

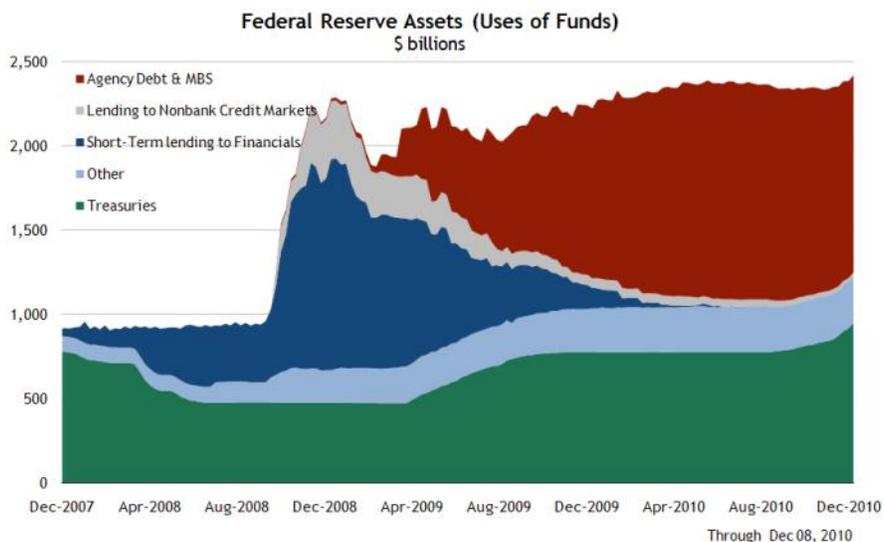
Financial Highlights

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Federal Reserve

Summary

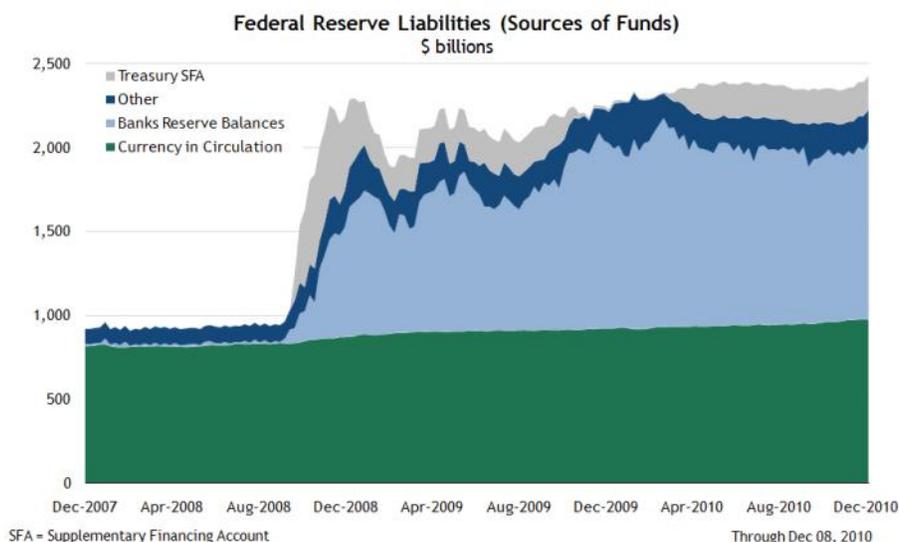
The balance sheet grew by \$35 billion for the week ended December 8.



Source: Federal Reserve Board

- Treasuries increased by \$32 billion while agency debt and MBS were unchanged. Since November 10, Treasury securities have grown by \$96.6 billion while agency debt and MBS have shrunk by \$29.9 billion.
- According to the [New York Fed's tentative outright treasury operation schedule](#), the desk plans to purchase approximately \$105 billion between mid-December and mid-January.
- Growth in the balance sheet will fluctuate from week to week as a result of volatility in MBS prepayments.

Bank reserve balances with the Federal Reserve increased \$50.4 billion while Treasury deposits with Federal Reserve banks (part of "Other") declined by \$25.8 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.

Commercial Paper

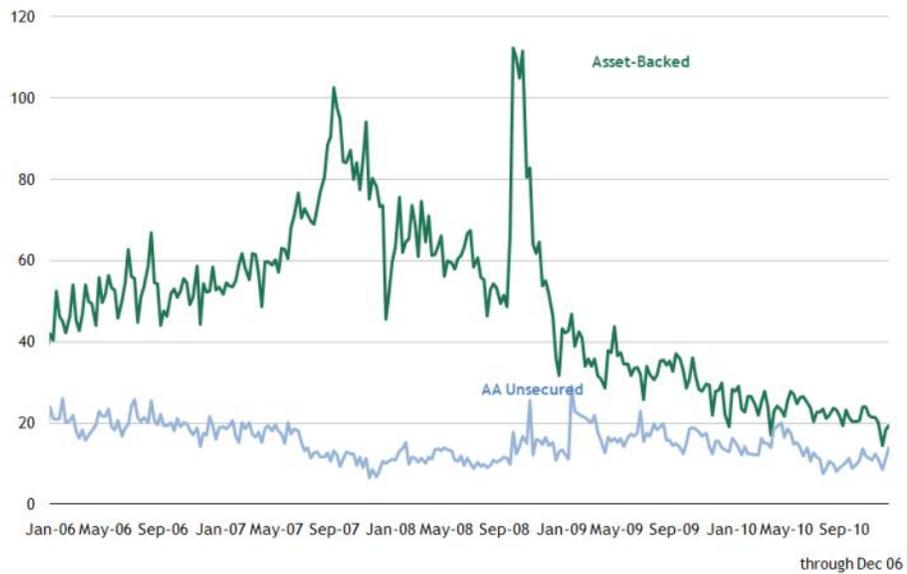
Summary

Issuance of asset-backed commercial paper still appears to be trending down.

Issuance of AA unsecured paper remains stable at around \$10 billion to \$20 billion per week.

Commercial Paper New Issuance

Avg Weekly, Billions \$

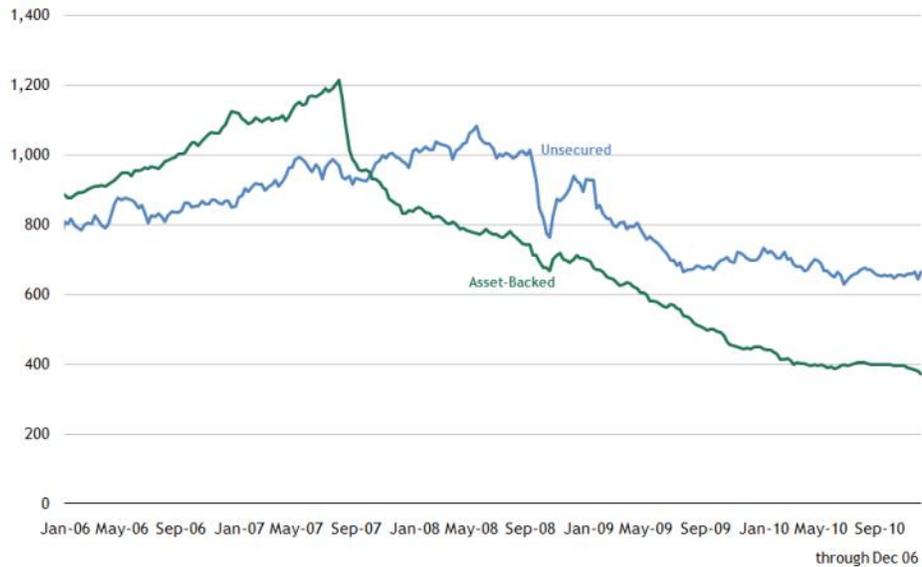


Source: Federal Reserve Board

As a result of recent issuance trends, unsecured paper outstanding remains stable while asset-backed was very stable from mid-March to early October, but has since decreased about 7%.

Commercial Paper Outstanding

NSA, Weekly, Billions \$

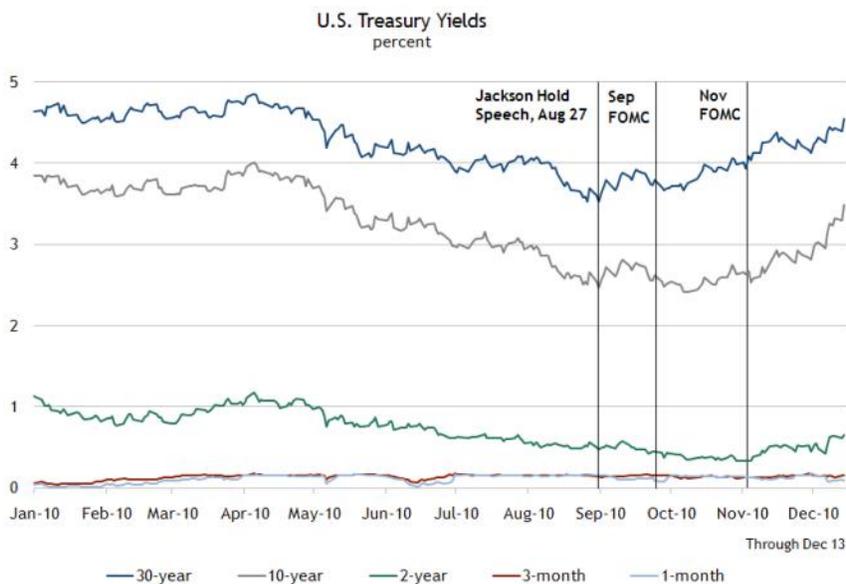


Source: Federal Reserve Board

Broad Financial Market Indicators

Summary

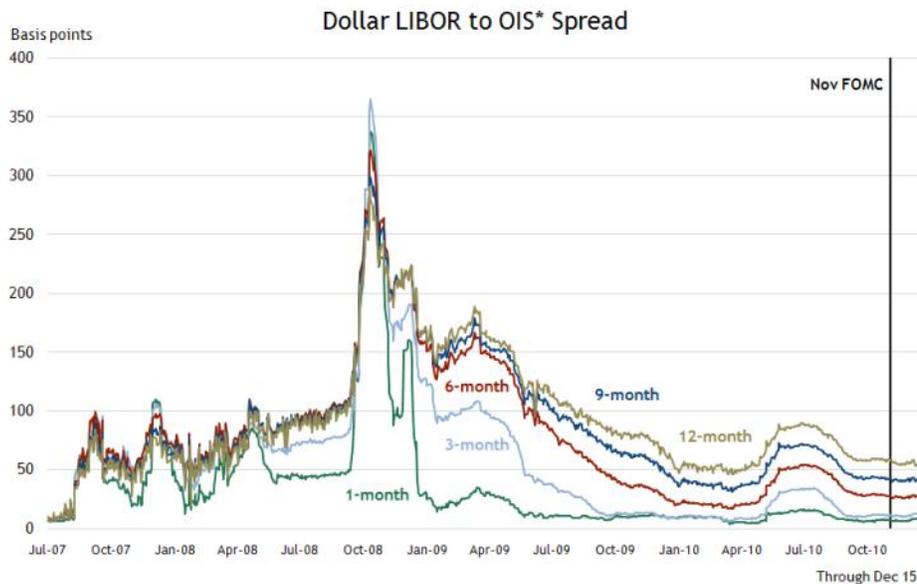
Treasury yields have risen sharply since the November FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Thirty-year Treasury bonds have risen 45 basis points (bps) to 4.54% since November 3, while the 10-year notes have risen 82 bps to 3.49% and the 2-year ones by 32 bps to 0.66%.

LIBOR to OIS spreads continue to be stable.



Source: British Bankers Association/Bloomberg

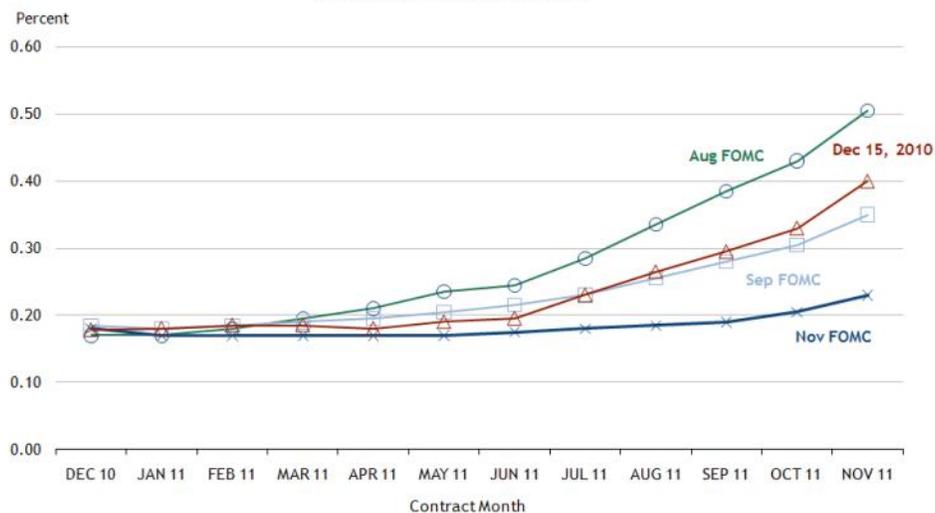
*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

Since the November FOMC meeting, the curve of expected rates beginning in mid-2011 has moved noticeably higher, according to the fed funds futures market.

Fed Funds Futures Rates

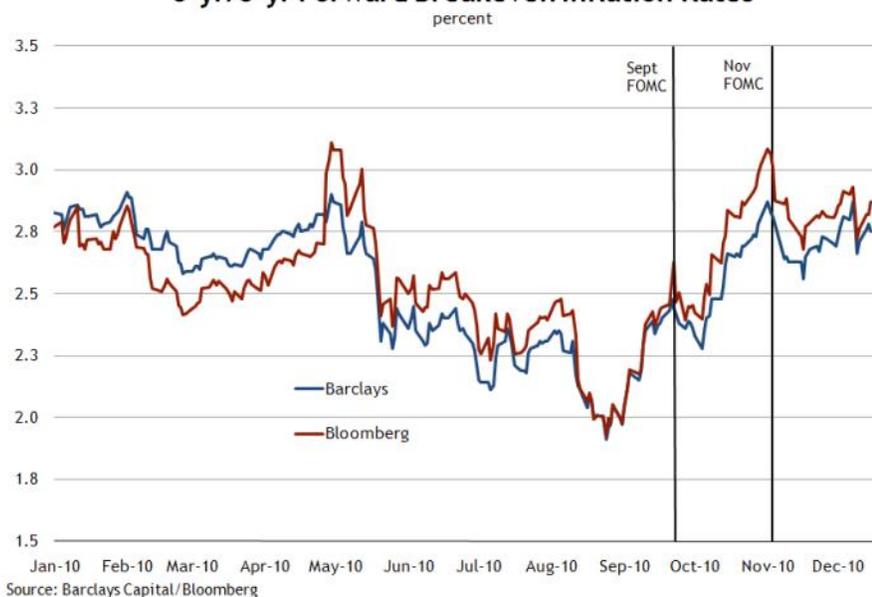


Source: Bloomberg

- As of December 15, the futures market for fed funds indicates an implied rate of about 40 bps for the November 2011 contract, nearly 17 bps higher than what followed the November FOMC meeting.

Breakeven inflation rates rose strongly between the September and November FOMC meetings but have been stable since.

5-yr/5-yr Forward Breakeven Inflation Rates



Source: Barclays Capital/Bloomberg

- Breakeven inflation rates rose strongly between the September and November FOMC meetings, but have since stayed within the range of 2.6% to 2.9%.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.87%.