

Financial Highlights

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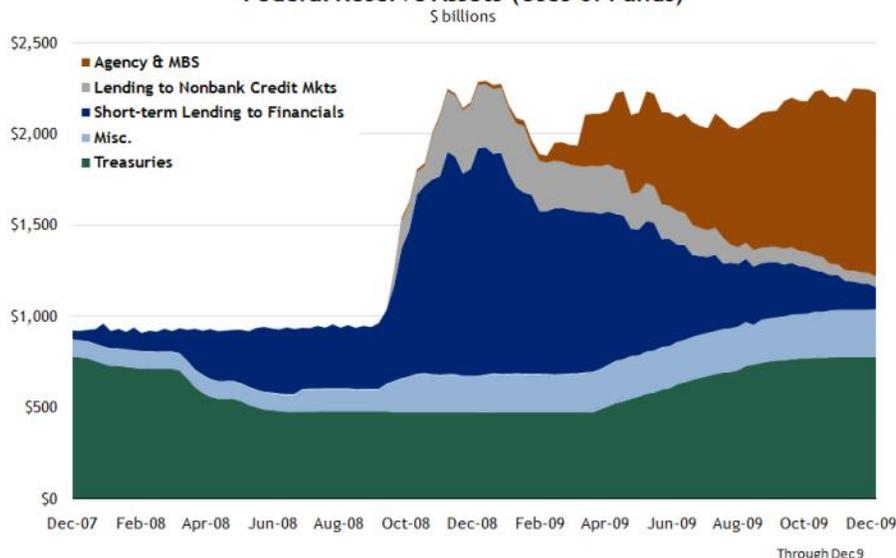
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Federal Reserve

Summary

The balance sheet shrank \$18 billion between December 2 and December 9 to \$2.23 trillion.

Federal Reserve Assets (Uses of Funds)

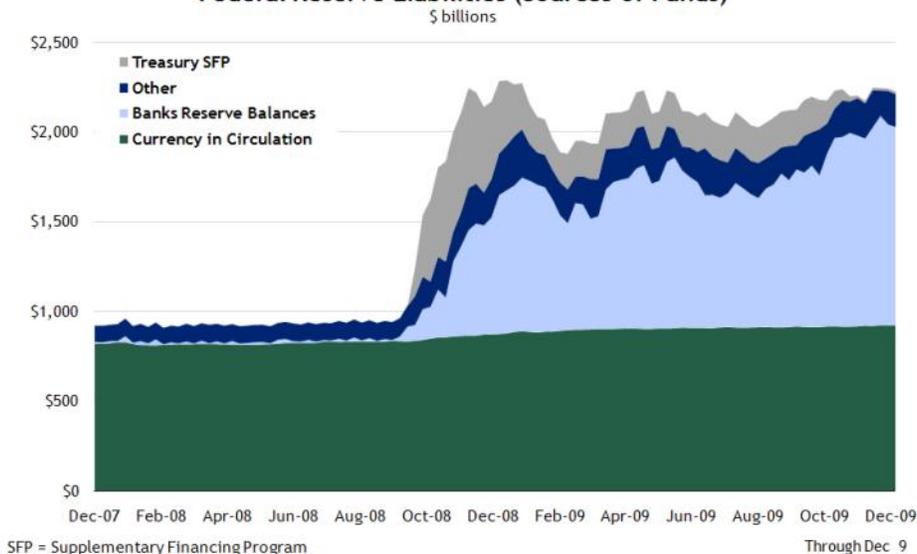


Source: Federal Reserve Board

- The balance sheet contraction was mostly the result of a fall in short-term lending to financials, which decreased by \$22 billion. The Term Auction Facility (TAF) declined by \$15.2 billion, and the currency swaps decreased \$6.5 billion.
- The short-term lending to financials has decreased significantly as market conditions have improved. Since the peak in December 2008 this lending (shown in dark blue above) has decreased from \$1.2 trillion to \$121.6 billion, a reduction of more than 90%.

On the liabilities side, bank reserves made up most of the decline (approximately \$15 billion) but remain above \$1 trillion.

Federal Reserve Liabilities (Sources of Funds)



SFP = Supplementary Financing Program

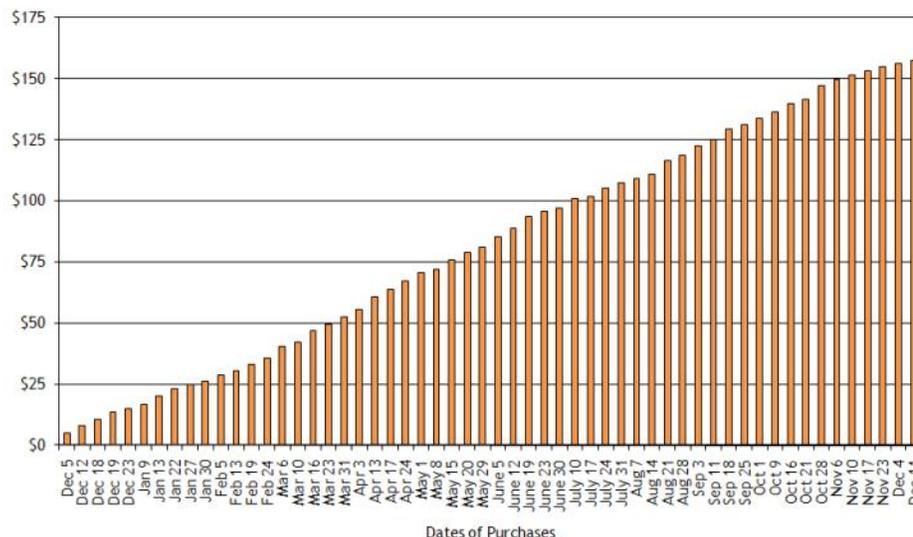
Source: Federal Reserve Board

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.

Summary

The Fed is 90% complete with its agency debt purchase program, scheduled to conclude in March 2010.

Fed's Agency Coupon Purchases
Cumulative Total, \$ billions

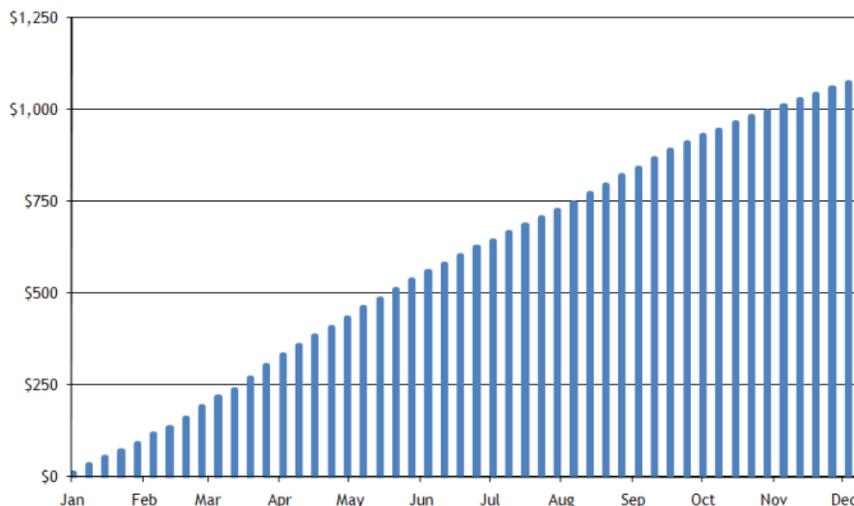


Source: NY Fed

- The Fed has completed \$157.72 billion of its \$175 billion agency debt purchase program through December 16 (making it 90% complete). On December 11 it made a purchase for \$1.57 billion.

The Fed has now purchased more than \$1 trillion in agency-backed MBS through the week ended December 9.

Fed's Agency MBS Purchases
Cumulative Total, \$ billions, weekly



Source: NY Fed

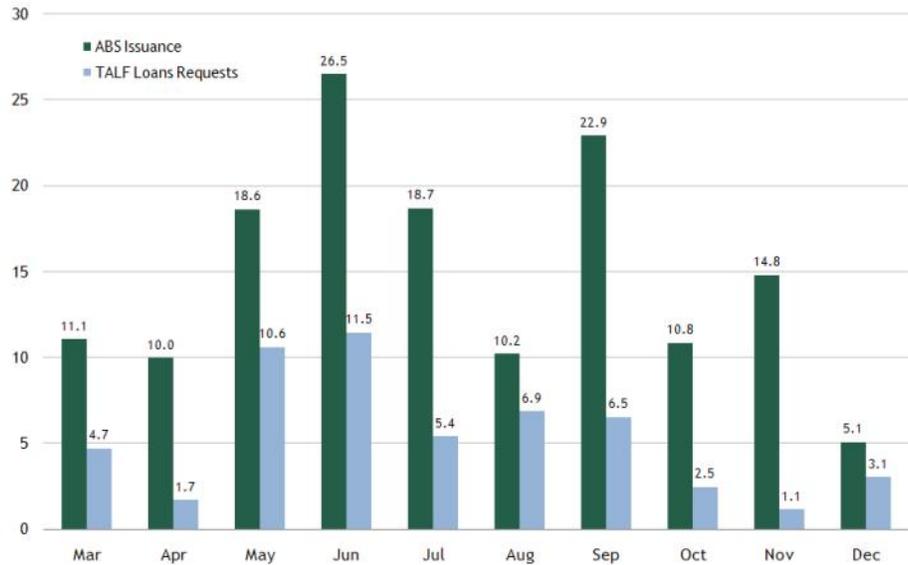
- The Fed purchased a net total of \$16 billion of agency-backed MBS in each of the last four weeks, with the last one through December 9. This purchase brings its total purchases up to \$1.074 trillion, and by the end of the first quarter 2010 the Fed will have purchased \$1.25 trillion (thus, it is 86% complete).

Asset Backed Securities

Summary

After declining for three consecutive months, the amount of loans requested increased at the December 3 TALF operation to more than \$3 billion.

ABS Issuance and TALF Loan Requests by Monthly Operation
\$ billions



* ABS issuance is month-to-date

ABS TALF Operation

Source: Bloomberg and NY Fed

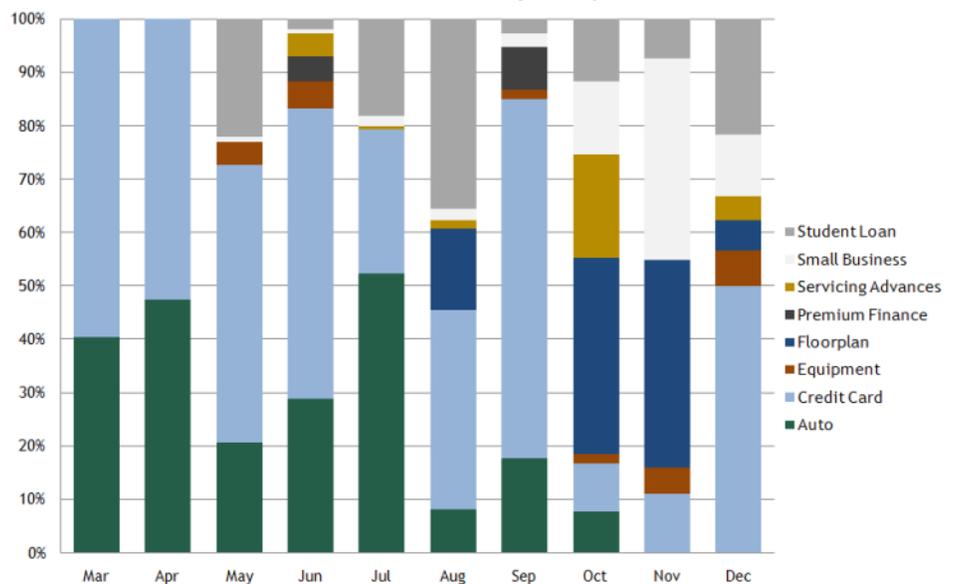
- The ratio of TALF loan requests to ABS issuance is 0.6, the highest since the program began in March. However, very few loans have been issued this month compared with March through November, and not all TALF loans are for securities issued in the most recent month.

The distribution of the loans requests by collateral has shifted over time. Through September most of the loans were backed by autos and credit cards.

In October and November, the collateral became more diversified and other collateral types such as floor plan, small business, and student loans gained a larger share of total loans requests.

In December, the proportion of loans backed by credit cards increased to almost 50%.

Distribution of TALF Loan Requests by Collateral

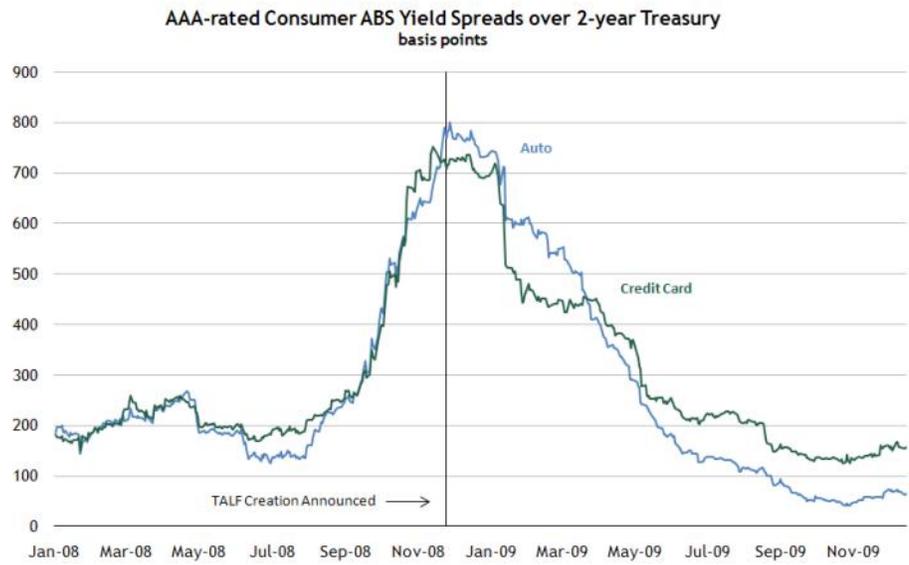


Source: NY Fed

Asset Backed Securities

Summary

Consistent with the ongoing improvement in the ABS market, risk spreads on consumer ABS have continued to edge lower.



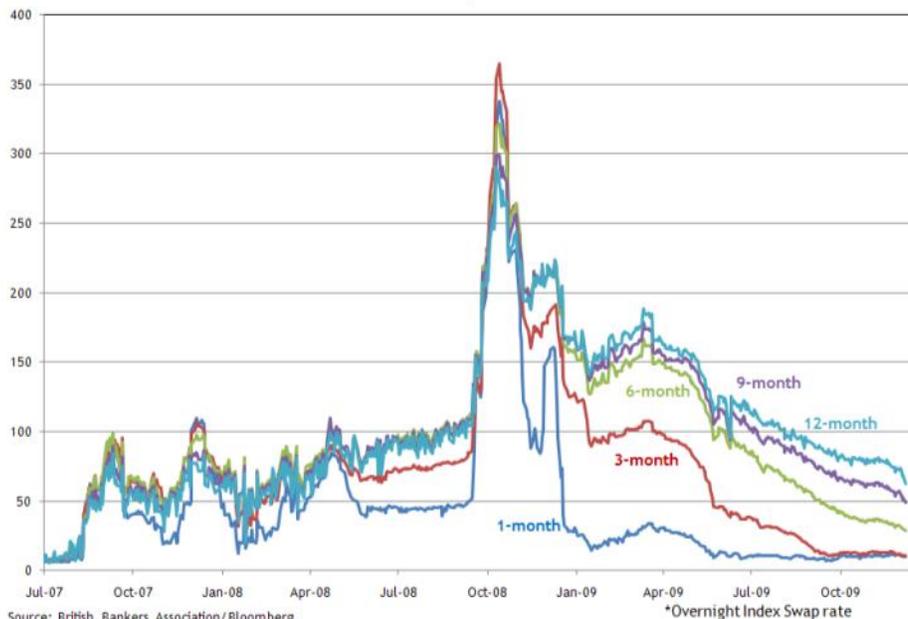
Source: Bloomberg and Merrill Lynch

Broad Financial Market Indicators

Summary

LIBOR-to-OIS spreads have fallen for all tenors over the intermeeting period.

Dollar LIBOR to OIS* Spread
basis points

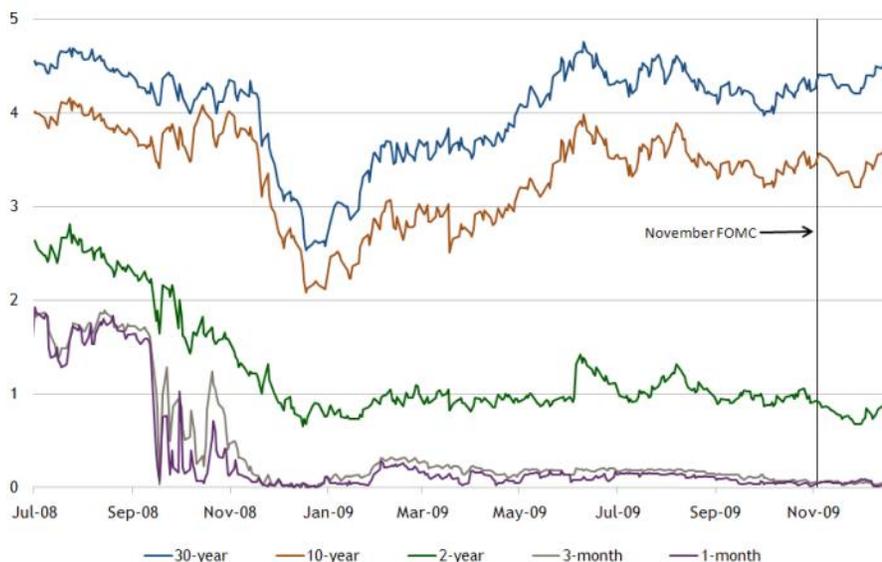


Source: British Bankers Association/Bloomberg

- The one-month and three-month dollar LIBOR-to-OIS spreads are relatively stable at 8.7 and 8.3 basis points (bps), respectively; they're 2 and 5 bps lower, respectively, since the November FOMC meeting. Further out, spreads have also fallen.
- In the intermeeting period, the six-, nine-, and 12-month spreads have declined 13, 18, and 21 bps, respectively.

Treasury yields have moved higher in the past week.

U.S. Treasury Yields
percent



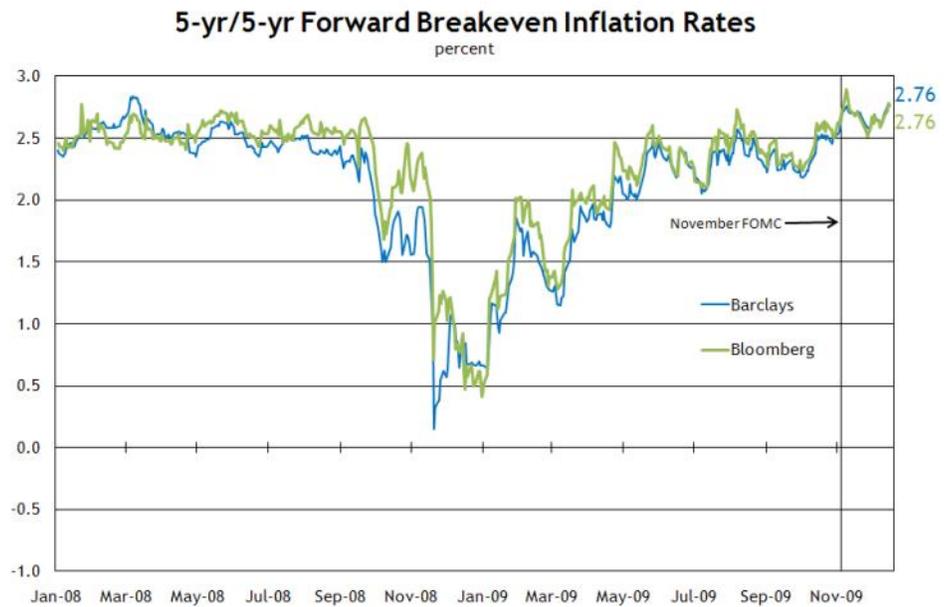
Source: Bloomberg

- In the intermeeting period, Treasury yields have moved higher: Through December 16, the 30-year bond is up 11 bps to 4.52%, the 10-year is 3 bps higher to 3.60%, and the two-year note has fallen 3 bps to 0.88%.
- Since December 4, however, yields shot up and have since risen 12, 12, and 4 bps for the 30-year, 10-year, and two-year Treasuries, respectively.

Broad Financial Market Indicators

Summary

During the intermeeting period, various measures of the breakeven inflation rate increased.



Source: Barclays, Bloomberg

- In the intermeeting period, or since the last FOMC meeting on November 4, the Barclays 5-year/5-year forward breakeven inflation (BEI) rate has risen 14 bps to 2.76% as of December 16.
- A more generic market measure from Bloomberg shows an 8 bps rise over the same period, also at 2.76%.

Broad Financial Market Indicators

Summary

The September Treasury International Capital (TIC) report showed a \$20.7 billion increase in net long-term securities transactions.

Cross-Border Long-Term Portfolio Flows

NSA, Mil.\$



Source: U.S. Treasury

- The October Treasury International Capital (TIC) data showed a net \$43.4 billion increase in foreign purchases of U.S. long-term securities, which include Treasury bonds and notes, agency bonds, corporate bonds, and equities. Net purchases by private foreign investors, including foreign banks, corporations, investment funds, and individuals who are non-U.S. residents, were \$28.8 billion. Net purchases by foreign official institutions were \$14.6 billion.
- Net foreign purchases of U.S. long-term securities continued to be dominated by Treasuries and equities, while foreign investors sold, on net, corporate bonds and agencies.
- U.S. residents bought, on net, \$22.7 billion in foreign bonds and equities in September. U.S. residents' buying of foreign securities represents an outflow of capital from the United States and, all else equal, implies a need for increased foreign financing of U.S. deficits.
- Continuing the reversal of "save haven" flows, foreign private investors sold, on net, Treasury bills in October for the third consecutive month, which is also in line with the decline in the stock outstanding.
- Net purchases of Treasury bills by foreign official investors have been quite volatile recently. The three-month moving average showed net selling of \$2.9 billion in October. This series peaked in the fall of last year, when foreign official investors bought, on net, an average of \$60.5 billion in U.S. Treasury bills per month.