part of "Other") decreased $55.4 billion.

The Treasury's Supplemental Financing Program (SFP) account declined $25 billion after remaining at approximately $200 billion since April 21, 2010. The SFP is projected to decline to $5 billion by March 31, 2011, according to the U.S. Treasury.

As of February 9, 2011, bank reserves balances are $118.7 billion.



Source: Federal Reserve Board

- The Treasury has announced that the Supplemental Financing Program (SFP) will be reduced to $5 billion to provide flexibility and delay the national debt from hitting the current ceiling of $14.29 trillion.
- The Treasury SFP was also reduced from $200 billion to $5 billion over the period from September 23, 2009, to December 30, 2009, for the same reason.

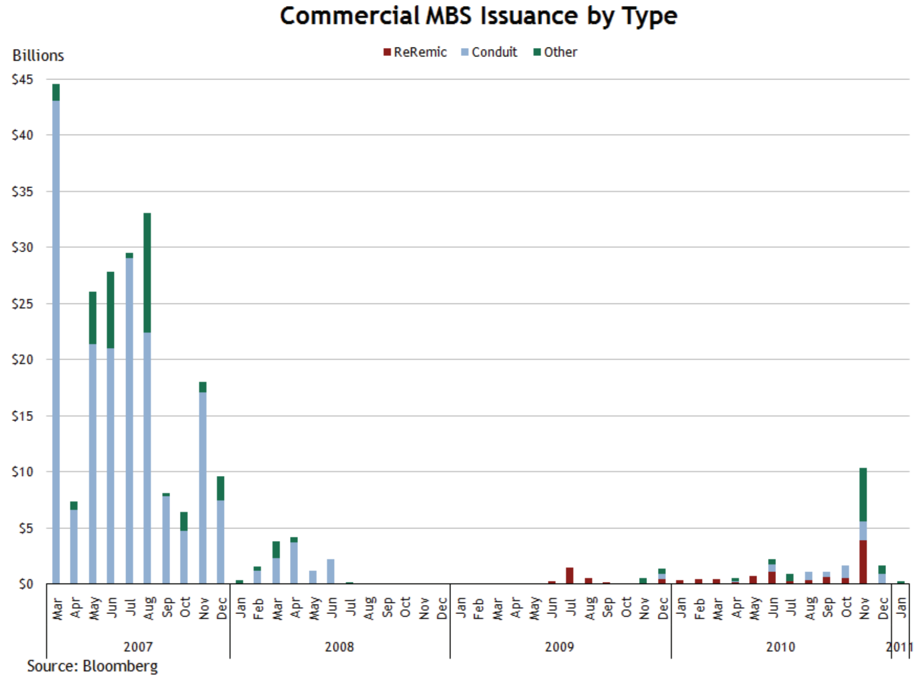
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

Commercial Mortgage-Backed Securities

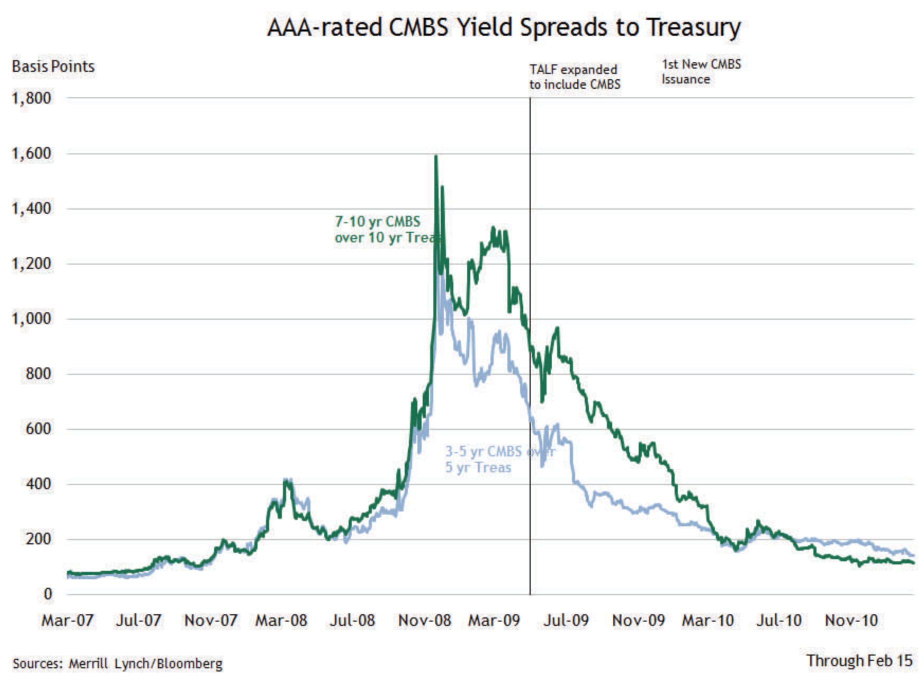
Summary

Commercial-backed security issuance in the form of re-REMICs dropped off in December and was nonexistent in January.

There were no conduit deals in January, but a deal for more than $2 billion is in the works for late February.



Top-rated CMBS yield spreads over Treasuries have been relatively stable over the past few months.

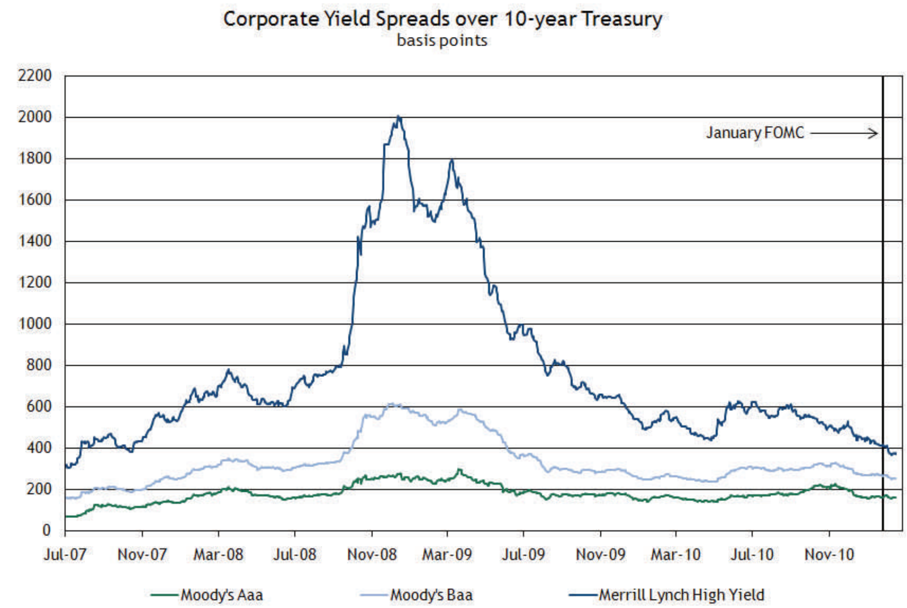


- Since July 1, 2010, AAA-rated three-to-five-year CMBS spreads over five-year Treasuries have declined 75 basis points (bps), and AAA-rated seven-to-10-year CMBS spreads over 10-year Treasuries have declined 103 bps.

Corporate Bonds

Summary

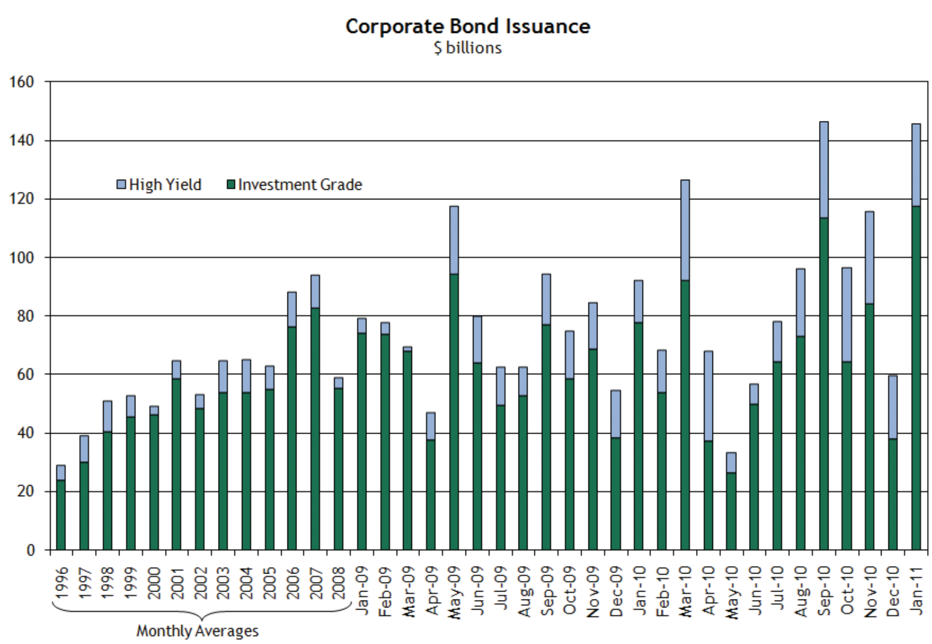
Since the January FOMC meeting, corporate yield spreads have narrowed.



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

- Since the January FOMC meeting, corporate yield spreads have narrowed by 31 bps for the Merrill Lynch High Yield Index. The Moody's Aaa- and Baa-rated bond yields have declined by 8 bps and 15 bps, respectively.

U.S. corporations accessed the bond market for $146 billion in financing during January 2011, nearly surpassing the recent high seen last September.



Source: SIFMA

- According to SIFMA, U.S. corporate bond issuance hit $146 billion in January 2011, and high-yield debt issuance was $28 billion of that amount.
- This total was nearly the largest monthly one (September 2010 had $600 million more), but it was the largest amount of investment-grade issuance since before the financial crisis hit in late 2008. (May 2008 saw nearly $140 billion of investment-grade issuance.)

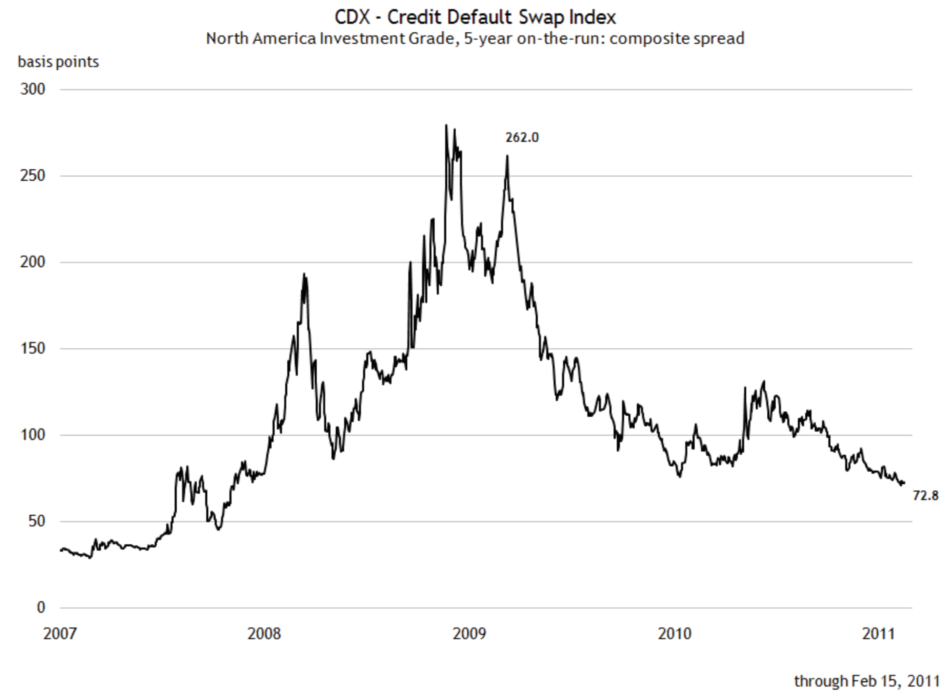
Corporate Bonds

Summary

The NAIG Credit Default Swap Index continues to trend downward, ending at 72.8 basis points on Tuesday.

Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. A decline in the CDX generally signals an improvement in the perception of credit quality.

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

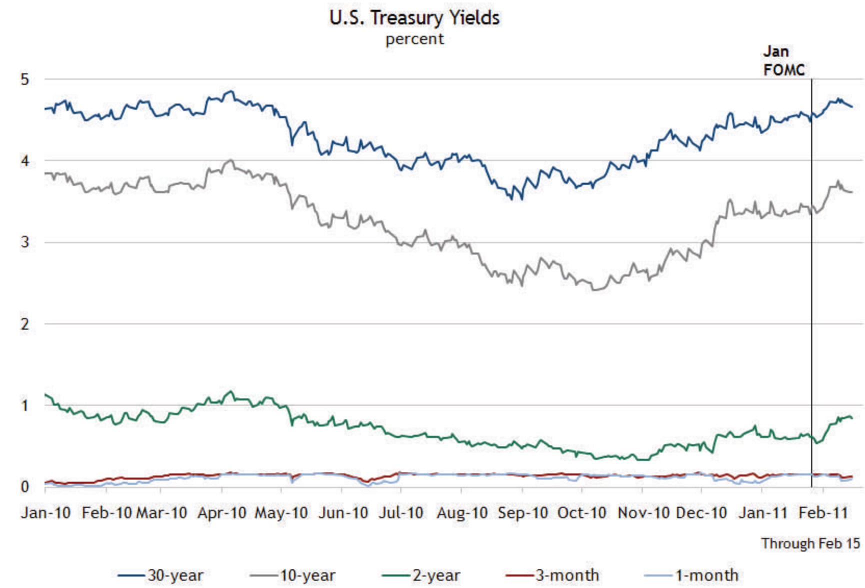


Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

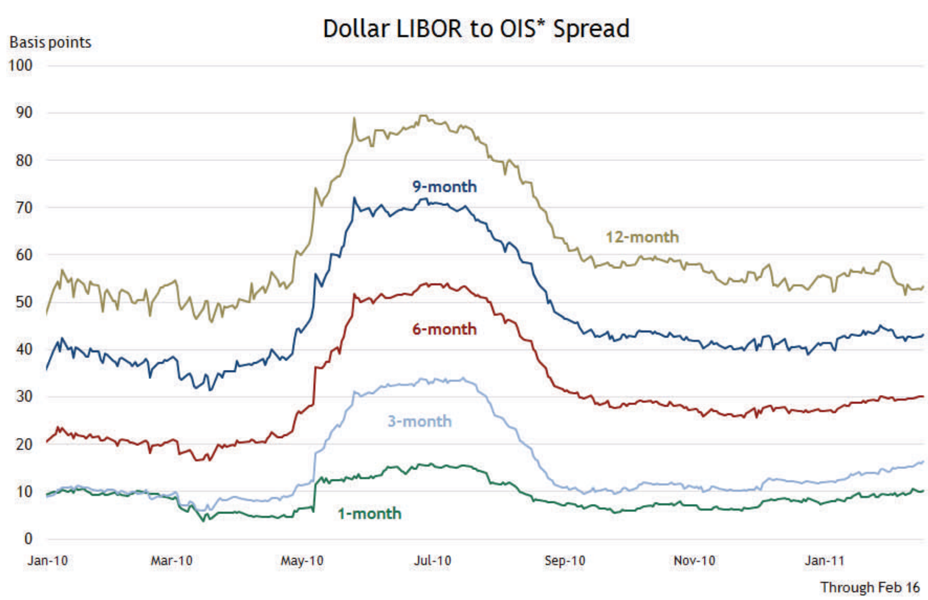
Treasury yields are up since the January FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Since the January FOMC meeting, the 30-year Treasury bond yield is up 7 bps to 4.66%, the 10-year note's yield is higher by 16 bps to 3.61%, and the two-year note is up 22 bps, to 0.84%.

LIBOR to OIS spreads are up modestly, with the one- and three-month spreads at 10.3 basis points (bps) and 16.4 bps, up 1 bp and 2.5 bps, respectively, since the January FOMC meeting.



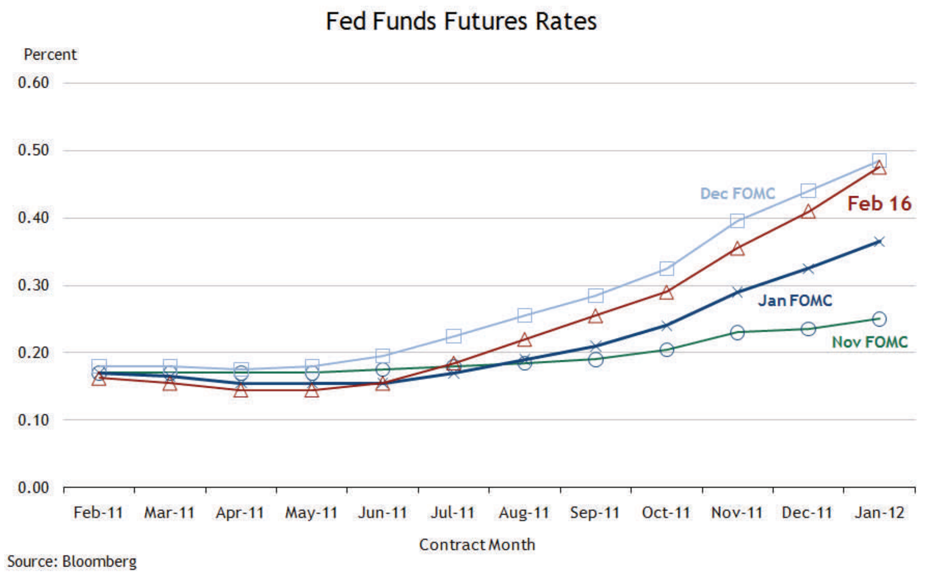
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

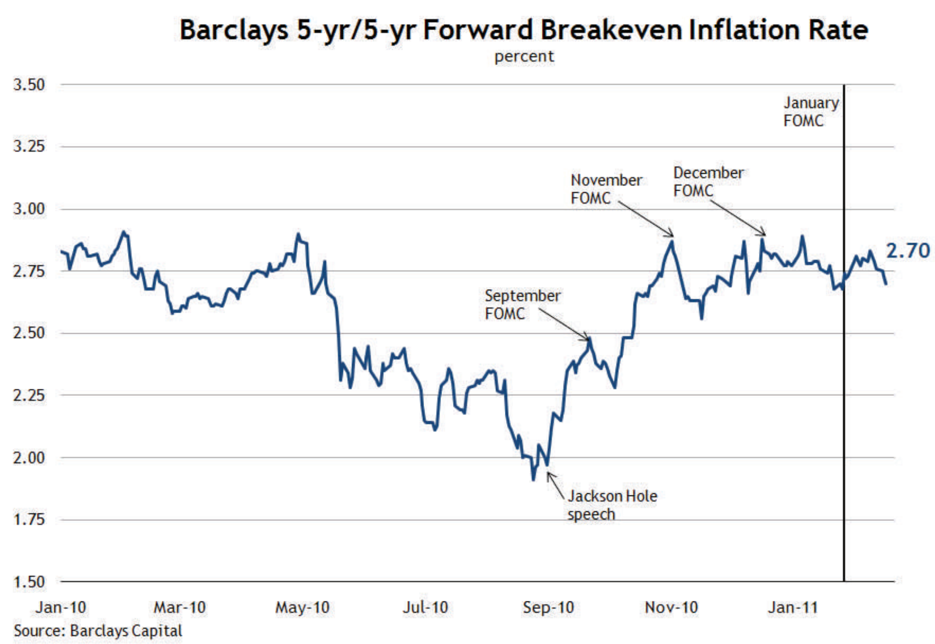
Summary

The curve of expected rates in the second half of 2011 has moved higher over the last week.



- As of February 16, 2011, the futures market for fed funds indicates an implied rate of about 47 bps for the January 2012 contract, unchanged from a week ago and near what followed the December 2010 FOMC meeting. Since the January 2011 meeting, it has moved 13 bps higher.

Breakeven inflation rates have moved lower recently and are back at levels seen at the January FOMC meeting.



- After breakeven inflation rates rose strongly between the August and November, they have since stayed within the range of 2.7% to 2.9%.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.70%, as of February 16, 2011, which is lower by 10 bps since last week but at the levels seen following the January 2011 FOMC meeting.