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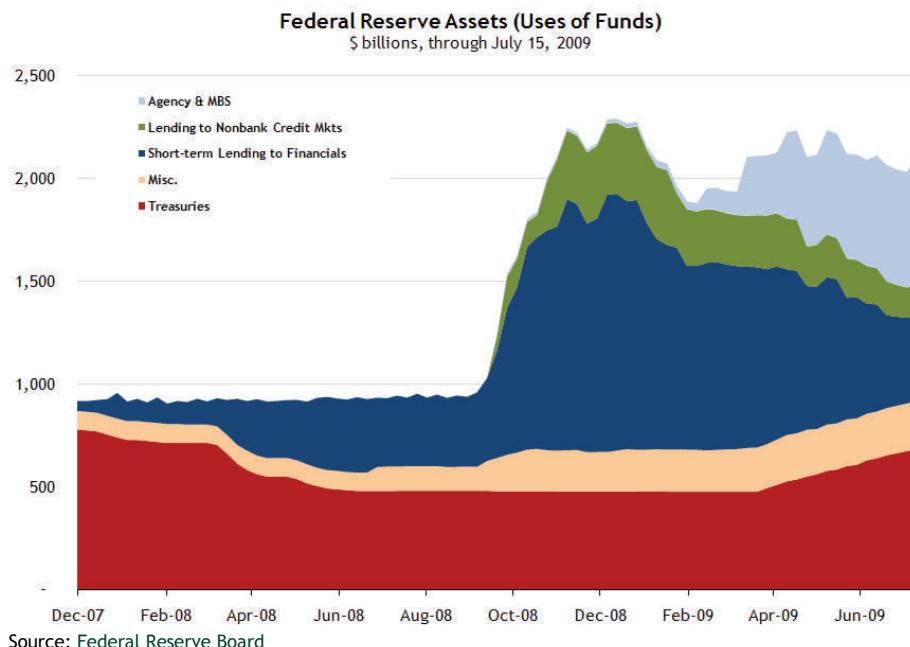
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Federal Reserve

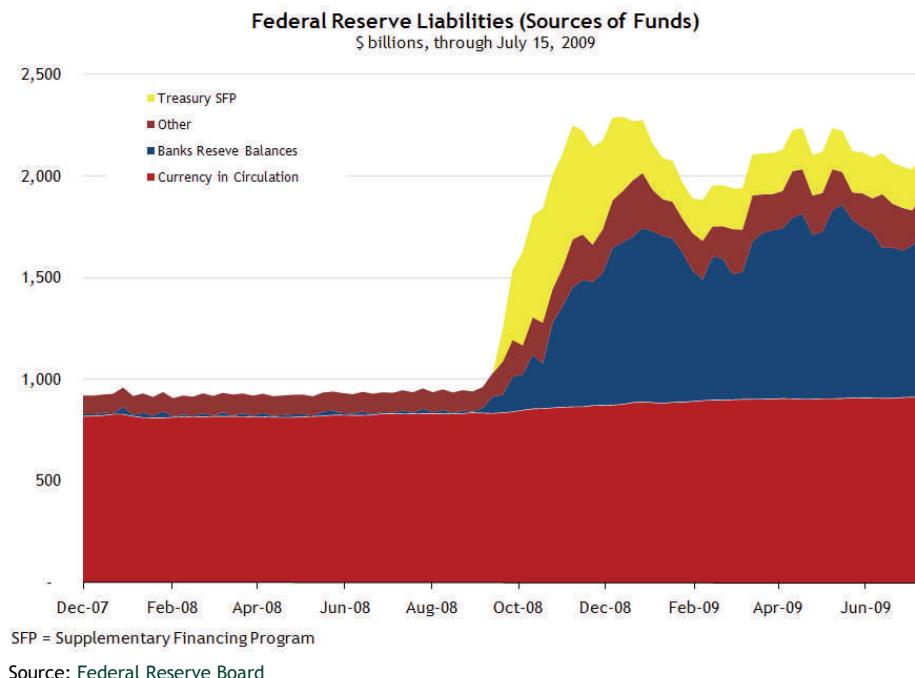
Summary

The Fed's balance sheet increased by a relatively small \$80 billion for the week ended July 15; since May 27, the balance sheet has remained within a range of \$2 trillion and \$2.1 trillion.



- The \$80 billion increase in the Fed's balance sheet for the week ended July 15 stemmed largely from an increase in holdings in mortgage backed securities (MBS), which rose by about \$64 billion during the week.
- The broad highlights of the Fed's balance sheet remain little changed. The sizeable declines in short-term lending to financials and nonbank credit markets have largely been offset by increases in holdings of Treasury securities, MBS, and agency debt.

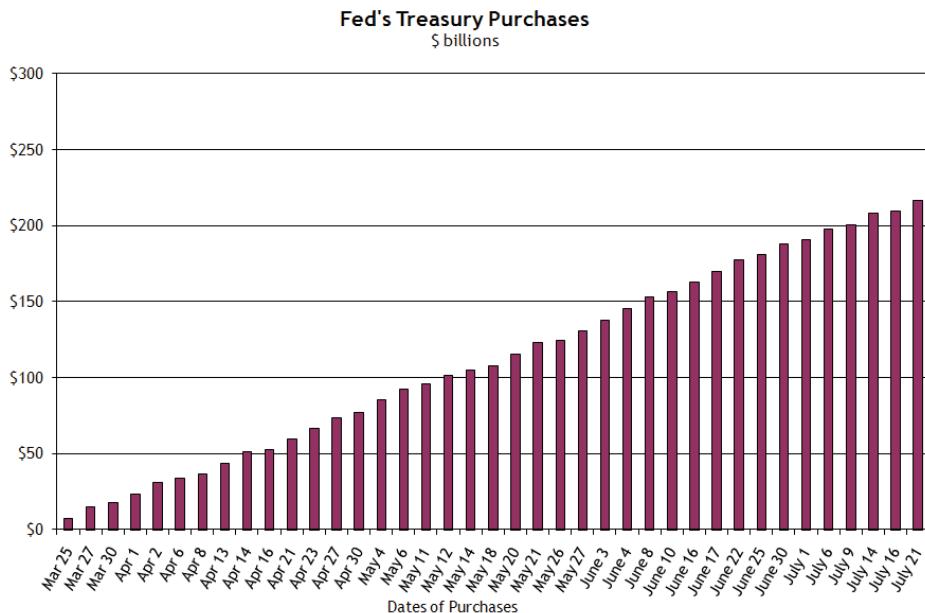
On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet, accounting for about 38% of liabilities; currency in circulation accounts for about 43%.



Assets: Lending to nonbanks: TALF, CPFF, AMLF, and MMLIF; 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 Supplemental Financing Program.

Summary

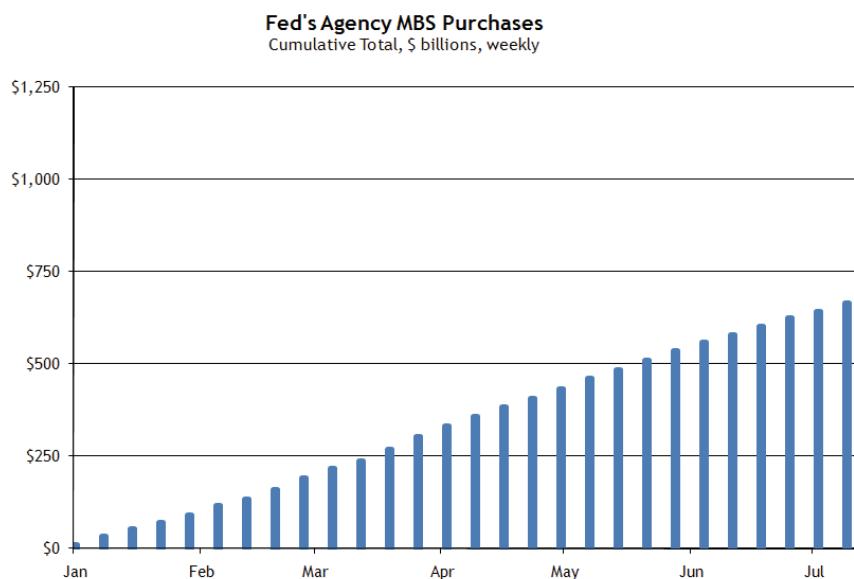
The Fed made two purchases of Treasury securities over the past week, including one of TIPS.



Source: NY Fed

- The Fed purchased \$1.5 billion in Treasury Inflation-Protected Securities (TIPS) on July 16 and \$7 billion in Treasury securities in the seven-to-10-year maturity sector on July 21.
- To date, the Fed has purchased \$217 billion of Treasuries and will purchase up to \$300 billion by autumn.

The Fed purchased \$22.2 billion of MBS.



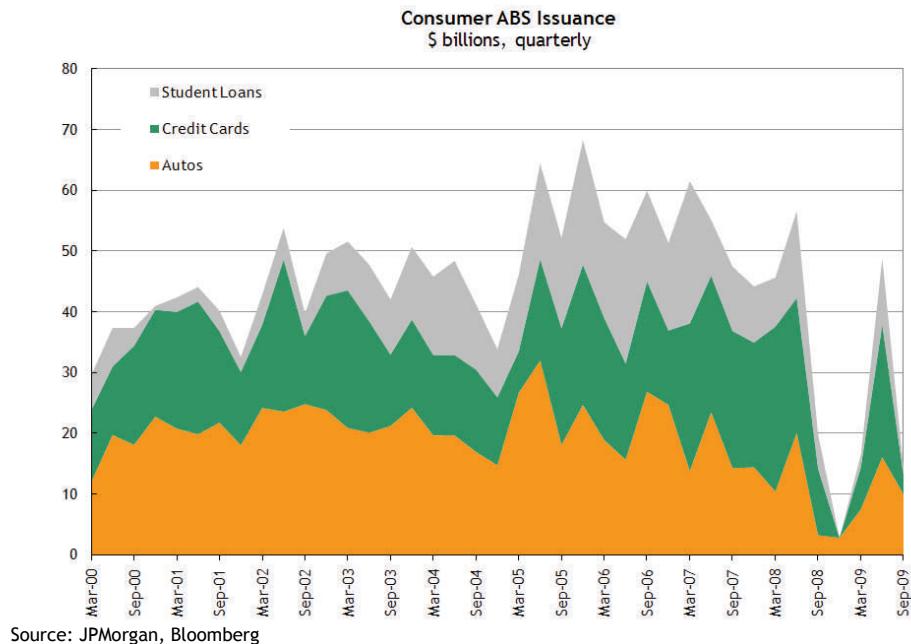
Source: NY Fed

- The Fed purchased a net total of \$22.2 billion of agency-backed MBS between July 9 and 15, bringing its total purchases up to \$664 billion, and by year-end the Fed will purchase up to \$1.25 trillion.

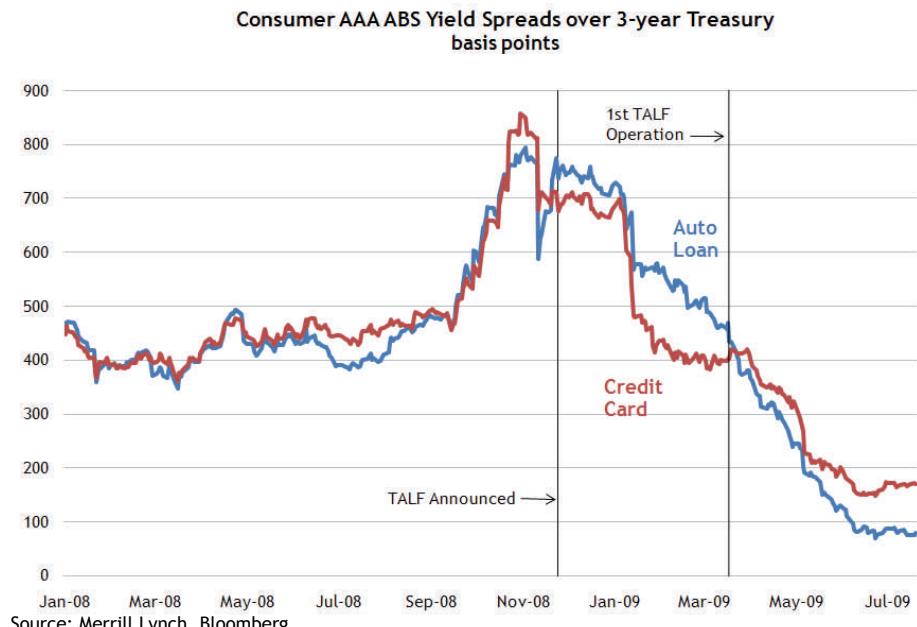
TALF, ABS, and CMBS

Summary

Twelve consumer asset-backed securities (ABS) deals totaling about \$14.3 billion have been issued so far in July. Investors made requests for \$5.4 billion in loans in the July 7 TALF operation.



- In the fifth ABS TALF operation, investors requested a total of \$5.4 billion in loans, down from the \$10.6 billion and \$11.5 billion in requests at the May and June operations, respectively.
- The ongoing flow of new ABS deals coming to the market indicates improvement in securitization markets when compared with the dysfunction seen toward the end of 2008. New ABS issuance should help improve credit availability to consumers and businesses. (Note: Some newly issued securities are TALF eligible—equipment ABS, for example—but are not included in the issuance chart above.)



After declining during much of the first half of 2009, consumer ABS spreads have been relatively flat since June.

- AAA-rated auto loan spreads have remained within a range of 70 to 100 basis points (bps) since mid-June while AAA-rated credit card ABS spreads have remained within a range of about 150 to 170 basis points.
- The significant decline in spreads over most of 2009 also points to improvement in the consumer ABS markets.

TALF, ABS, and CMBS

Summary

The first TALF operation to accept legacy CMBS occurred last Thursday, July 16.

Financing totaling \$669 million was provided for the purchase of legacy CMBS. Again, there were no loans requested to purchase newly issued CMBS through the TALF.

The fixed three-year loan rate at the TALF was 3.0275, and the fixed five-year loan rate was 3.8735.

AAA-rated Commercial MBS Yield Spreads to Treasury basis points



Source: Bloomberg and Merrill Lynch

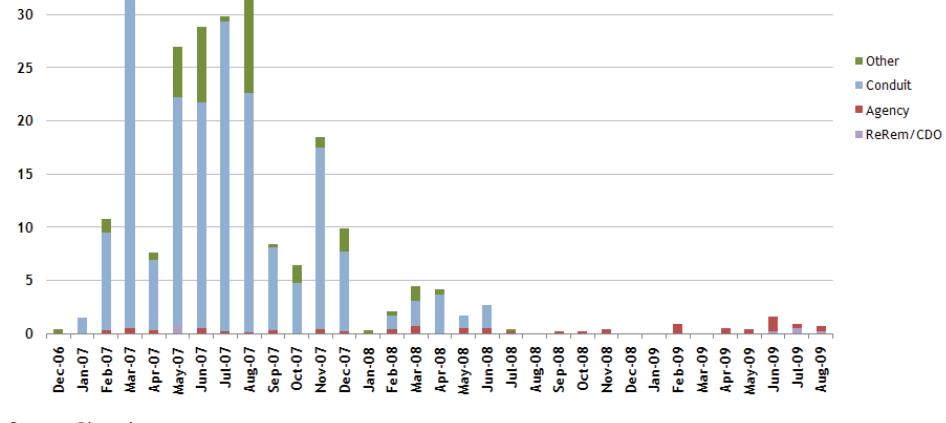
- AAA rated CMBS spreads have narrowed in recent weeks, and activity in the market has been high.
- Investors have been bundling together securities into re-REMICs to avoid downgrades announced by Standard and Poor's, purchasing securities to present to the TALF, and the Treasury announced July 8 that its PPIP program will accept legacy CMBS that were originally rated AAA (as opposed to the AAA-rated securities that the TALF currently requires).

Commercial MBS Issuance by Type \$ billions

CMBS issuance remains unchanged from last week, with \$0.8 billion so far this month for the United States.

Issuance in recent months has been dominated by re-REMICs and agency deals.

Market participants expect issuance to pick up if spreads continue to decline.

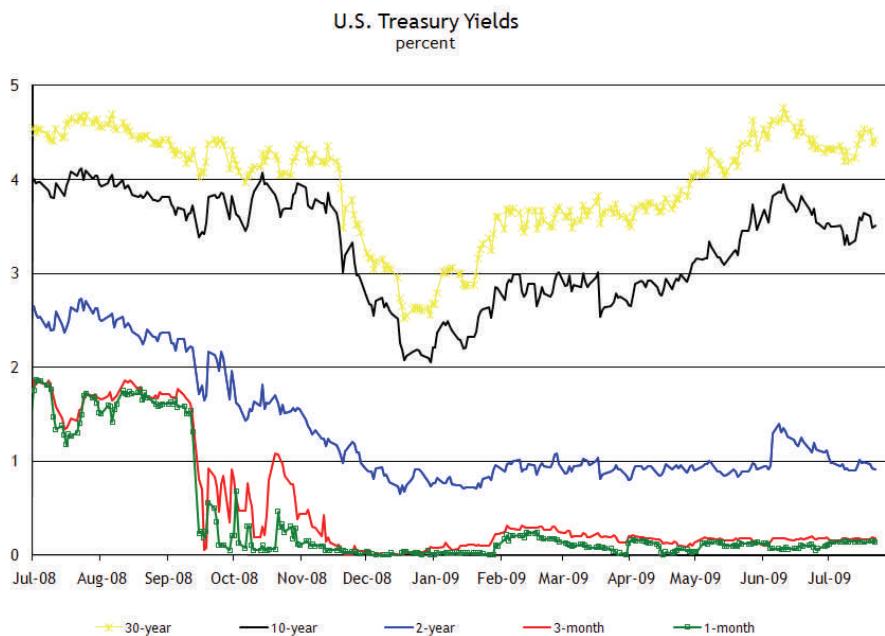


Source: Bloomberg

Financial Markets

Summary

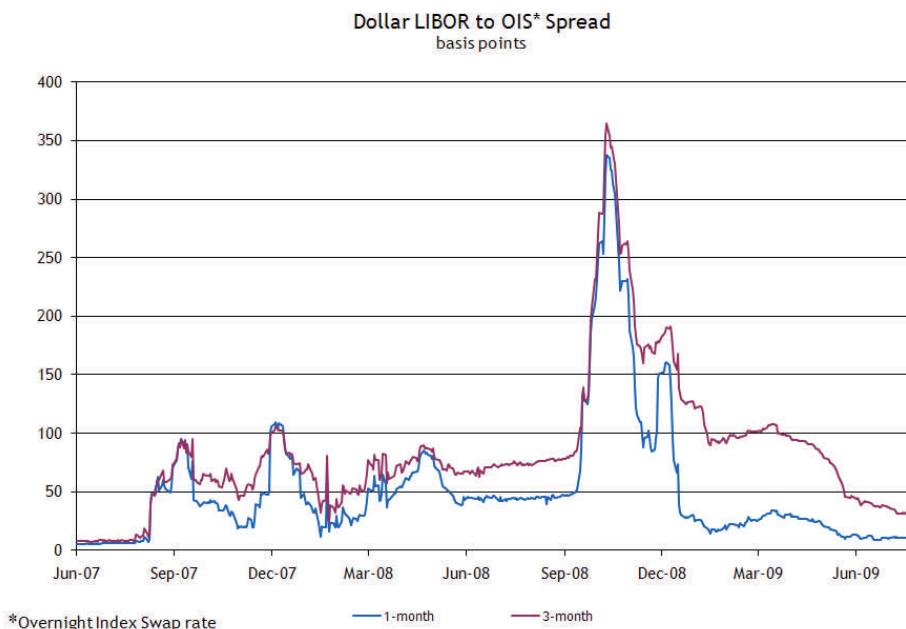
Longer-dated Treasury yields moved lower during the past week, dropping noticeably on Tuesday, July 21.



Source: Bloomberg

- As of July 22, the 30-year Treasury bond yielded 4.42% (7 bps lower than a week ago), the 10-year Treasury note 3.51% (10 bps lower), and the two-year note 0.92% (10 bps lower). For T-bills, the three-month yield was 0.18%, and the one-month yield was 0.14%.
- On Tuesday, July 21, the 30-year bond and 10-year note each moved down 12 bps while the two-year note fell 5 bps.

LIBOR-to-OIS spreads are low and stable.



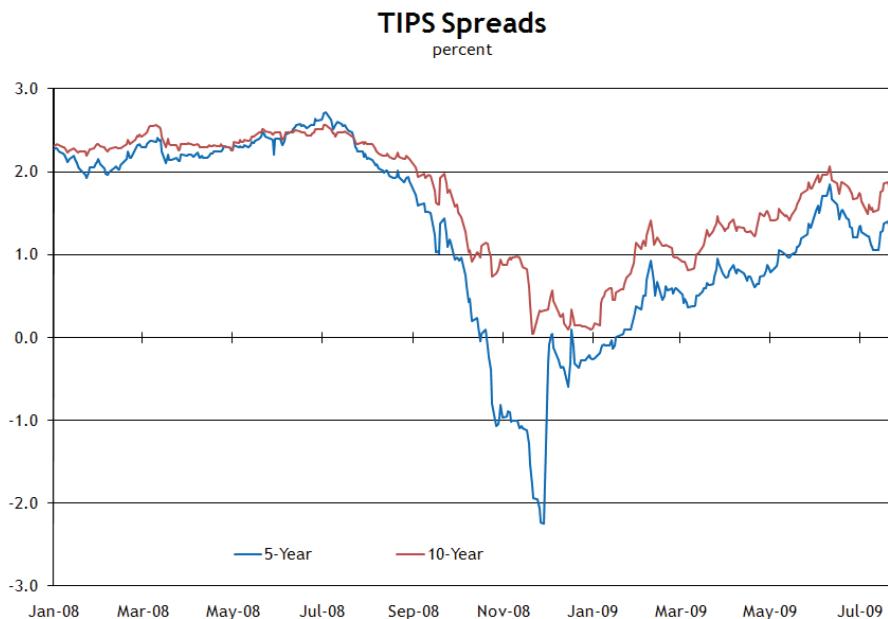
Source: Bloomberg and British Bankers' Association

- The one-month dollar LIBOR-to-OIS spread was 11 bps as of July 22, and the three-month spread was 31 bps, with neither changing much during the past week.

Financial Markets

Summary

TIPS spreads have narrowed during the past month but have been trending upward since the beginning of the year.



Source: Haver Analytics

- After rising steadily the week prior, on July 21 the implied five- and 10-year spot (or “break-even”) inflation rates dropped 7 and 9 bps, respectively, to levels of 1.33% and 1.79%.
- After turning negative in October 2008, it was not until January 20 of this year that the 5-year break-even inflation rate turned positive and has since trended higher (as has the 10-year break-even rate).
- But since their recent peak on June 10, the five-year break-even rate has declined 52 bps and the 10-year rate 28 bps.

Financial Markets

Summary

The May Treasury International Capital (TIC) report showed a net \$7.9 billion increase in foreign purchases of U.S. long-term securities.

U.S. residents bought, on net, \$27.7 billion in foreign long-term bonds and equities.

Buying of U.S. Treasuries by foreign official institutions continues to be concentrated at the short end of the curve.

- The May Treasury International Capital (TIC) data showed a net \$7.9 billion increase in foreign purchases of U.S. long-term securities, which include Treasury bonds and notes, agency bonds, corporate bonds, and equities. A \$31.3 billion increase in private buying more than offset a \$23.4 billion decline in purchases by official institutions in May.
- Private purchases of long-term securities were concentrated in agency bonds and equities. Virtually all of the decline in official purchases reflected net sales of Treasury bonds and notes.
- However, foreign official institutions resumed buying U.S. Treasury bills in May, more than offsetting the April decline. Foreign official institutions bought \$55.6 billion in May. By contrast, private buying declined for the second consecutive month—down \$2.5 billion in May.
- The fact that foreign official institutions are concentrating their purchases at the short end of the curve could suggest that the U.S. government may have to rely more on short-term financing. Overall, foreigners held nearly 50% of U.S. Treasury securities (both short- and long-term) as of the first quarter. China accounted for more than 20% of total outstanding foreign holdings of U.S. government debt in May.
- Meanwhile, U.S. residents have resumed buying foreign bonds and equities. On net, U.S. residents bought foreign long-term securities for the third consecutive month in May. During the 12 months though May, net selling by U.S. residents of foreign bonds and equities and foreign purchases of U.S. long-term securities provided \$187.6 billion in financing for the U.S. economy. However, after adjusting for repayments to foreigners on U.S. corporate and agency ABS, that total falls to virtually zero.

Foreign Official Institutions: Purchases of Treasury Bills
NSA, Mil.\$

Foreign Official Institutions: Purchases of Treasury Bonds and Notes
NSA, Mil.\$

