November 10, 2009

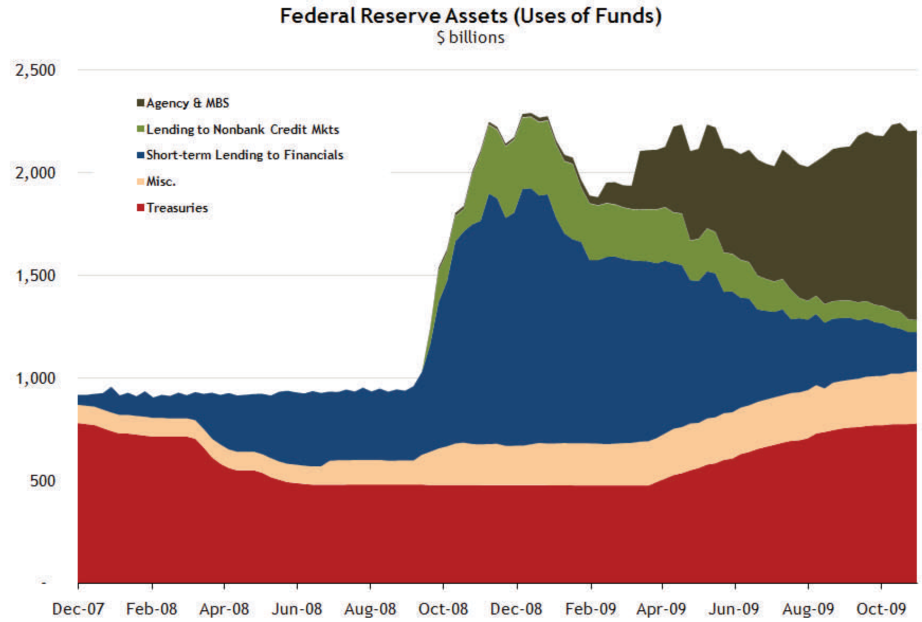
Financial Highlights

Federal Reserve

Summary

The size of the Fed's balance was essentially unchanged at $2.2 trillion for the week ended November 4.

The balance sheet remains close to the upper end of its range seen since March.

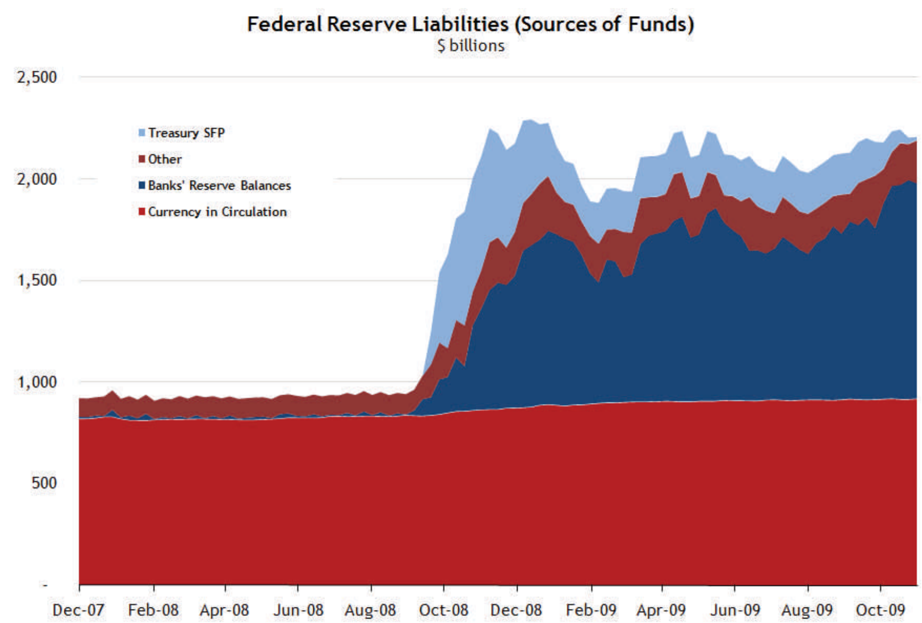


Source: Federal Reserve Board

- The Fed's balance sheet since March of this year has been characterized by sizable declines in short-term lending to financials and nonbank credit markets. These declines have largely been offset by increases in holdings of Treasuries, MBS, and agency debt, which have resulted in relatively little change to the total size of the balance sheet. Now that the Fed's Treasury purchase program has reached its allotted $300 billion, further increases in directly purchased assets will stem from increases in MBS and agency debt.

On the liabilities side, bank reserves declined marginally to about $1.06 trillion as of November 4, which marked the fourth consecutive week reserves were above $1 trillion.

Reserves account for about 48% of the balance sheet.



SFP = Supplementary Financing Program

Source: Federal Reserve Board

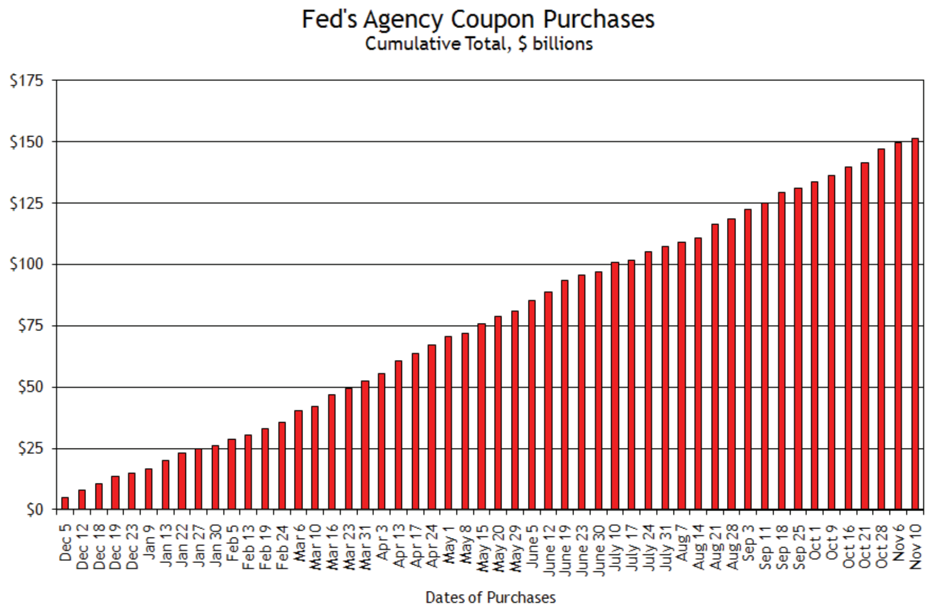
- On September 16, the Treasury Department announced its intentions to let all but $15 billion in bills outstanding under the SFP expire in the coming weeks. As of November 4, the SFP reached $15 billion after it had remained at about $200 billion from February 11 through September 23.

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

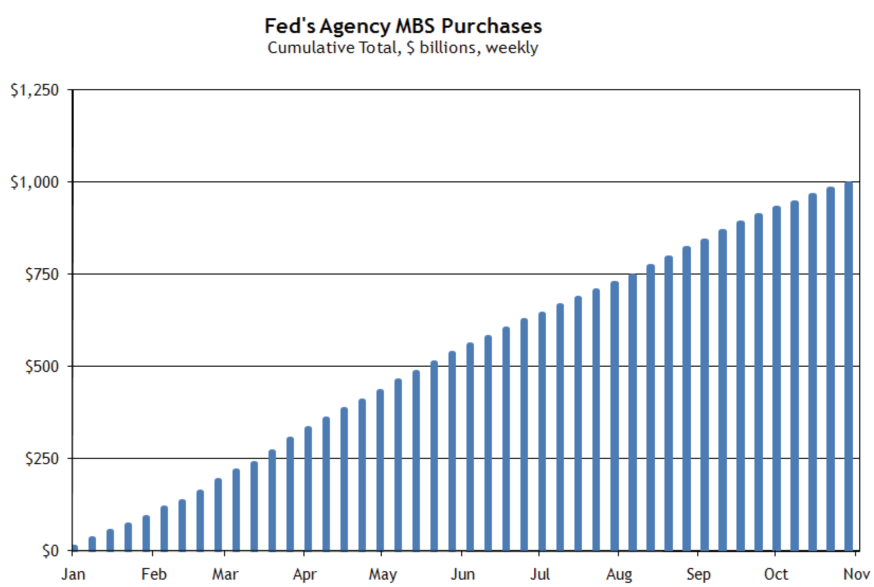
The Fed's agency debt purchase program is nearly 90% complete and is scheduled to conclude in March 2010.



Source: NY Fed

- The Fed has completed $151.5 billion of its $175 billion agency debt purchase program through November 10, making it 87% complete.

The Fed has now purchased about $997 billion in agency-backed MBS through the week ended November 4.



Source: NY Fed

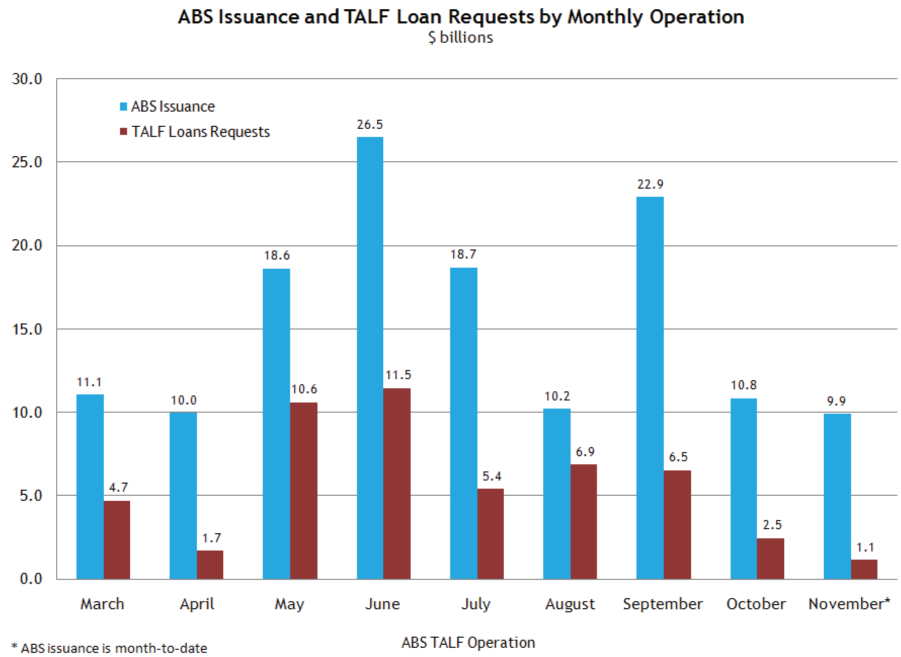
- The Fed purchased a net total of $16 billion of agency-backed MBS between October 29 and November 4, bringing its total purchases up to about $997 billion, and by the end of the first quarter of 2010 the Fed will purchase up to $1.25 trillion; thus, it is 79% complete.

ABS

Summary

The November TALF operation received $1.1 billion in loan requests, the smallest amount requested since the program's start in March.

TALF loan requests have declined in every operation since August.



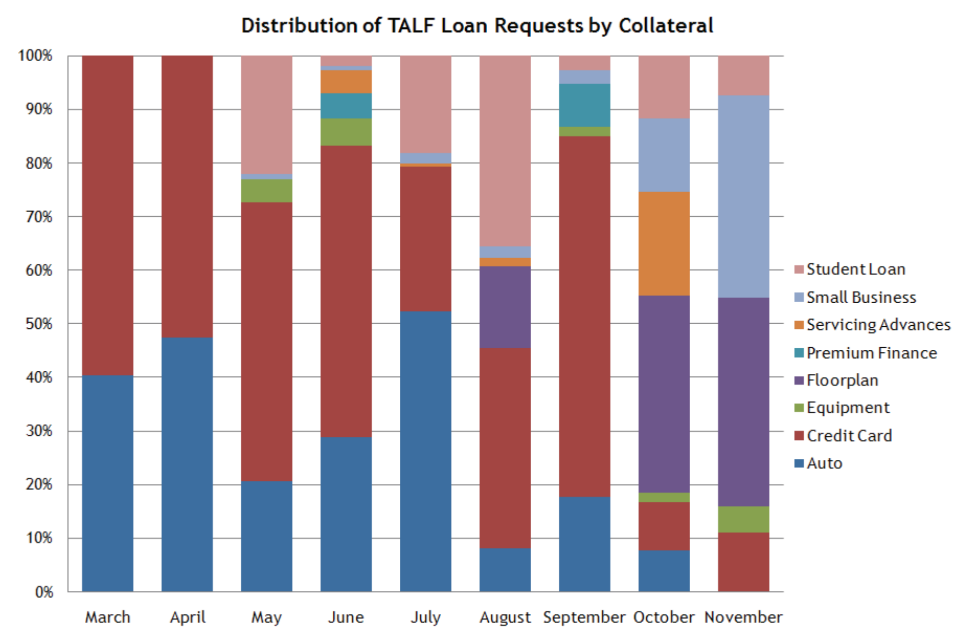
Source: Bloomberg and NY Fed

- So far in November, the ratio of TALF loan requests to new ABS issuance of 0.12 is the smallest since the program started in March. The lower ratio may be an indication that the market is better able to absorb the new securities without support from the TALF. Note that not all TALF loans are necessarily for securities issued in the most recent month.

Looking at the percent of TALF loan requests by collateral type, the majority of loans through September were concentrated in autos and credit cards.

In October and November, however, a greater percentage of loan requests have been seen in other collateral types (e.g., small business and floor plan).

While the percentage of loan requests backed by these other collateral types has increased, the pace of the dollar volume has not been as significant. Likewise, the volume of loan requests for credit cards and autos have declined sharply in October and November.



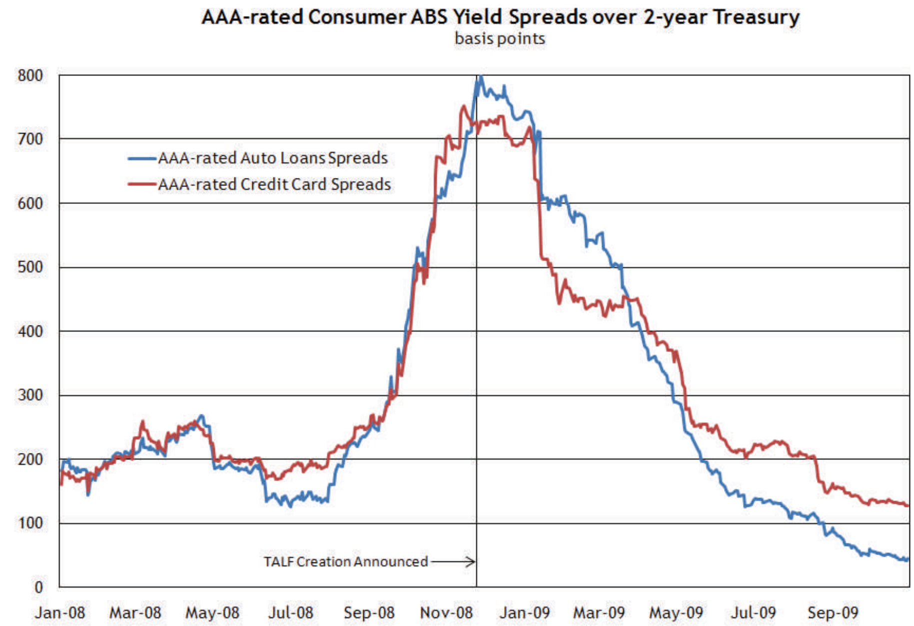
Source: NY Fed

- The chart above shows the percent breakdown of total loan requests by collateral type. (For example, at the November operation there were $0.126 billion in credit card ABS loan requests, which accounted for about 11% of the $1.1 billion in total requests.)
- The November TALF was the first operation with no requests for loans backed by auto ABS. Additionally, new issuance of auto ABS totaled about $6.2 billion in November, which suggests improved market functioning as participants are relying less on TALF to support new ABS deals.

ABS

Summary

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



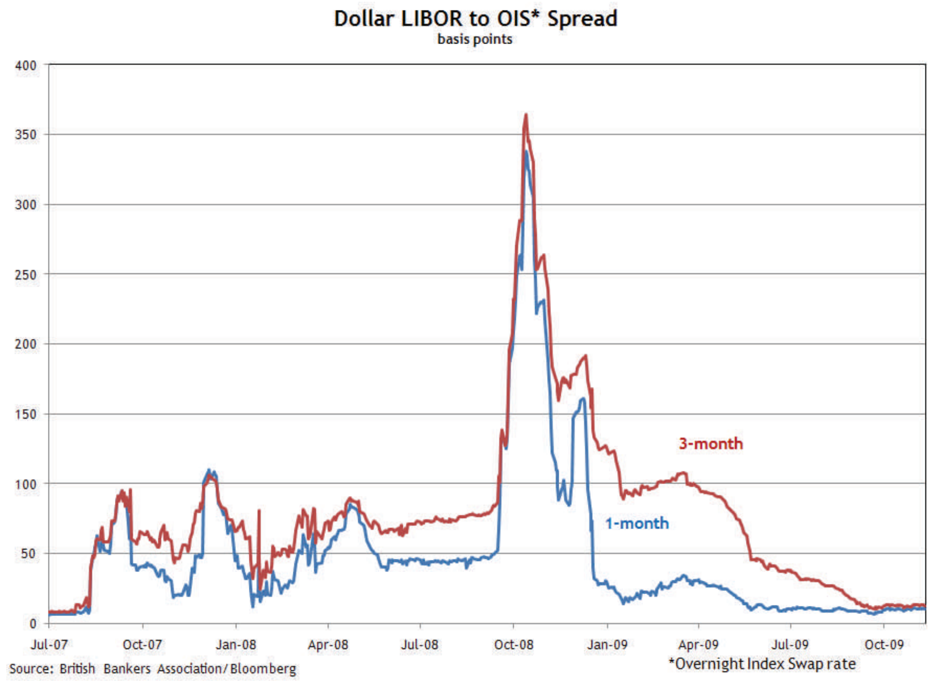
Source: Bloomberg and Merrill Lynch

- Yield spreads on securities backed by auto loans and credit card receivables over two-year Treasury rates have declined to just a fraction of where they started the year. Auto loan spreads have declined by nearly 700 basis points (bps) while credit card spreads have fallen by nearly 570 bps since the beginning of January. Nearly all of this narrowing reflects declines in yields on the ABS (autos down 680 bps, cards down 554 bps) rather than increases in yields on Treasuries.

Broad Financial Market Indicators

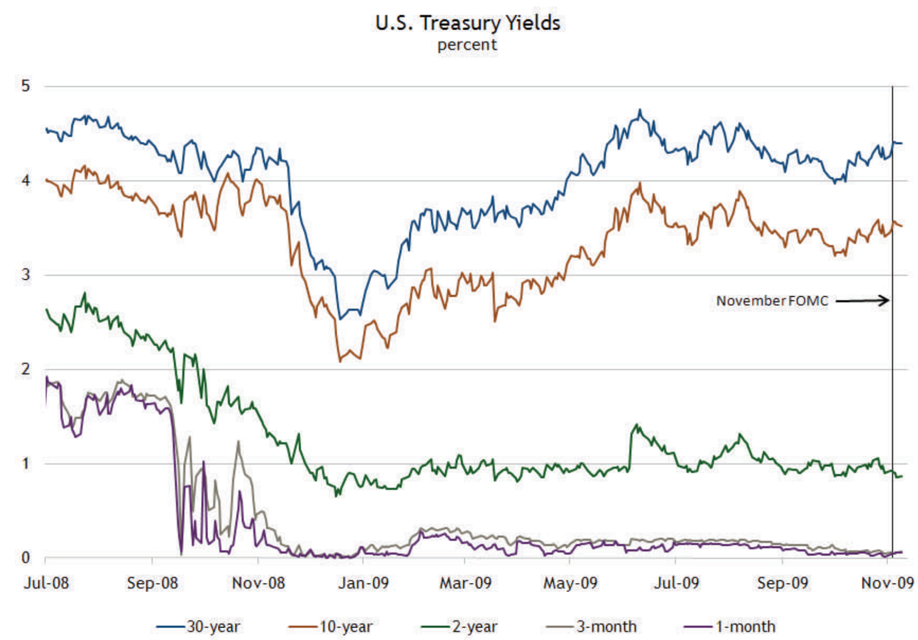
Summary

LIBOR-to-OIS spreads have been stable during the last two months.



- The one-month and three-month Dollar LIBOR-to-OIS spreads are at 9.9 and 12.5 bps, respectively, as of November 10 and relatively flat during the last two months.

Longer-dated Treasury yields are flat since the FOMC meeting last week.



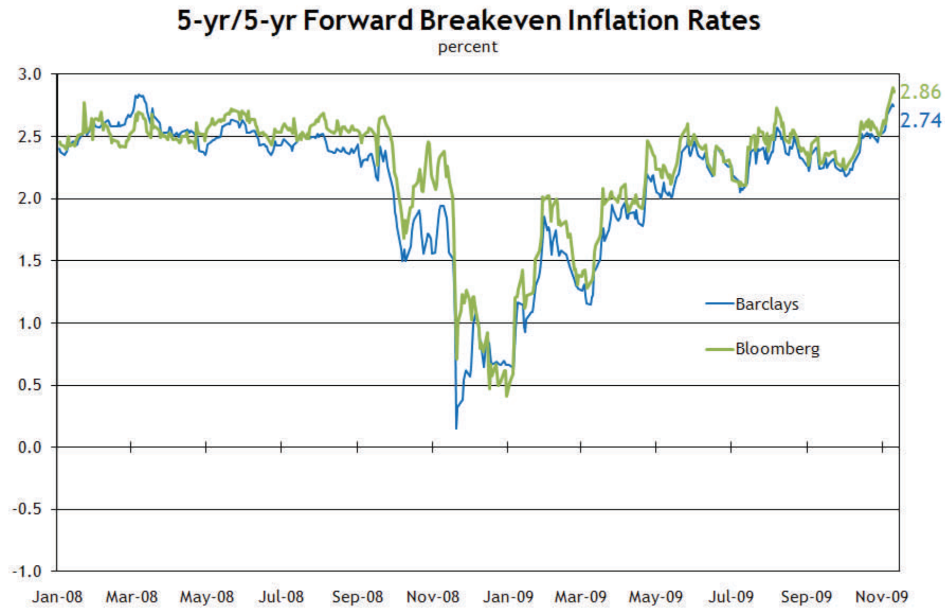
Source: Bloomberg

- Following the last FOMC statement on November 4, longer-dated Treasury yields are little changed: Through November 9, the 30-year bond was at 4.40%, the 10-year was at 3.52%, and the two-year note was at 0.87%.

Broad Financial Market Indicators

Summary

Various measures of the breakeven inflation rate have increased recently.



Source: Barclays, Bloomberg

- During the month since October 8, the Barclays five-year/five-year forward breakeven inflation rate has risen 48 bps to 2.74% as of November 10.
- A more generic market measure from Bloomberg shows a similar change during the same period, rising 56 bps since to 2.86%.