FEDERAL RESERVE BANK of ATLANTA

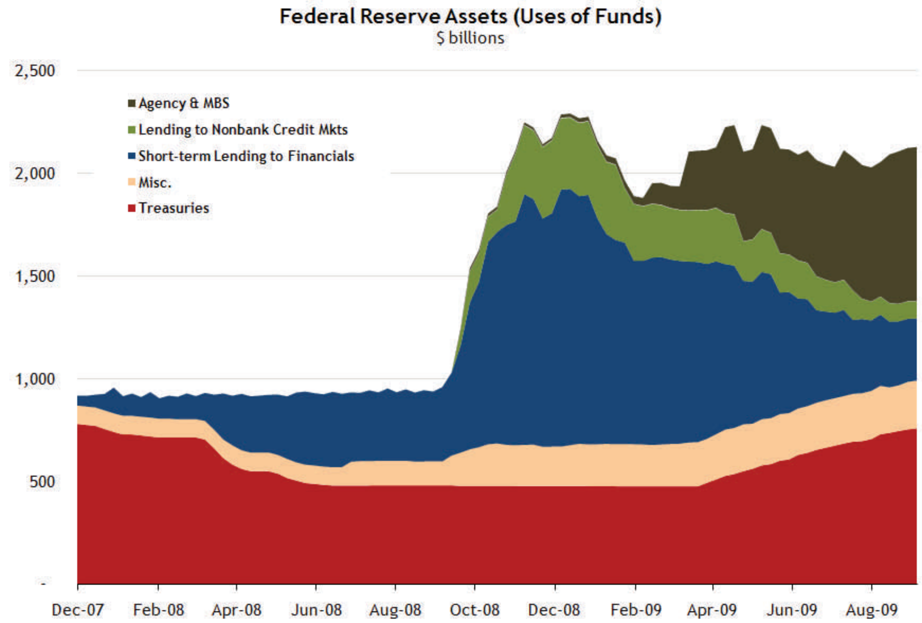
September 16, 2009

Financial Highlights

Federal Reserve

Summary

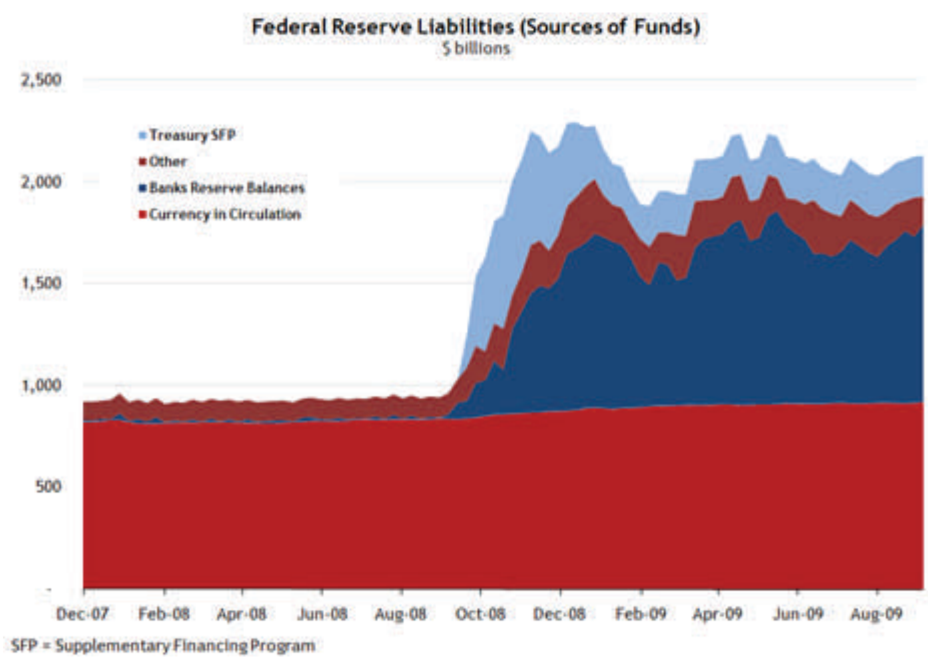
The size of the Fed's balance sheet has largely been flat since March, remaining within a range of $2 trillion to $2.2 trillion.



Source: Federal Reserve Board

- The overall size of the Fed's balance sheet has been flat during the past few months and the broad trends remain little changed. That is, the sizeable declines in short-term lending to financials and nonbank credit markets have largely been offset by increases in holdings of Treasury securities, mortgage-backed securities (MBS), and agency debt.
- As we move into September, we approach the one-year mark with respect to the unprecedented increase in the Fed's balance sheet. The balance sheet increased from about $962 billion on September 10, 2008, and broke through $2 trillion by the end of October 2008. This expansion followed an already changed balance sheet in terms of composition. For example, holdings of Treasuries had declined as lending to financials rose through increased usage of TAF, discount window, currency swaps, PDCF, and repos in early 2008.

On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet. Since March, reserves have averaged about $800 billion, accounting for 38% of liabilities.



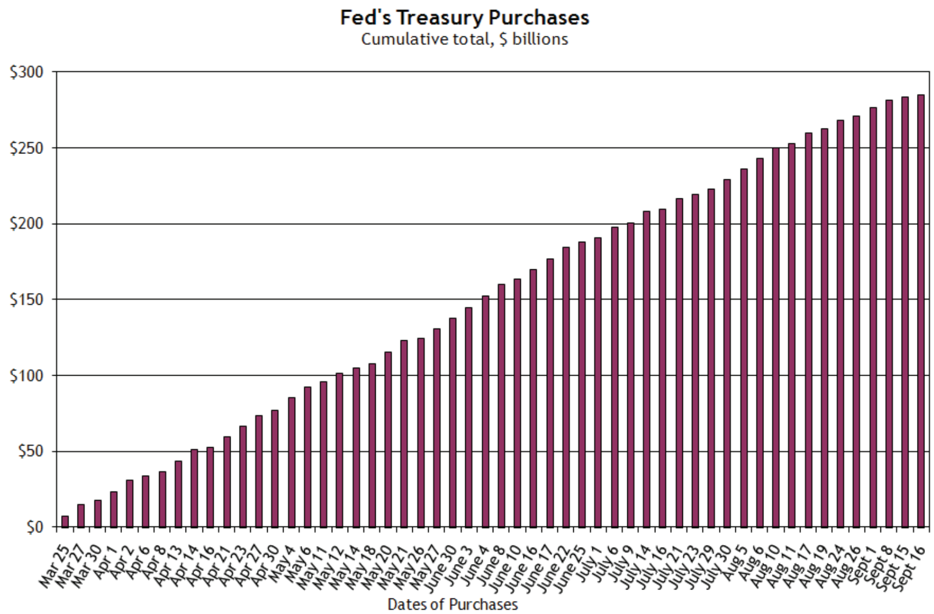
Source: Federal Reserve Board

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 Supplemental Financing Program.

Federal Reserve

Summary

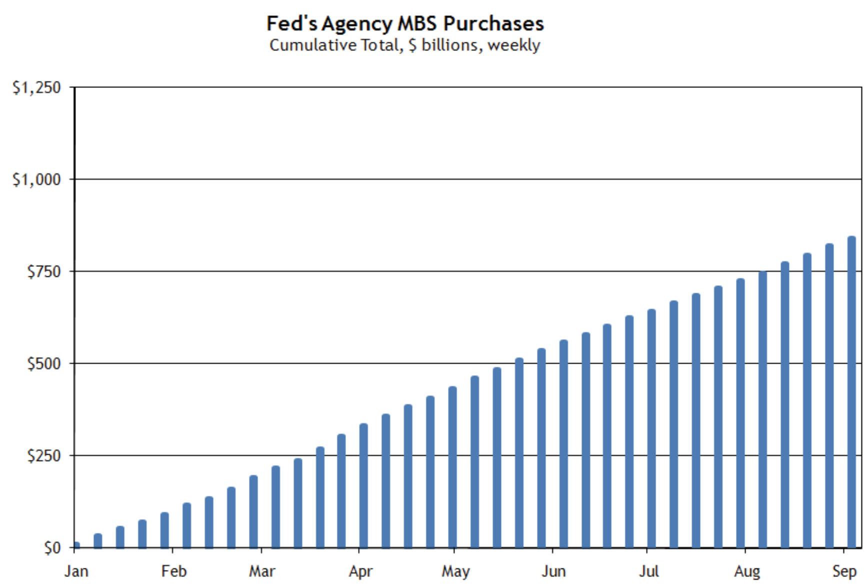
After two purchases this week, the Fed brought its cumulative purchases up to $285 billion.



Source: NY Fed

- On September 15, the Fed purchased $2.05 billion in Treasuries, roughly in the 10-17 year sector; on September 16, it purchased $1.799 billion in the one-to-two year sector. It has purchased a total of $285.2 billion of Treasury securities through September 16.
- The Fed plans to purchase $300 billion by the end of October, or about six weeks from now, which makes for a pace of about $2.5 billion in purchases per week.

In the week between September 3-9, the Fed purchased a net total of $18.8 billion of agency MBS, bringing its total purchases to $840 billion.



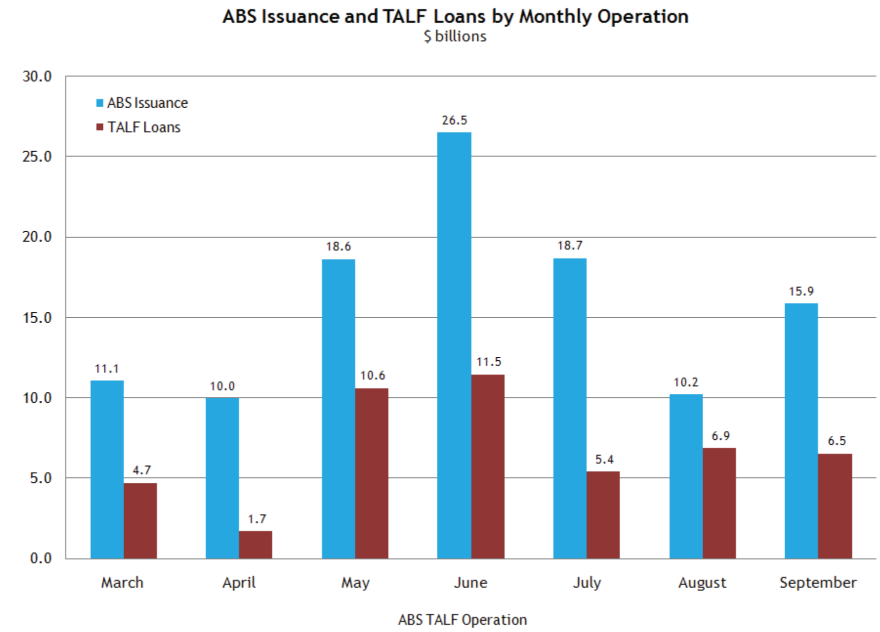
Source: NY Fed

- The Fed has purchased a net total of $18.8 billion of agency MBS between September 3 and 9. It bought $3.6 billion of Freddie Mac, $12.4 billion of Fannie Mae, and $2.9 billion of Ginnie Mae.
- The Fed's cumulative MBS purchases have reached $840.1 billion, and it has announced plans to purchase up to $1.25 trillion by the end of the year.

ABS

Summary

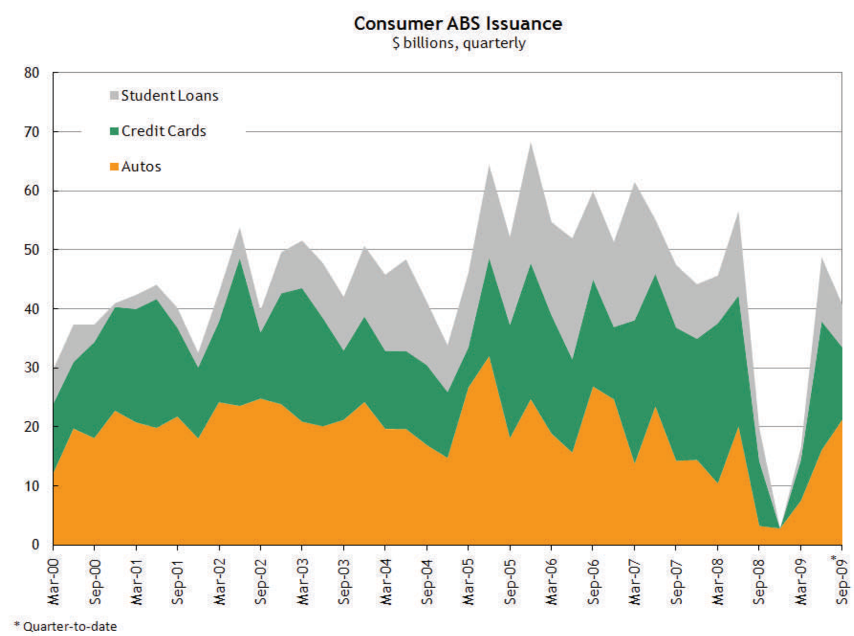
Investors requested $6.5 billion in TALF loans at the September 3 operation, which is close to the average of $6.8 billion in the previous six operations.



Source: Federal Reserve Bank of New York and Bloomberg

- The September 3 TALF operation supported nearly $16 billion in new ABS issuance. The ratio of TALF loans to ABS Issuance declined to 0.41 for September from 0.67 in August. While a decline in this ratio could suggest some improvement in the market's ability to absorb newly issued ABS without TALF funding, the September ratio of 0.41 is close to the average of 0.43 for the last six operations.
- The TALF is slated to expire on March 31, 2010.

With TALF support, the moderate pace of new consumer ABS issuance has generally been maintained in the third quarter after rebounding to just under precrisis levels in the second quarter.



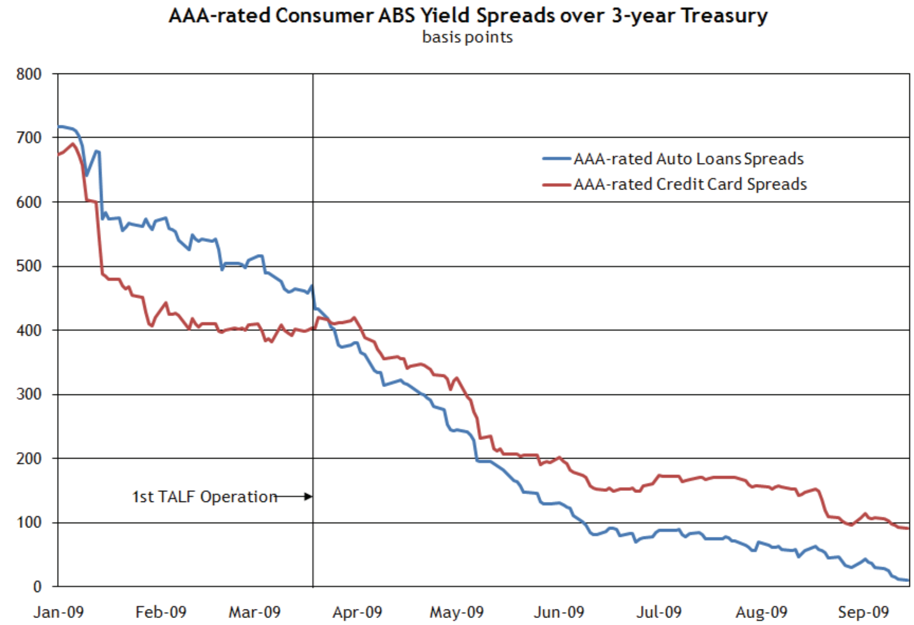
Source: J.P. Morgan and Bloomberg

- Issuance of consumer ABS so far in the third quarter of about $41 billion is a marginally below the $49 billion pace seen in the second quarter (which was the first full quarter when TALF was operational).
- Since the start of TALF, there have been two quarters (quarters two and three) of relatively robust consumer ABS issuance averaging about $45 billion per quarter. To compare, in 2007, new issues of consumer ABS averaged about $52 billion per quarter.

ABS

Summary

Risk spreads on AAA-rated credit card and auto loan ABS have edged lower since June after declining sharply during the first six months of 2009.



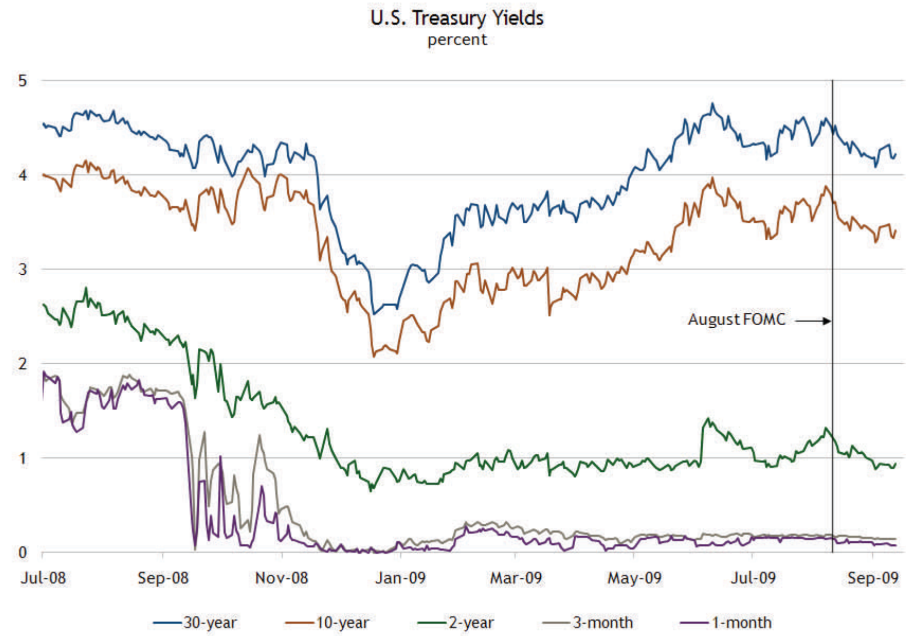
Source: Bloomberg and Merrill Lynch

- Since the first TALF operation in March, yield spreads on securities backed by auto loans and credit card receivables over three-year Treasury rates have declined by about 450 and 310 basis points (bps), respectively. The vast majority of the spread narrowing reflects declines in yields on the ABS (autos down 440 bps and cards down 300 bps since March 17) rather than increases in yields on Treasuries.
- Part of the decline in ABS yields likely reflects improved liquidity conditions (and thus lower liquidity premiums) in the ABS market following implementation of the TALF program.

Broad Financial Market Indicators

Summary

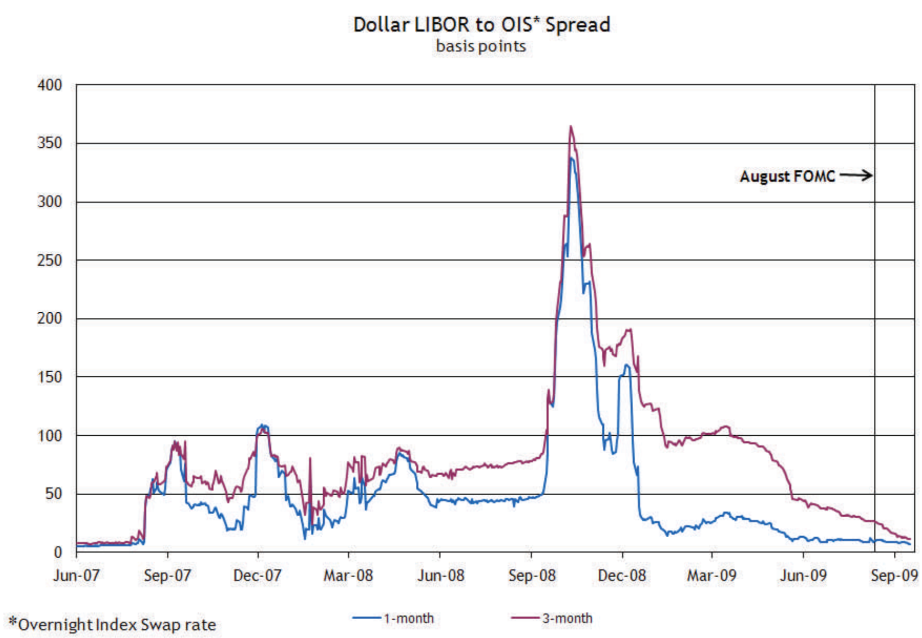
Longer-dated Treasury yields have moved lower since the August FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Since the conclusion of the August FOMC meeting, between August 12 and September 14, longer-dated Treasury yields have fallen: The 30-year bond was down 22 bps to 4.22%, the 10-year note fell 29 bps to 3.42%, and the two-year note was 27 bps lower to 0.94%.
- And T-bills were little changed: The three-month yield is down 4 bps to 0.14%, and the one-month is down 6 bps to 0.08%.

LIBOR-to-OIS spreads continue to narrow, with the three-month spread down by half since the last FOMC meeting.



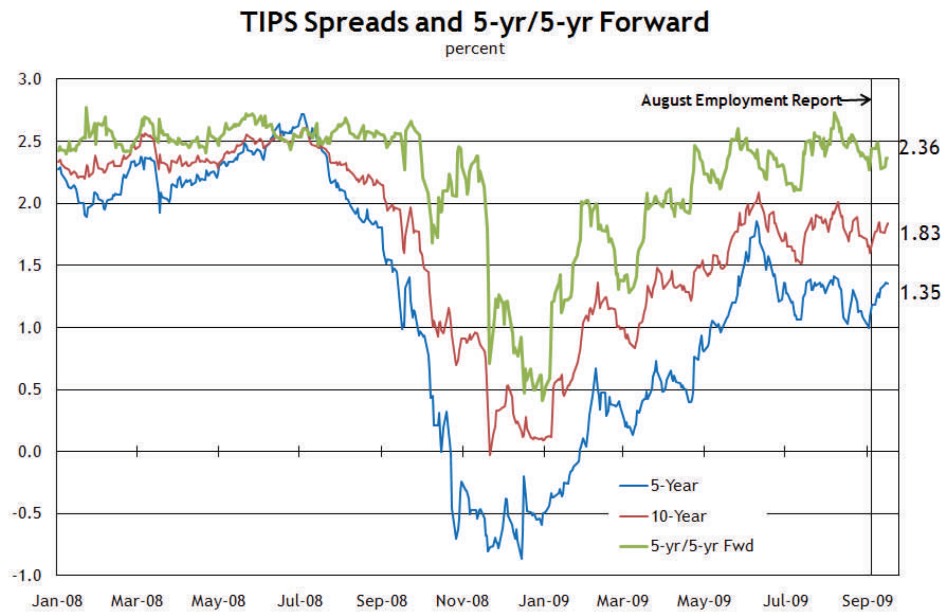
Source: Bloomberg and British Bankers' Association

- Interbank funding spreads remain close to the precrisis levels: As of September 16, the one-month Dollar LIBOR to OIS spread was 7.4 bps, and the three-month was 11.9 bps.
- The one-month spread has moved 3 bps lower, and the three-month 14 bps lower, since the last FOMC meeting ended on August 12.

Broad Financial Market Indicators

Summary

TIPS spreads have widened a bit recently, but the five-year/five-year forward rate has fallen.



Source: Bloomberg

- Since the August employment report's release on September 4, the five-year and 10-year breakeven inflation rates have both risen 17 bps and 15 bps, respectively, to 1.35% and 1.83%.
- But the five-year/five-year forward rate (the rate of expected annual inflation over five years, beginning five years from now) declined by nearly 8 bps, to 2.36%.

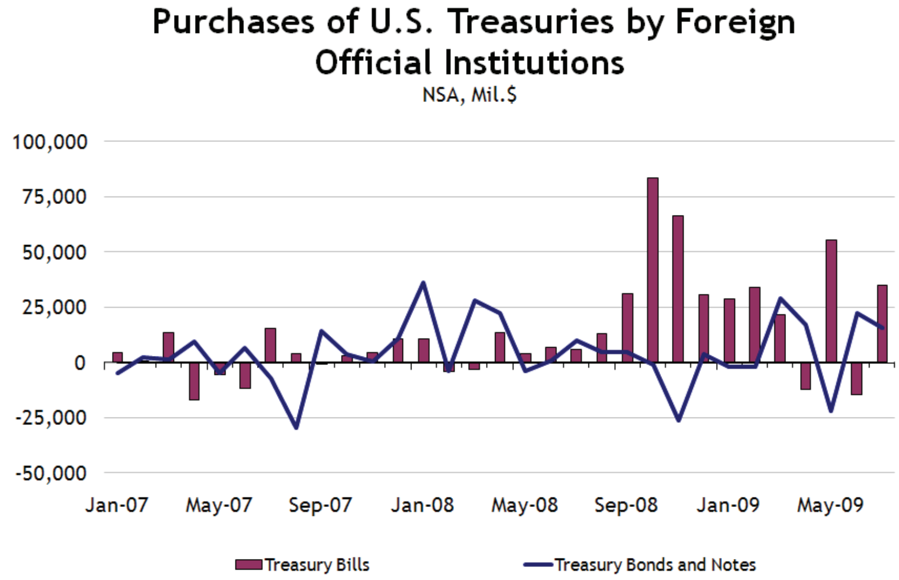
Cross-Border Financial Flows

Summary

The May Treasury International Capital (TIC) report showed a net $44 billion increase in foreign purchases of U.S. long-term securities.

U.S. residents bought, on net, $28.8 billion in foreign long-term bonds and equities.

In July, foreign official investors added Treasury bills to their purchases of Treasury bonds and notes.



Source: U.S. Treasury

- The July Treasury International Capital (TIC) data showed a net $44 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 were $32.1 billion, and net purchases by foreign official institutions were $12 billion.
- Net foreign purchases of U.S. long-term securities were dominated by Treasuries and equities, while foreign investors sold on net corporate bonds. Continued net sales of agency bonds by official investors were only partially offset by a net increase in agency purchases by private investors.
- Meanwhile, U.S. residents have resumed buying foreign bonds and equities. On net, U.S. residents bought foreign long-term securities for the fifth consecutive month in June. Over the 12 months though June, net selling by U.S. residents of foreign bonds and equities and foreign purchases of U.S. long-term securities provided $229.8 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 $30.7 billion.