FEDERAL RESERVE BANK of ATLANTA

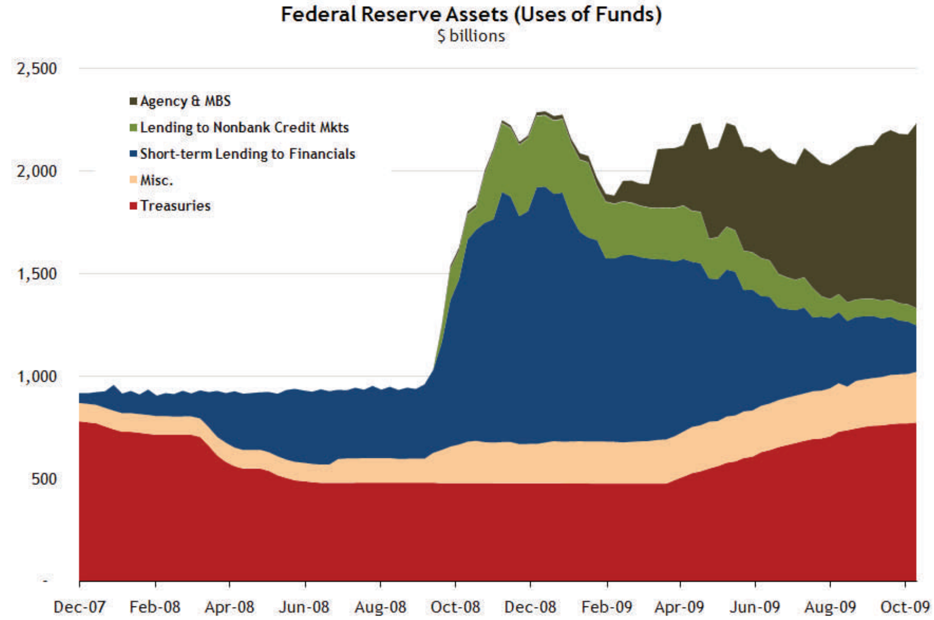
October 21, 2009

Financial Highlights

Federal Reserve

Summary

At $2.23 trillion, the size of the Fed's balance sheet is at its highest level since May 2009.

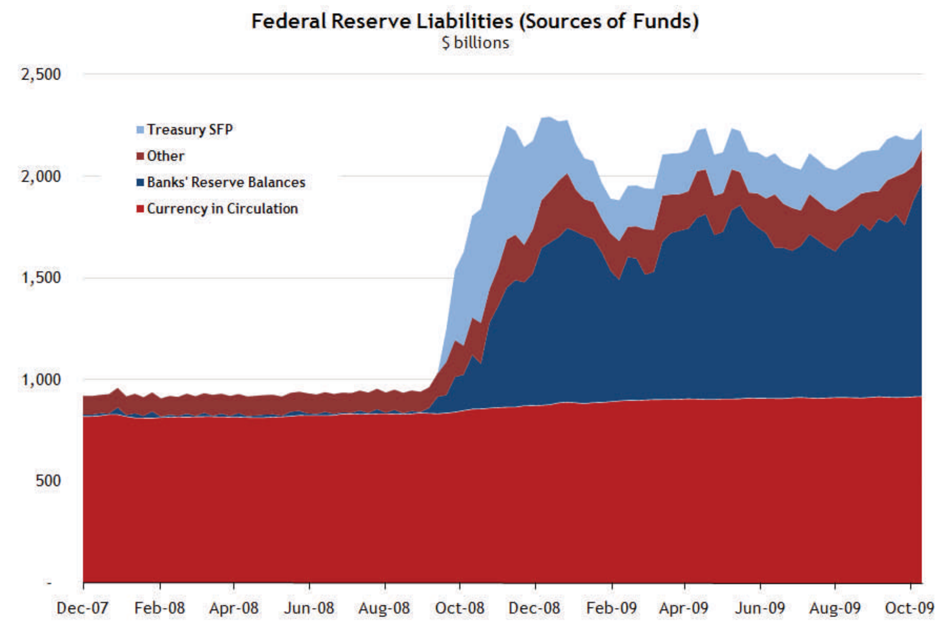


Source: Federal Reserve Board

- With the Fed's Treasury purchase program nearly complete (about $2 billion from its specified size of $300 billion), further increases in directly purchased assets will stem from increases in MBS and agency debt. MBS transactions are not reported on the Fed's balance sheet until the transactions are settled. Thus, discrete changes in the balance sheet occur around mid-month even though the weekly pace of purchases is roughly constant (see the top of the next page).

On the liabilities side, bank reserve have increased to $1.05 trillion, their highest level and the first time above the trillion-dollar mark.

Reserves increased by about $85 billion for the week ended October 14 after jumping by $118 billion last week, and they now make up about 47% of the balance sheet.



SFP = Supplementary Financing Program

Source: Federal Reserve Board

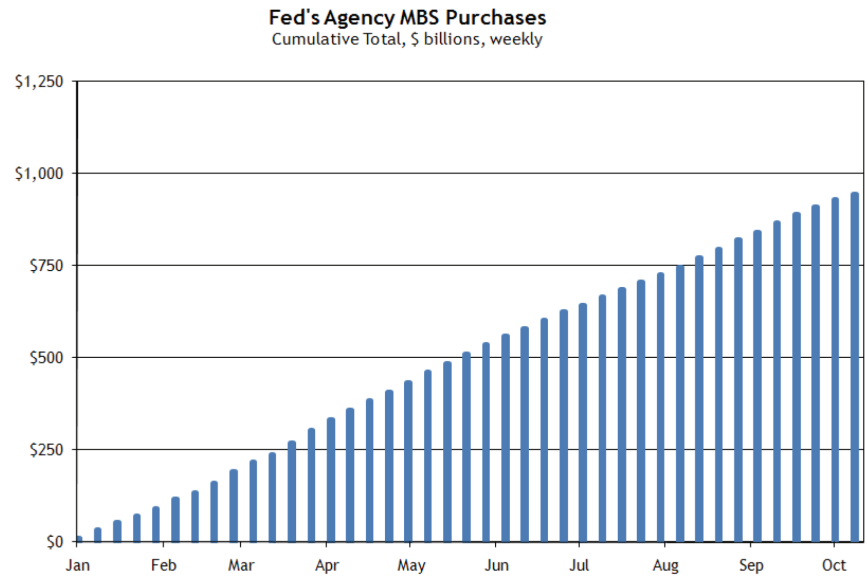
- A portion of the increased reserves is from changes in the Treasury's SFP program. On September 16, the Treasury Department announced its intentions to let all but $15 billion in bills outstanding under the SFP expire "in the coming weeks." The SFP declined by $30 billion for the week ended October 14 after declining by $35 billion in each of the two previous weeks. The SFP stands at about $100 billion as of the week ended October 14.

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.

Federal Reserve

Summary

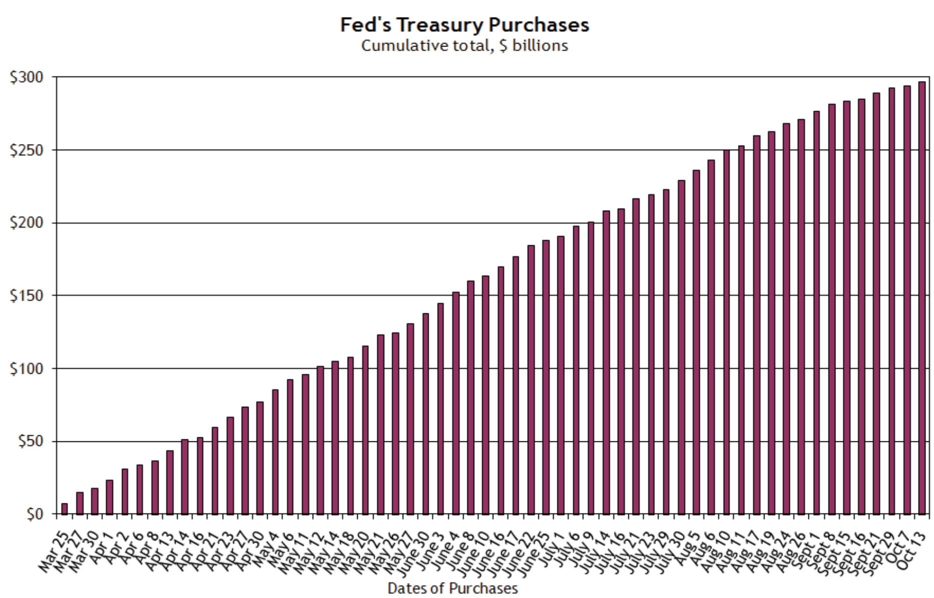
The Fed has now purchased about $945 billion in agency-backed MBS through the week ended October 14.



Source: NY Fed

- The Fed purchased a net total of $16.1 billion of agency-backed MBS between October 8 and 14, bringing its total purchases up to about $945 billion, and by year-end the Fed will purchase up to $1.25 trillion.

The Fed now has about $3 billion remaining to meet its goal of purchasing $300 billion in Treasury securities.



Source: NY Fed

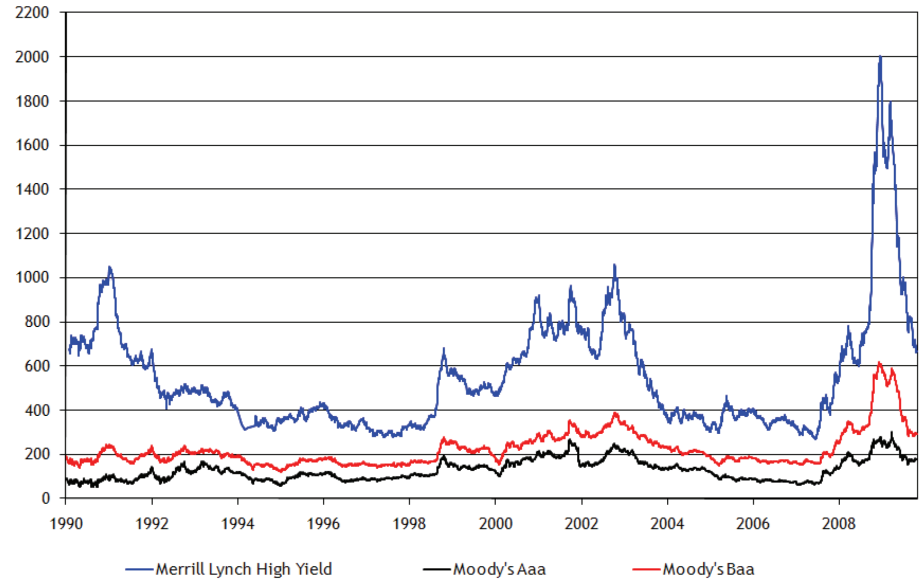
- The Fed has purchased a total of $297 billion of Treasury securities through October 21, bringing it about 99% toward its goal. Of these purchases, $4.5 billion have been TIPS.
- Last week, the Fed made a purchase on October 13 for $2.95 billion in the seven-to-10-year sector.

Corporate Bonds and Debt

Summary

Corporate bond risk spreads have now narrowed to below their peak levels observed during the much less severe credit cycle following the 2001 recession.

Corporate Bond Yield Spreads over 10-year Treasury
basis points



Source: Merrill Lynch, Federal Reserve Board

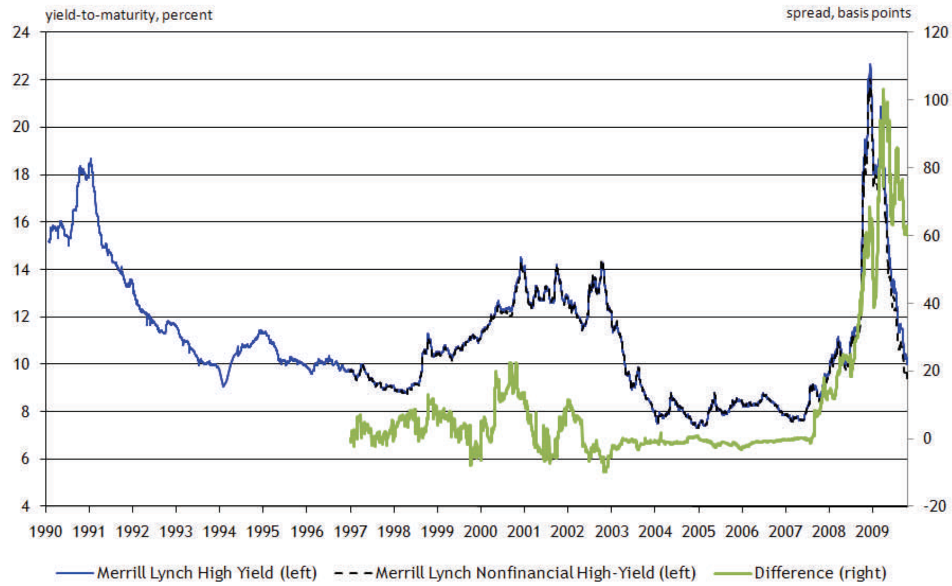
- Investment-grade risk spreads have been largely flat since early August with the Aaa spread hovering around 175 basis points (bps) and the Baa spread just below 300 bps. (Both are now about 90 bps below their peaks after the 2001 recession.)

Corporate Bonds and Debt

Summary

Taking a slightly more detailed look at the ML High-Yield index, both the significant increase in yields over late 2008/early 2009, and the subsequent decrease in yields occurred in both the financial and nonfinancial sectors.

Merrill Lynch High-Yield Indexes



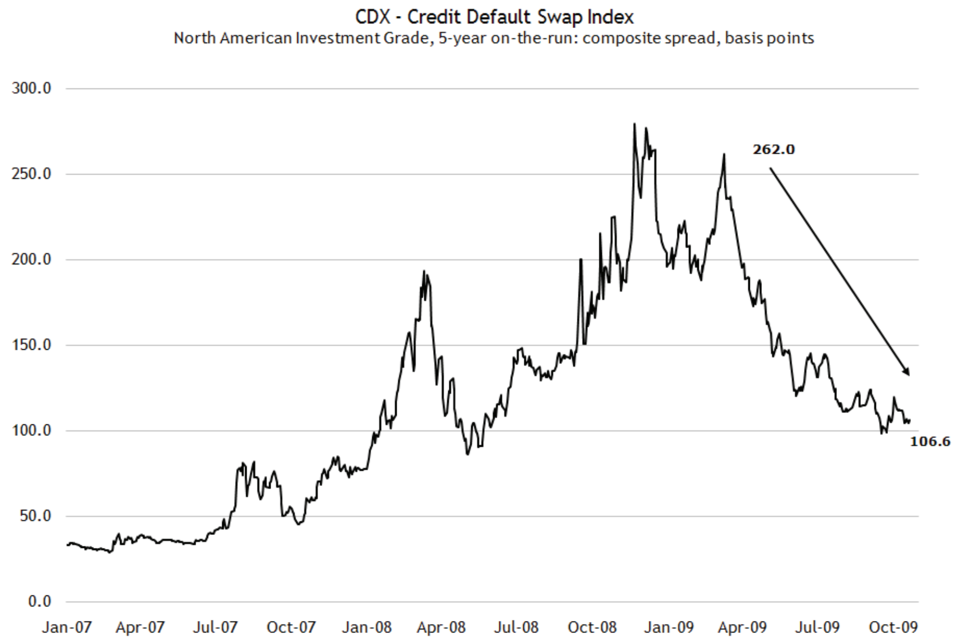
Source: Merrill Lynch and Bloomberg

- The chart above shows yields on the Merrill Lynch High-Yield index, a subset of that index that only includes bond of nonfinancial corporations and the difference between the two indexes. The nonfinancial index accounts for about 90% of the aggregate high-yield index; thus, financials (which include banking, brokerage, finance and investment, and insurance) account for the remaining 10%.
- Over the course of the credit crisis, both indexes rose sharply and have subsequently fallen sharply, illustrating that higher risk premiums were affecting the cost of capital for nonfinancial as well as financial firms. However, evolution of the financial crisis can be seen clearly in the difference between the two indexes, beginning with its onset in August 2007. Financial firms with below-investment-grade debt ratings (i.e., those in the index) have experienced a higher credit risk premium, and increases in this premium rose significantly in the fall of 2008 and again in early 2009. The difference between the two indexes indicates financials experienced a premium of about 100 bps in the high-yield bond market.

Corporate Bonds and Debt

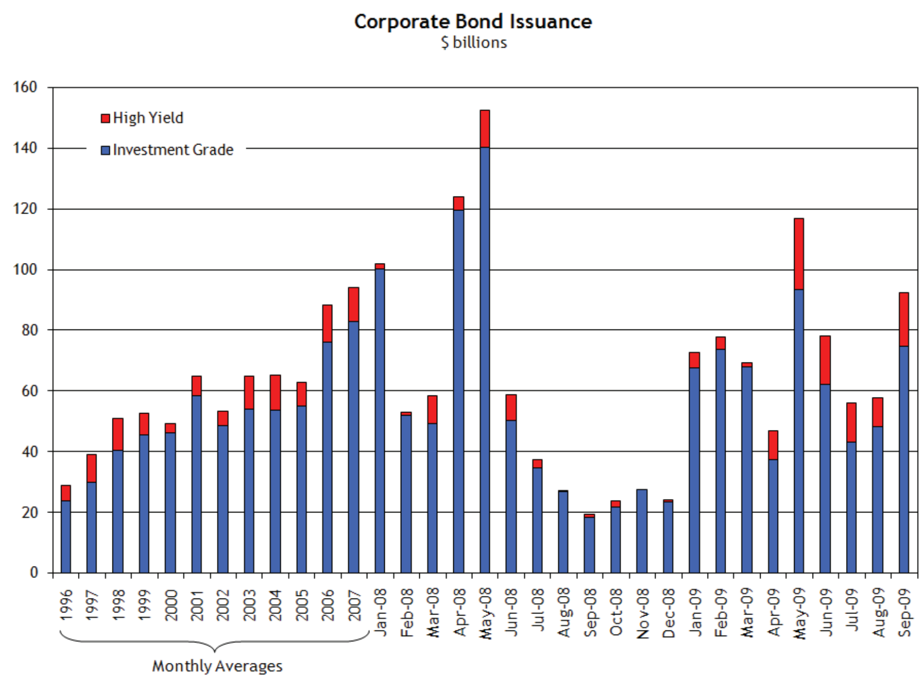
Summary

The CDX has trended downward since March, consistent with improvement in perceived default risk among investment-grade bonds.



Source: Markit Group Limited/Haver Analytics

Corporate bond issuance has continued to be robust through September 2009, marking the third straight quarter of more than $200 billion in issuance.



Source: SIMFA

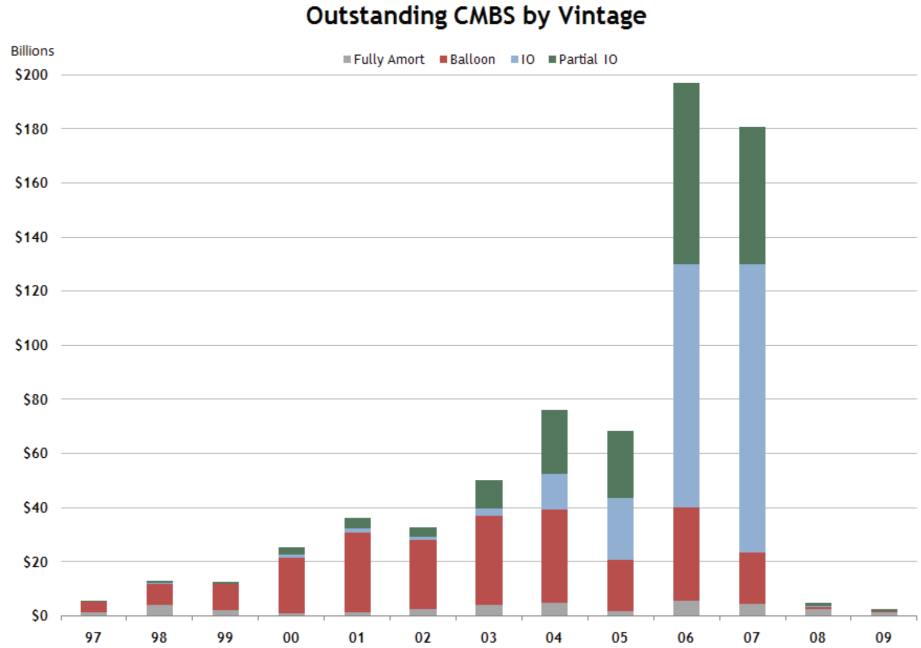
- According to SIFMA, new bonds issued by high-yield and investment-grade borrowers both rose significantly in September; combined issuance increased by 60% to $92 billion in September, from about $58 billion in August.
- Year-to-date issuance totals $666 billion, for an average of approximately $74 billion per month.

Commercial Mortgage Backed Securities

Summary

Currently outstanding commercial MBS is concentrated in vintage years 2006 and 2007; the majority of loans created in those years were interest only or partial interest only, with fully amortizing loans making up only 2.9% and 2.4%, respectively.

In contrast, the majority of currently outstanding loans created in 2008 and 2009 have been fully amortizing loans, approximately 50% and 40%, respectively.

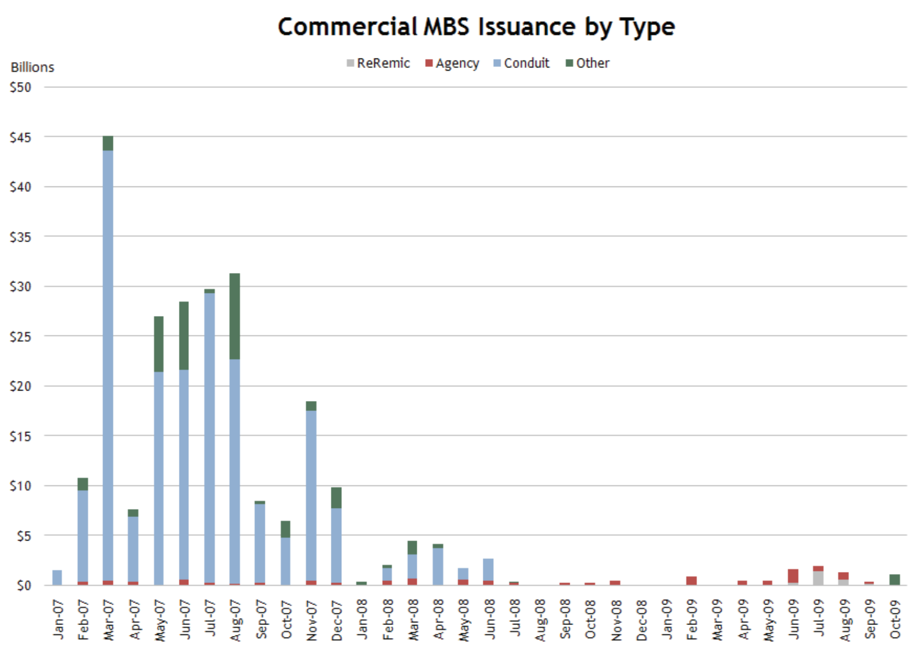


Source: Bloomberg

- During the next few years, a large amount of outstanding commercial mortgage debt will need to be refinanced. According to CMAlert, Deutsche Bank estimates that the amount of portfolio and CMBS loans coming due will increase from $204 billion this year to $247 billion next year, $296 billion in 2011, and $338 billion in 2012.
- Of the CMBS loans that have matured this year, 75% of balances have been refinanced, according to CMAlert and Citigroup.

Issuance of commercial mortgage backed securities (CMBS) remains depressed.

As of Oct 20, no newly issued CMBS had been financed through TALF. However since the TALF started accepting legacy CMBS as collateral in July, $4.17 billion in *legacy* CMBS has been financed through TALF.

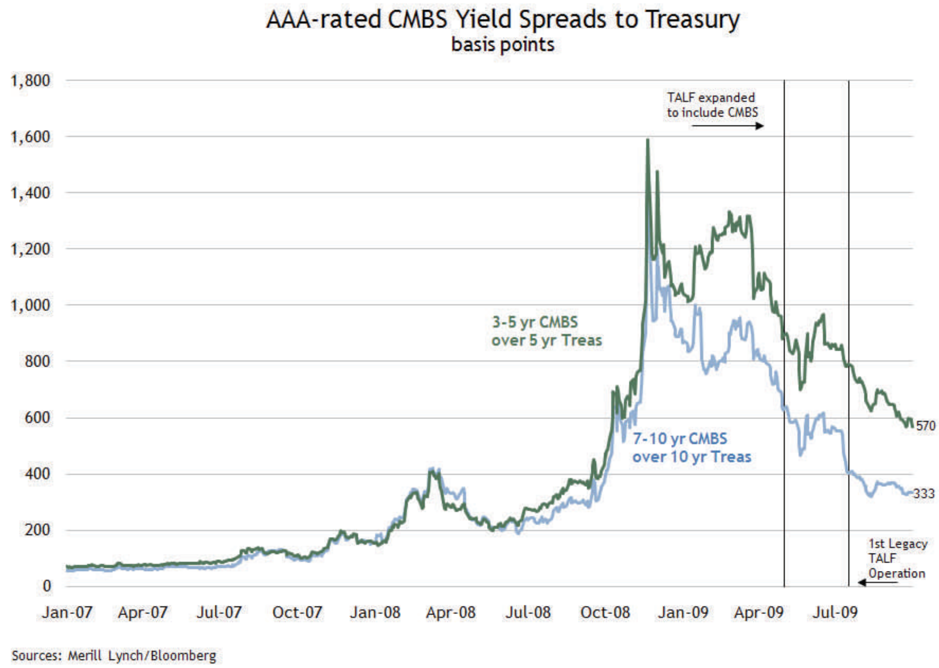


Source: Bloomberg

Commercial Mortgage Backed Securities

Summary

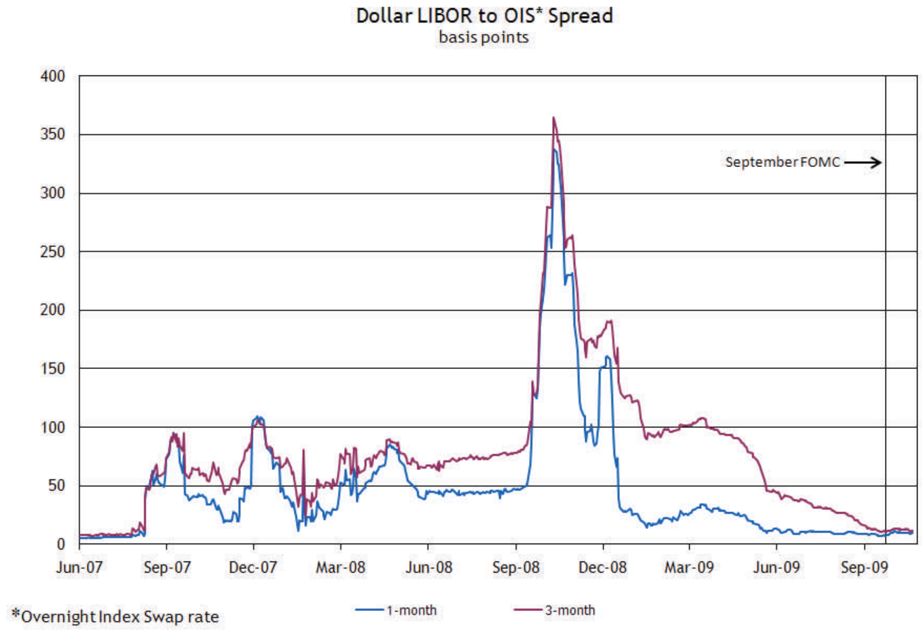
CMBS yields spreads continue to decline. Since January 1, AAA rated three-to-five year CMBS spreads have fallen by 540 bps, and AAA rated seven-to-10-year CMBS spreads have fallen 454 bps over Treasuries.



Broad Financial Market Indicators

Summary

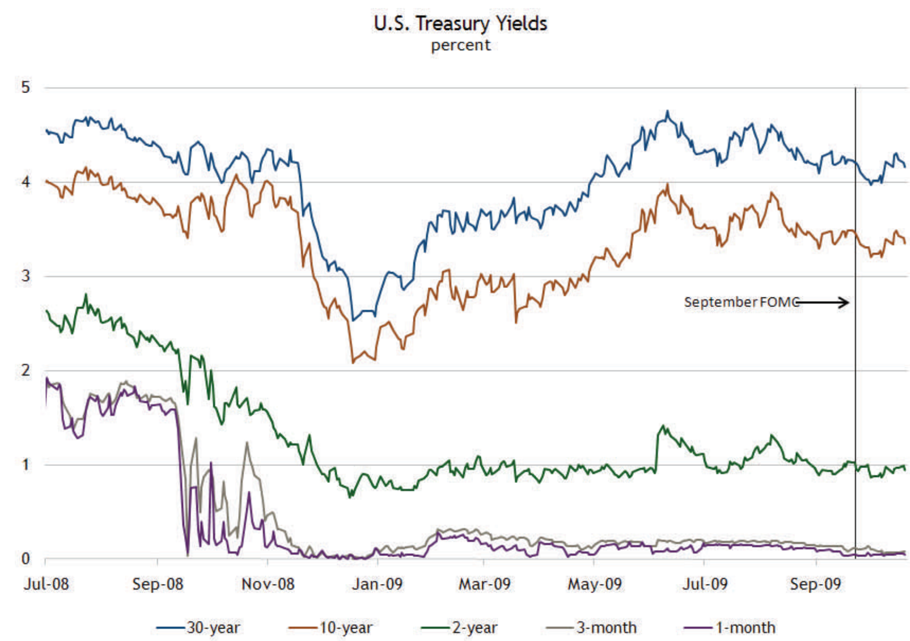
LIBOR-to-OIS spreads have widened only slightly since the last FOMC meeting.



Source: Bloomberg and British Bankers' Association

- Since the last FOMC meeting on September 23, the one-month dollar LIBOR-to-OIS spread has increased 2.1 bps to 9.9 bps, while the three-month spread has risen 0.6 bps to 11.6 bps.

Longer-dated Treasury yields have also declined slightly over the same period.



Source: Bloomberg

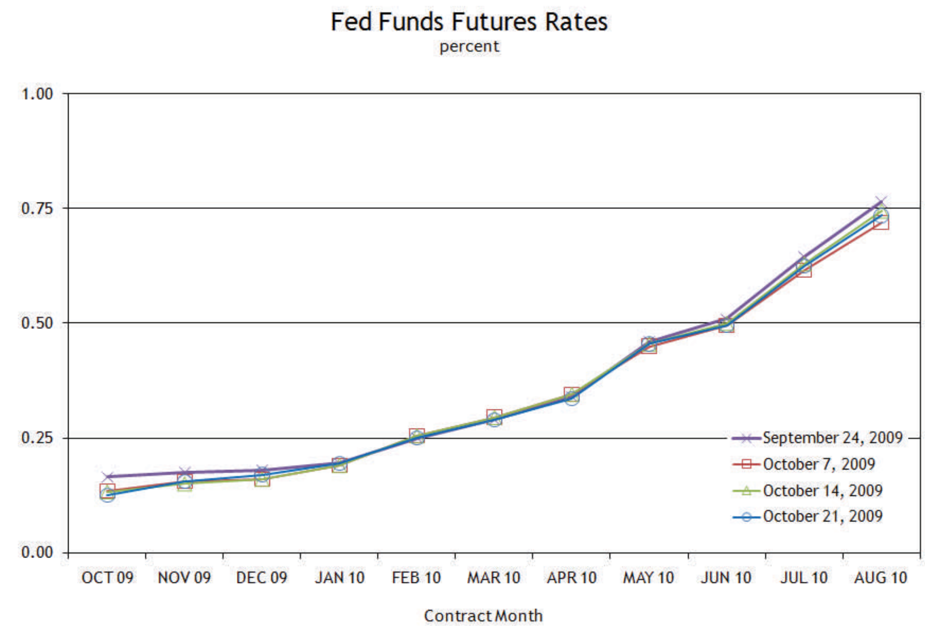
- Since the last FOMC statement on September 23, longer-dated Treasury yields have fallen: The 30-year bond fell 5 bps to 4.16%, the 10-year note fell 9 bps to 3.35%, and the two-year note edged lower by 1 bp to 0.95%.

Broad Financial Market Indicators

Summary

The market for federal funds futures is little changed since the last FOMC meeting concluded on September 24.

The market currently implies that the first 25 basis point rate hike is expected in spring 2010.



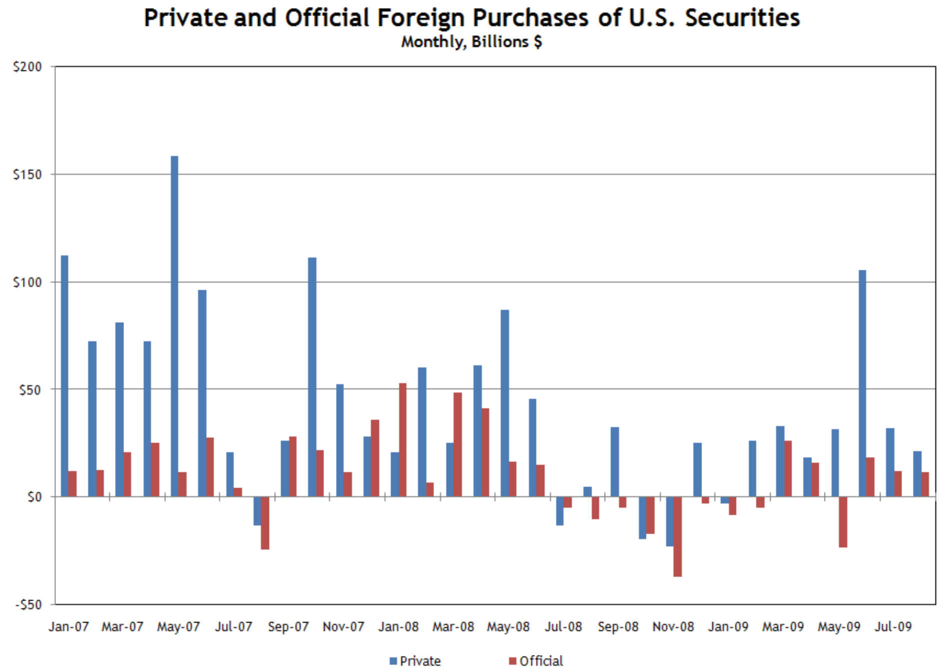
Source: Bloomberg

- In the preceding intermeeting period, market expectations for the first rate hike were pushed back several months into 2010, but since the last FOMC meeting ended on September 23, futures rates have held steady across the curve. Currently, the first implied 25 bps rise in the federal funds rate is around April or May 2010.

Cross-Border Financial Flows

Summary

The August Treasury International Capital (TIC) report showed a larger-than-expected net increase in foreign purchases of U.S. long-term securities and greater demand by private, versus official, foreign investors.



Source: U.S. Treasury

- The August TIC data surprised to the upside, showing a net $28.6 billion increase in foreign purchases of U.S. long-term securities, when the Bloomberg consensus was for only a $17.5 billion increase.
- Net private purchases of domestic securities was up $21.3 billion while official purchases (made mostly by foreign central banks) rose $11.6 billion.