FEDERAL RESERVE BANK of ATLANTA

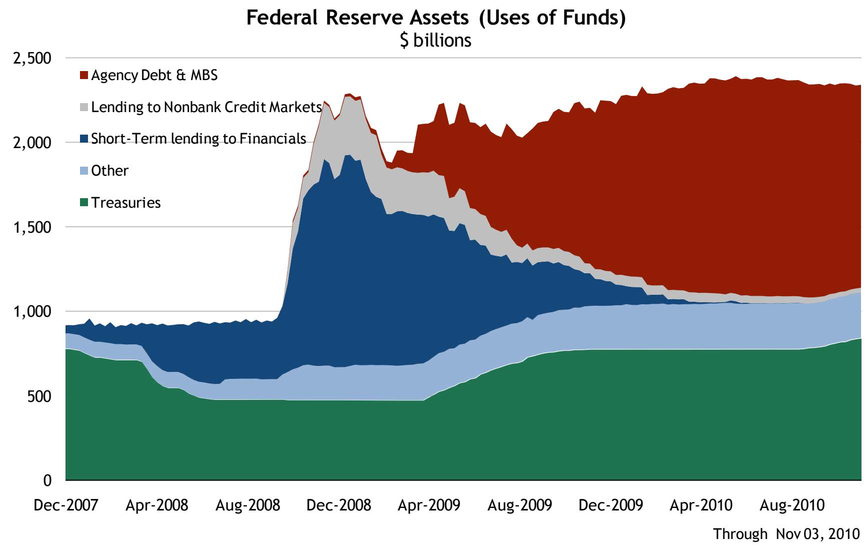
November 10, 2010

# Financial Highlights

# Federal Reserve

## Summary

**The balance sheet increased $4.5 billion for the week ended November 3.**

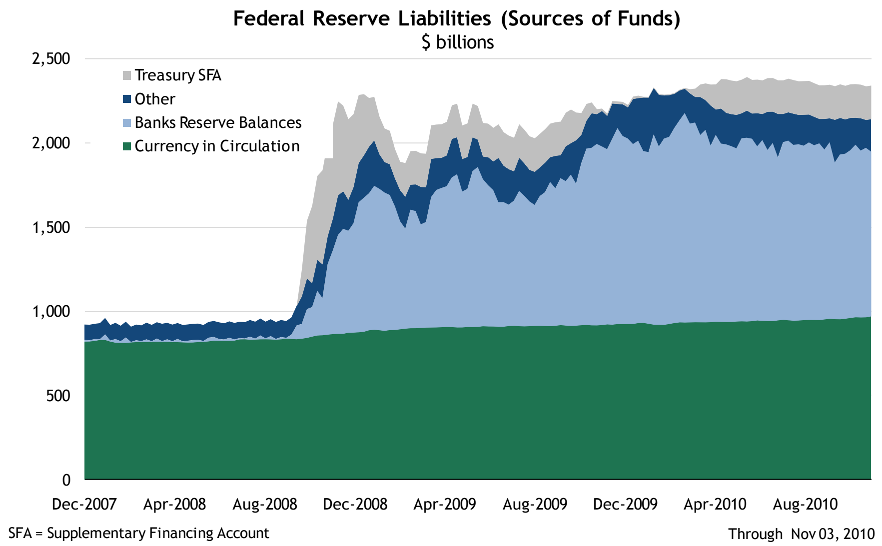



Source: Federal Reserve Board

- Treasuries accounted for the majority of the growth in the balance sheet, increasing $4.1 billion. Agency debt and MBS were unchanged.

**On the liabilities side of the balance sheet, bank reserve balances declined $28 billion.**

**The decrease was more than offset by an increase in currency in circulation, Treasury deposits with Federal Reserve banks, and new AIG-related funds. Stemming from the recapitalization plan announced by AIG on Sept. 30, 2010, the $18.8 billion fund consists of proceeds from the initial public offering of AIA Group Limited and the sale of the American Life Insurance Company.**



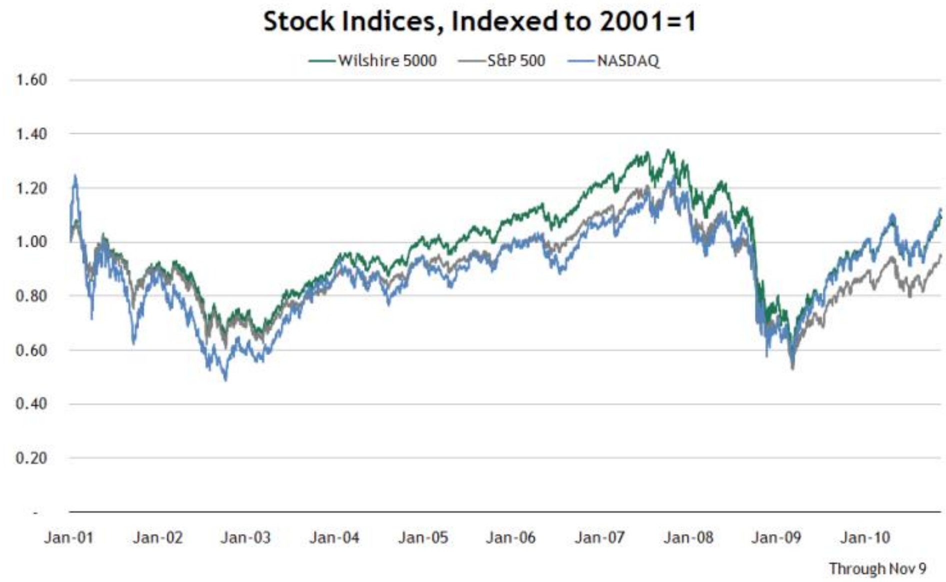

Source: Federal Reserve Board

**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.

## Bond and Equity Markets

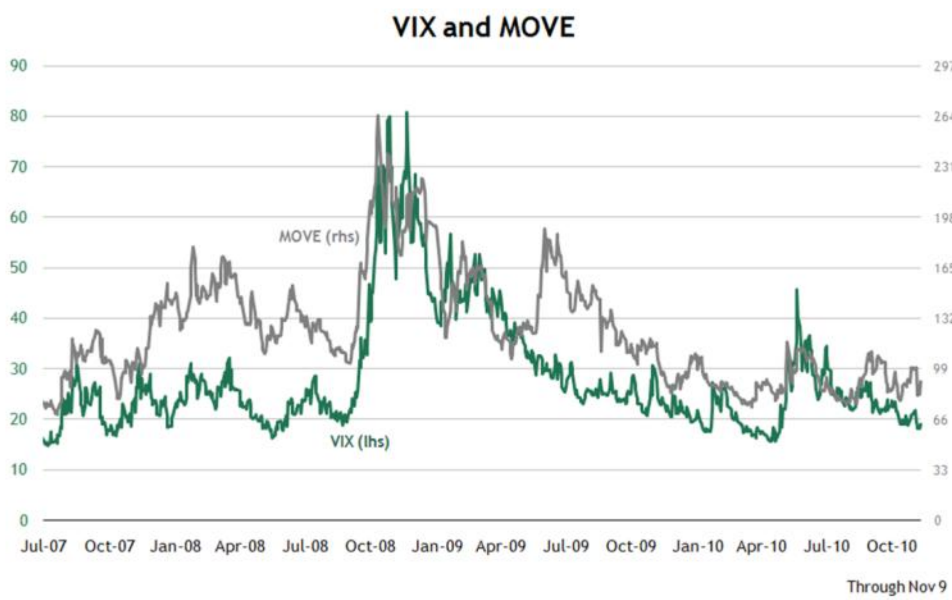
### Summary

**Equity markets levels have risen strongly since the September FOMC meeting, with the Wilshire 500 up 7.2%, the S&P 500 6.5% higher, and the NASDAQ up 9.1%.**




Source: Dow Jones, NY Times, WSJ

**The Merrill Lynch MOVE index shows bond market volatility decreased 15% since the September FOMC meeting, while the VIX "fear index" from the Chicago Board Option Exchange indicates equity market volatility has decreased over 6%.**




Source: Merrill Lynch, Wall Street Journal

## Bond and Equity Markets

### Summary

After falling to its lowest point in six months last Friday, the CDX has risen two consecutive days and ended the day Tuesday at 83.8 basis points.

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.

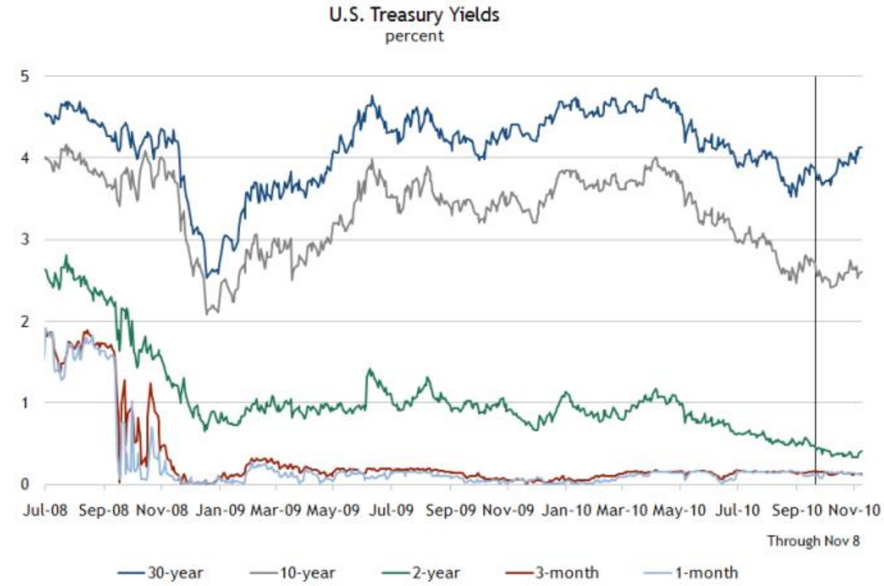
One basis point equates to $1,000 annually on a contract protecting $10 million in debt.


Source: Markit Group Limited/Haver Analytics

## Broad Financial Market Indicators

### Summary

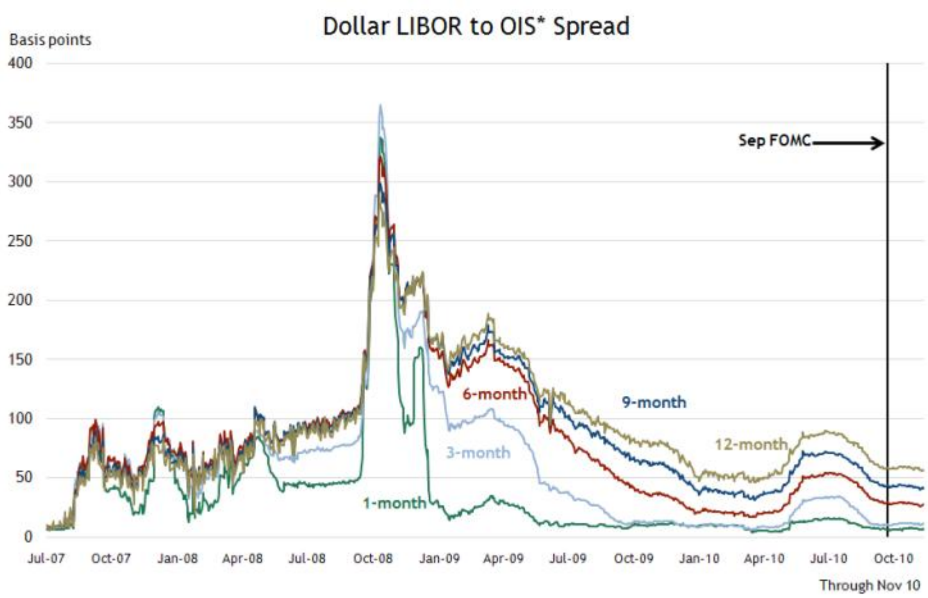
**The yield curve has steepened further since the September and through the November FOMC meetings.**




Source: Federal Reserve Board/Haver Analytics

- 30-year Treasury bonds have risen 33 basis points (bps) to 4.12% since the September FOMC meeting, while the 10-year notes have declined by 1 bp to 2.60% and the two-year by 2 bps to 0.41%.

**LIBOR to OIS spreads, after a period of normalization this summer, are relatively unchanged since the September and through the November FOMC meetings.**



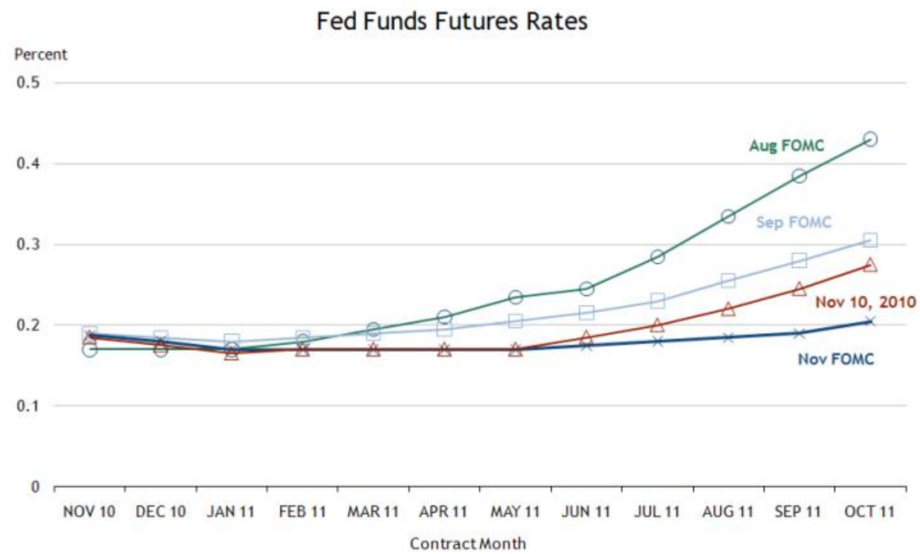

Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

## Broad Financial Market Indicators

### Summary

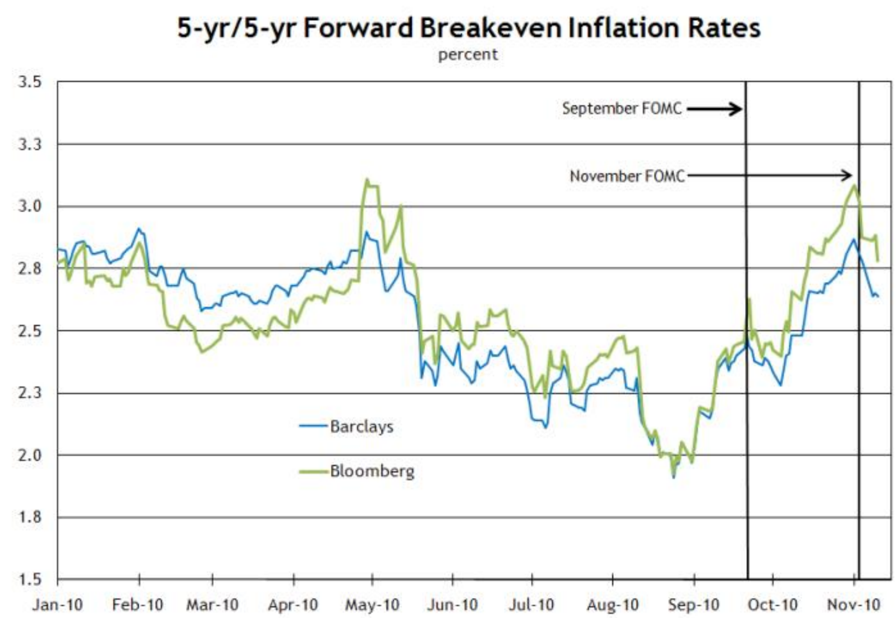
**The curve of expected rates from the fed funds futures market has moved lower between the September and November FOMC meetings but has since risen higher on the October employment report.**




Source: Bloomberg

- The fed funds futures markets currently do not expect a rate increase in 2011.
- As of November 10, the futures market for fed funds indicates an implied rate of about 28 bps for the October 2011 contract, about 16 bps lower than what followed the August FOMC meeting.

**Breakeven inflation rates rose strongly between the September and November FOMC meetings.**




Source: Bloomberg/Barclays

- Breakeven inflation rates have risen strongly since the September FOMC meeting but fell lower by nearly 20 bps last week.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.65%, which is up by nearly 20 bps from the September FOMC meeting but down from about 2.75% in the spring.